International Business

Issue 23

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The network for doing business

Japan set for bounce-back

If anyone needed a reminder that we were living in a global marketplace, the economic shockwaves from Japan's earthquake and tsunami were quickly evident around the world.

Within just six weeks of the disaster, automotive manufacturers were running out of spare parts and shutting down production; and the supply chain of components to the electronics industry was running dry.

Toyota, for example, shut factories temporarily not only in Japan, but also in the US, and implemented a partial shutdown in the UK. Toyota expects its annual output to the US and China to fall by 70% during 2011. Its global production till June was expected to be 540,000 units fewer – about 7% of its annual production.

Italian car maker Fiat is warning that the disaster could cost the firm 100 million euro in lost profits in the current financial year. Its European production could fall by 100,000 cars this year, and supply chain disruption could continue till October.

Influential business newsletter *J@pan Inc* predicts that automotive production globally will fall by nearly one-third this year as a result of shortages of Japanese auto parts. Supplies of 230 out of approximately 3,000 parts required to make the average car have been either running short or out of supply altogether.

Among other big manufacturers, Apple – the Californian-based maker of the iPhone and iPad – depends on Japan as a hub for key components, such as touch-screen glass, batteries and flash memory. Its iPad 2 model was launched in the US on the day the Japanese earthquake struck and analysts at New York-based Hudson Square Research, institutional equity researchers, believe the disaster will have inevitably hit sales and margins.

After-effects in Japan

Human tragedy apart, the 11 March disaster destroyed, damaged or interrupted thousands of businesses in Japan itself, accounting for about 4% of Gross Domestic Product (GDP).

The impact spread far beyond the disaster zone: for example, some high-tech industries elsewhere in Japan, such as in semi-conductor manufacturing, have been suffering unexpected power failures, leaving equipment vulnerable; electricity rationing, water shortages and disruptions to air, sea and road transport have all taken their toll; and radiation from the Fukushima nuclear plant has been triggering paranoia, leading to supply chain delays while export consignments are inspected or banned.

According to the *Wall Street Journal,* Japan accounts for about 20% of global production of semi-conductors; 60% of silicon wafers (used to manufacture computer chips); and 90% of a resin that is an essential component of electronic circuit boards.

Damage to two Japanese factories instantly reduced world supply of silicon wafers by a quarter; while global supplies of the resin depend almost entirely on two Japanese facilities that were badly damaged in the earthquake.

As car shipments plunged by 28%, Japan's trade surplus fell for the first time in 16 months in March.

Then, as warmer weather brought higher temperatures to Japan, and businesses switched on air conditioners, the Tokyo Electric Power

Company – which has several of its nuclear power plants out of commission – pleaded with companies to stagger working hours, to avoid peaks of electricity consumption. City lights and illuminated billboards were turned off to conserve power. Yet still there were blackouts.

Japan's industrial output fell by record levels in March. Factory output fell by 15.3%, the biggest ever decline in production in the country. The previous record was an 8.6% fall in February 2009 in the wake of the global financial crisis.

Questions over business models

All of which has left analysts questioning whether the Japanese disaster demonstrates that too many global manufacturers, especially in automotive and electronics industries, are too dependent on too few suppliers, and whether 'just-in-time' inventory management – pioneered and perfected in Japan – may have become over-zealously applied.

The analysts question whether global manufacturers may cool to 'just-in-time': the systems save costs by reducing inventories, but leave firms with only a thin buffer of supplies, and so especially vulnerable to disruption. Firms caught out by the disaster in Japan, say analysts, could respond by shifting from over-emphasis on 'just-in-time' to a less risky 'just-in-case' model.

Recovery and renewal

But shock and awe at the supply chain wake-up call has soon become tempered by the realisation that, of all countries, Japan (and its industrious work ethic) is well-placed to recover. The only question is: how long it will take? Unlike when natural disasters afflict broken or under-developed societies, such as in Haiti, where the impact remains just as acute more than one year on, Japan is far better prepared to renew and recover comparatively quickly.

A key to its recovery is renewal of confidence in its nuclear industry, which could take a year or more, and the restoration of full power supplies. One-fifth of Japan's nuclear power plant was out of action in the aftermath of the disaster. Replacing this capacity will be neither easy nor quick.

