

Now into its third year, the Grant Thornton **International Business Owners Survey 2005** researches expectations and plans for the coming year, seeking out the opinions and attitudes of...

Grant Thornton 





# Foreword

The contribution of independent, entrepreneurial businesses to the development and dynamism of the world economy is widely recognised. They play a significant role in generating employment and driving economic growth. Their flexibility enables them to respond quickly to changing market demands and to foster economic change.

The survey of these businesses was conducted in Autumn 2004, a period of strong global economic activity and trade but nevertheless some negative features. The eurozone was clearly failing to participate in global recovery; Japan's eighteen month revival had ground to a halt, and the US dollar was under increasing pressure. The generally optimistic mood emerging from the survey was tempered by these uncertainties.

Drawing on research findings from the European Business Survey, which Grant Thornton International conducted from 1993 to 2002, this report is able to include a thirteen year perspective on changes in key areas of the business environment in the EU.

I would like to thank all those who took part in the survey, without whom this vital piece of research would not be able to continue. I hope it makes interesting reading for businesses worldwide.



**David McDonnell**

Chief executive worldwide  
Grant Thornton International

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# Key findings

## 1 Economic prospects for the next 12 months

- Businesses in most countries optimistic about their economic prospects...
- ...with India and South Africa the most optimistic
- EU<sup>1</sup> optimism still lags well behind NAFTA<sup>2</sup>
- Japan remains pessimistic

## 2 Business performance and expectations

- Globally performance expectations improve again...
- ...with turnover (revenue) and investment expectations particularly positive
- Extremely buoyant expectations in India...
- ...but expectations still subdued in several eurozone and East Asia<sup>3</sup> countries

## 3 Constraints on growth

- Regulations/red tape main constraint on business expansion...
- ...particularly in Poland and Russia
- Lack of availability of a skilled workforce now second most significant constraint

## 4 The global market

- Just over one third of businesses export
- Significant increase in proportion of businesses exporting in Poland, Australia and Italy
- Russia now has smallest proportion of exporting businesses

## 5 Attraction and retention of staff

- Many countries experiencing skill shortages become more focused on attracting/retaining staff
- Possessing a good corporate reputation most important strategy for attracting/retaining employees

## 6 Impact of modern communications technology on business

- Business owners spend on average 1.5 hours a day accessing email
- NAFTA much more positive than EU regarding effect of internet on turnover (revenue)
- Internet usage in Japan well below NAFTA and East Asia averages

## 7 Stress among business owners

- Increased competition and more demanding customer expectations generate stress among business owners
- Netherlands, Italy and France have lowest stress levels