However, Japan will be driven towards recovery by market dynamics – such as the fear that global customers will reassess their economic vulnerability and examine their supply chains to identify alternatives. They may seek to diversify their suppliers, and disperse operations more widely, such as into South Korea and Greater China, Taiwan in particular.

Japanese manufacturers will also be stimulated into reviving their production capacity by the current race among competitors, not least from the US, to meet an increase in demand for products that Japan cannot currently supply efficiently.

Meanwhile, in an attempt to offset the global economic backlash, the Bank of Japan is offering 1 trillion yen (USD 11.7 billion) in new, one-year loans at low interest rates to Japanese companies to stimulate recovery. The cost of reconstruction is estimated at USD 200 billion.

The central bank's immediate priority after the disaster was to advance 'soft' loans to commercial banks to make sure they did not run out of cash, as customers in the affected areas rushed to withdraw savings. The central bank has also been flooding money markets with more cash than usual, partly to stop the value of the yen from rising too much. Japanese firms and investors have been looking to repatriate their assets, selling dollars and other foreign currencies, to prepare for the cost of rebuilding their domestic economy, which will push up the yen's value. It is feared such moves may make exports more expensive and choke off the hoped-for, export-led recovery anticipated before disaster struck.

Future economic forecast

Before the earthquake and tsunami, Japan's economy was showing signs of recovery, following its recession in late 2010, when Japan was overtaken by China as the world's second-largest economy, behind the US. Japan's economy had been expected to grow in the second quarter of 2011, but the disaster has stopped that.

While some analysts fear exports will be badly hit, and the disaster may push Japan into two quarters of negative growth and back into recession, others predict that the disaster could actually spur economic growth: rebuilding will mean a big explosion in development expenditure. Shares in several Japanese construction companies have increased significantly in anticipation of projects that will benefit them, partly funded and secured by the insurance industry.

Also, Japan's stoic resilience in the face of disaster has been proven in bygone times. In the aftermath of the Kobe earthquake in 1995, for example, Japan recovered without even one quarter's contraction in GDP.

Strategists have been analysing the economic impact of the Kobe earthquake for clues to what might happen this time. In 1995, the Nikkei fell 8% in the first five days after that earthquake, but then rose by 5% in the next 10 days. After the initial disruption, the economy grew by more than the trend growth rate at the time for both 1995 and 1996.

An indication of the spirit of recovery in Japan can be found in the coastal town of Ishinomaki, where thousands were killed and two-thirds of children at an elementary school swept away in the tsunami. When it receded, the tsunami left behind piles of vehicles in a foot-deep carpet of foul-smelling sludge. Six weeks later, piles of sorted detritus were neatly laid out ready for collection, the streets had been scrubbed, and workmen were fixing buckled roads. Shoe shop owner Hitoma Shinagawa was preparing to reopen for business, sitting outside the remains of her shop, washing each pair of shoes by hand in a bucket. For a nation like Japan, bounce-back is in the blood.

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'Next big thing' in emerging markets?

Colombia, Indonesia, Vietnam, Egypt, Turkey and South Africa. What do they have in common? According to economists, the CIVETS – as this collection of countries are called – are the 'next big thing' for investors in emerging markets.

They have been described by the Economic Intelligence Unit as second-tier BRICs – the acronym given to the growth economies of Brazil, Russia, India and China.

So are CIVETS worthy of investment?

Colombia

Government policies influencing economic growth

Reforms introduced by Colombia's former president Álvaro Uribe when he came to power in 2002 won praise from several international financial institutions and, coupled with a new democratic security strategy, engendered a growing sense of confidence in the economy. They included measures to reduce the public sector deficit.

GDP growth in 2003 was among the highest in Latin America, at more than 4%. By 2007, it had grown to more than 8%, although it fell to 4.4% in 2010. Juan Manuel Santos, who won presidential elections in June 2010, has promised to develop the country's infrastructure, create more jobs, and make Colombians less dependent on the informal economy.

Political factors

Unlike other Latin American countries, Colombia has not been plagued by military takeovers of its government. However, the country has endured a four-decades long conflict between government forces and anti-government insurgent groups, notably the Revolutionary Armed Forces of Colombia (FARC), which fights for a revolutionary state based on Marxist-Leninist principles. Although FARC still exerts influence in the country's south-west, hope remains that the conflict may be drawing to a close.

Industrial specialisms

Exports for 2008 totalled USD 37 billion. Heading the list were petroleum, coffee, coal, nickel, emeralds, apparel, bananas and cut flowers. The government is encouraging exporters to diversify their customer base beyond the US and Venezuela, traditionally Colombia's largest trading partners; other major markets include Ecuador, Switzerland, Peru and Chile.

The Santos administration continues to pursue free trade agreements with Asian and South American partners and a trade accord with Canada is expected to come into effect this year. A negotiated trade agreement with the European Union (EU) has yet to be approved by the EU parliament.

Natural resources

Colombia has significant natural resources, including substantial oil reserves. It is also a major producer of natural gas, gold, silver, emeralds, platinum, copper, emeralds and coal.

Innovations and incentives

Pro-business reforms in the oil and gas sectors and export-led growth, fuelled mainly by the Andean Trade Promotion and Drug Eradication Act, have enhanced Colombia's investment climate.

The country has the most competitive free trade zones in Latin America. Single Enterprise Free Trade Zones allow companies to establish themselves anywhere throughout the country.

The government has also created investment incentives with income tax exemptions in: hotels and ecotourism services; late yield crops; medical and software products; aeolian, biomass and agricultural energy generation; and publishing companies.

Indonesia

Government policies influencing economic growth

Indonesia is South-East Asia's biggest economy. The government has implemented wide-ranging economic and financial reforms, including a rapid reduction in public and external debt; strengthening of corporate and banking sector balance sheets; and reducing bank vulnerabilities through higher capitalisation and better supervision.

During the global financial crisis, the country outperformed most of its regional neighbours: its heavy reliance on domestic consumption drove economic growth. Although the economy slowed from more than 6% growth in 2007 to 4.5% in 2009, by 2010 growth had returned to 6%.

Political factors

Former army general President Yudhoyono, the country's first directly elected president, took office in 2004, having campaigned on an anti-corruption, reformist platform and pledged to prioritise tackling corruption, job creation and economic growth. He was re-elected in the presidential elections of July 2009, securing a landslide victory on the back of improved security and strong economic growth.

Industrial specialisms

Agriculture – including animal husbandry, fishing and forestry – is Indonesia's dominant activity in terms of both employment and output.

The main exports are oil and gas (the country is currently the world's 37th highest exporter of oil); electrical appliances; plywood; textiles and rubber. Japan, Singapore and the US are the country's main export partners.

Natural resources

Indonesia has a vast range of mineral resources, which have been rapidly exploited over the past three decades. They include petroleum, tin, natural gas, nickel, timber, bauxite, copper, fertile soils, coal, gold and silver.

Innovations and incentives

The government has introduced significant reforms in the financial sector, including tax and customs reforms, the introduction of Treasury bills, and improved capital market supervision.

Indonesia's new investment law, passed in March 2007, seeks to address concerns of foreign and domestic investors. Only defence-related industries are closed to foreign investors. All other potential areas of investment are defined by loose parameters, as long as the proposed industry does not jeopardise the cultural, economic and environmental balance of the nation. Within these broad parameters, investors are guaranteed income tax incentives; reduction in import duties on capital machinery and raw materials; and reductions in land and building-related taxes.

Vietnam

Government policies influencing economic growth

Vietnam has surpassed many of its Asian neighbours to become one of the region's fastest-growing economies. Although the economy remains dominated by state-owned enterprises, which still produce about 40% of GDP, Vietnamese authorities have made a commitment to economic liberalisation and international integration. Significant moves have also been made to implement the structural reforms needed to modernise the economy and to produce more competitive export-driven industries.

High inflation rates, falling foreign exchange reserves, an undercapitalised banking sector, and high borrowing costs all present major issues for the economy.

Political factors

Although Vietnam remains a one-party state, adherence to ideological orthodoxy has become less important than economic development as a national priority.

Industrial specialisms

Manufacturing, information technology and high-tech industries form the large and fastest-growing part of the national economy. Vietnam is a relative newcomer to the oil business, but today it is the third-largest oil producer in South-East Asia.

Aside from its natural resources, the main exports are textiles, footwear, machinery and steel. The country's key export partners are the US, Japan, China and the EU.

Natural resources

Numbered among Vietnam's fuel resources are coal, offshore deposits of oil and gas, and hydropower. Other natural resources include phosphates, chromate, manganese, bauxite, copper, silver and gold.

Innovations and incentives

The government is pushing ahead with plans to reform state-owned enterprises, and progress is being made to level the 'playing field' for private enterprises.

Vietnam encourages foreign investment as part of its development strategy. Its main instrument is the Investment Law of 2005, which provides the legal framework for foreign investment.

Regular business forums, together with frequent dialogues between government officials and foreign investors, have led to improved communication and allowed foreign investors to influence many legal and procedural reforms.

The sectors in which investment is encouraged include high technology, agriculture, labour-intensive infrastructure development, and those located in remote or mountainous areas.

Egypt

Government policies influencing economic growth

It is too early to predict what economic policies will be adopted by Egypt's new government, although its stated priority is to remedy widespread unemployment, poverty and pricing structures.

Political factors

President Hosni Mubarak was toppled following a series of public protests earlier this year and the country is currently a republic under military rule. The Prime Minister is Essam Sharaf.

Industrial specialisms

The key industries of the country are textiles, food processing, tourism, chemicals, pharmaceuticals, hydrocarbons, construction, cement and metals.

Crude oil and petroleum cotton, textiles, metal products, chemicals, and processed food account for the lion's share of the estimated USD 25.34 billion of exports (2010 figures). The US, Italy, Spain and India are all key export partners.

Natural resources

Significant natural resources include petroleum, natural gas, iron ore, phosphates, manganese, limestone, gypsum, talc, asbestos, lead and zinc.

Innovations and incentives

Following the collapse of Mubarak's government, the most pressing concern is to halt an increasing capital flight – USD 2.5 billion left the country during the uprising. The 18-month revolt stopped new foreign investment and curtailed the pivotal tourist industry. Annual growth slowed to less than 2% (from a projected 5%).The Egyptian pound hit a six-year low in February this year and avoiding a currency crisis will be a key priority for Sharaf. However, there is a remarkable trend to attract investments in agriculture, land reclamation, transport, power stations, health care and education projects. Also, the current government is targeting mutual infrastructure, live stocks and agricultural projects with other Nile Basin countries (Sudan, Ethiopia, Uganda, Congo, Burundi and Kenya).

Turkey

Government policies influencing economic growth

A relatively high current account deficit, uncertainty related to policy-making, and fiscal imbalances are unhelpful to Turkey's economic stability.

However, the first step has been taken towards Turkey's entry into the EU with the granting of 'market economy status'. Conditions of this arrangement are that Turkey improves economic reforms, human rights and opens up trade with the Republic of Cyprus.

An aggressive privatisation programme has reduced state involvement in basic industry, banking, transport and communication.

Political factors

Tayyip Erdogan, who became premier in March 2003, led his Justice and Development Party to victory in the July 2007 elections.

A truce with the Kurdistan Workers Party, the best known and most radical of the Kurdish movements, has yet to be agreed.

Industrial specialisms

Turkey's economy is a complex mix of modern industry and commerce, along with a traditional agricultural sector that includes tobacco, cotton, grain, olives and sugar beet.

Although the country's traditional textiles and clothing sectors still account for one-third of industrial employment, other sectors, notably the automotive, construction, and electronics industries, are rising in importance and have surpassed textiles in the export mix.

Natural resources

Turkey's minerals include feldspar, barite, borate, emery, clay, magnesite and strontium celestite, while iron ore, copper, chromium, antimony, mercury and gold feature among its metallic resources. Other natural resources are marble, limestone, perlite, pumice, sulfur pyrites, coal, hydropower and arable land.

Innovations and incentives

Continuing economic and judicial reforms, along with prospective EU membership, make the country an increasingly attractive investments option.

The country has several bilateral investment and tax treaties, including with the US, which guarantee free repatriation of capital in convertible currencies and eliminate double taxation.

Turkey has taken steps to improve its investment climate through administrative streamlining, an end to foreign investment screening, and strengthened intellectual property legislation.

South Africa

Government policies influencing economic growth

South Africa's economic policy includes schemes designed to encourage and promote international competitiveness in the country's manufacturing sector. This policy is set out in the government's Economic Programme of Action, where Industrial Development Zones (IDZs) are cited as a means by which the country will attain increased levels of foreign direct investment through incentives.

Political factors

The leader of the African National Congress (ANC), Jacob Zuma, was chosen as the country's president by the newly elected parliament in May 2009. The government is relatively stable in comparison to most other African countries, although there are inherent dangers in the ANC's lack of effective opposition.

Industrial specialisms

For more than 130 years, mining has been South Africa's leading industry, providing the critical mass for the development of other world-class industries – energy; financial services; water services; engineering services; specialist seismic, geological and metallurgical services – that either supply the mining sector or use its products.

Other key industries include automobile assembly, metalworking, machinery, textiles, iron and steel, chemicals, fertilisers, foodstuffs and commercial ship repair.

The country's main export partner is China, closely followed by the US, Japan, Germany and the UK.

Natural resources

An abundance of natural resources includes gold, chromium, antimony, coal, iron ore, manganese, nickel, phosphates, tin, uranium, gem diamonds, platinum, copper, vanadium, salt and natural gas.

South Africa's mineral resources account for a significant proportion of world production and reserves.

Innovations and incentives

South African economic policy is fiscally conservative but pragmatic, focusing on targeting inflation and liberalising trade as a means of increasing job growth and household income.

Incentives within the IDZs include relief from customs duties when good are imported into a Customs Controlled Area (CCA); simplified customs procedures; fiscal incentives on goods under certain circumstances; and a subsidised infrastructure (for example, no import duties are payable on goods imported for use in the construction and maintenance of the infrastructure of a CCA in an IDZ).

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How SMEs go international

When one of the biggest operators in the European sea produce market started trading in the early 1960s it was run by one entrepreneur who bought fresh fish on the dockside at Avilés, Spain, and sold it in nearby coastal towns and villages, using a three-wheeler van which he had adapted for the purpose.

Now Frigorificos Fandiño operates throughout the world's key fishing grounds, such as off Argentina, in the North Atlantic, and off Namibia, either directly or through strategic agreements with international ship owners.

UHY's firms in Spain (UHY Fay & Co), Argentina (UHY Macho & Asociados) and Estonia (UHY Grow OÜ) provide consolidation and audit services to this still family-run company. Its financial director Lino Blanco says: 'We value UHY's professionalism and the proximity of UHY firms to our international operations.'

And there are many more SME entrepreneurs globally who, at some stage of their development, have aspired to exporting their products and services – only to find that what at first may appear a barrier turns into a business-building venture and profit-multiplier.

So how do they do it? Each industry and market is different, of course, but some common factors emerge from entrepreneurs' experiences.

Not least is putting in place a reliable and trustworthy advisor in the country to which you plan to export – preferably not a stranger: someone to whom you are introduced through a personal recommendation, who is well established and with business links to a contact you know already. He or she may be someone who once lived in your own country, but who now lives in the region to which you plan to export; who knows local culture and business customs; and who could handpick suppliers for you in your 'adopted' country for exports.

Passport to success

Your 'passport to export success' begins with overseas marketing research before developing a strategy for market entry: A starting point is often to test products and services in a neighbouring country; or in a country using the same language as your own; or in one with a similar culture. Tax treaties also play a significant role in deciding which international market to try first. Some companies going international also make a point early on of avoiding jurisdictions where they feel integrity and transparency in business dealings may be an issue.

Research entails the systematic and objective collection of information about an overseas market, to help you reach sound decisions on issues such as:

- **Whether or not to export to a new market**
- **How best to deliver products/services in the market**
- **Whether to, and how best to, invest in the country.**

You may need to:

- **Compare markets based on comparable data, and prioritise markets for research**
- **Identify key information to be obtained, such as background and initial contacts for the market**
- **Identify an appropriate range of fact-holders to be interviewed during a pilot visit to your chosen market, and plan suitable questioning techniques.**

A local business advisor may make suitable appointments with key contacts for you on your exploratory visit, and arrange interpreters if necessary. The support may include providing networking opportunities with other exporters to the country; networking with ambassadors, diplomats and business leaders; and introductions to specialists on government services and incentives.

A business advisor may also collate for you a report on:

- **Market size and segmentation**
- **Customer needs, usage and attitudes**
- **Distribution channels**
- **Market trends**
- **Competitor activity**
- **Regulations and legislation**
- **Investment incentives, government-driven or other**
- **Export support and subsidies from respective governments.**

Many exports require supporting and commercial documentation to ensure the on-time delivery of your goods and timely payment. Certificates of origin may be essential to comply with customs requirements in the importing state. What you are exporting, and where you are exporting to, will play a major role in determining the export documentation you require.

'We have not been disappointed with the services and have gone on to use other UHY international offices as we have expanded further internationally' **– Larry Reader, CFO, Duke Manufacturing, Co, a client of UHY firms in the US and UK.**

Strategic planning

More in-depth research, carried out for you by your business advisor, will ascertain how best to establish a strategic presence in the market.

The overall aim of the strategic planning is to:

- **Maximise the opportunity, and reduce the risk, of entering the new markets**
- **Help overcome barriers to new and difficult markets**
- **Develop company skills and capabilities**
- **Save time and money in achieving international trade goals**
- **Establish your next steps.**

'International business is complex even for the most experienced of exporters,' says Betina Moreira, commercial director of UHY's firm in Brazil, UHY Moreira – Auditores. 'Markets change. Opportunities come and go, especially in the current climate. Nothing stays the same – except your need to maximise your proven potential in global markets.'

Exploratory visits

Taking part in selected trade fairs may be an approach you'd favour for exploratory visits to your chosen export country. Participation in overseas exhibitions is an effective way to test markets, attract customers, appoint agents or distributors, and make sales. Some home countries provide grant support for eligible SME firms to attend trade shows overseas.

Or, if you have business associates already available in your export country, you may be able to set up a 'roadshow' around various clients of your associates, making presentations on what you can offer.

'I appreciate the effective collaboration stemming from the pragmatic, straightforward manner in which UHY works' **– Philippe Eilinger, CFO, Medela AG Medical Technology, a client of UHY firms in Switzerland and Australia.**

Communications review

Business advisors may also help with a review of your company's communications, providing impartial and objective advice on language and cultural issues, in order to help you improve your competitiveness in your future export market.

Advisors may review the way your company currently communicates with an export market you may already have; as well as communications within your home country market – typically the review would include your website; written materials; materials used at meetings with customers or agents/distributors; and general administrative communications. How you communicate in your new export market, in accordance with local culture and customs, may 'make or break' your export development bid.

You will already know that sales leads are the lifeblood of your company: new business opportunities in your 'adopted' country can often be identified through networking with government and embassy staff, and through postings by government agencies.

An agreement with your business advisor could include an ongoing search for relevant business opportunities in your 'adopted' country, covering private sector opportunities, public sector leads and possibly multilateral aid agency tenders.

Having the language of your home country may be an important asset in your 'adopted' country – which is often the case when pitching for aid-funded business. Multilateral agencies, such as the UN and World Bank, spend USD 60 billion every year on goods and services, from tents to telecommunications, and much of it is contracted out to the private sector. The most sought-after expertise is in the healthcare, construction, consultancy, ICT, environmental, and transport sectors.

Key aspects of trade with aid/development organisations include:

- **The variety of goods and services required across multiple market sectors.**
- **Orders are always backed by funds. Aid agencies cannot place orders unless funds are available. As long as contract terms are met, payment is rarely a problem.**
- **English is the working language.**
- **Order size is suitable for SMEs. Supply contracts can start at as little as USD 10,000, rising to tens of millions of dollars for major infrastructure projects. The average supply contract with the UN agencies is USD 20,000.**

Partnership programmes

A more structured entry into an overseas market, yielding opportunities from business already in existence, may result from a partnership programme. Such a programme may be with an existing allied business in your 'adopted' country – which may also enable your new business partner to expand into exports into your own home country.

Or you may need a research & development (R&D) partnership to find the right academic or commercial associate for R&D collaborations.

'Such a partnership would enable you to benefit from investment incentives as well as export support and subsidies from governments,' says Betina.

Local issues

A useful source of understanding trends and identifying where business opportunities will be available when you are ready to export are political and economic reports, which a business advisor will access on your behalf.

UHY has 6,300 professionals operating from 235 business centres in 78 countries. For further information on our business advisors in the export country of your choice:

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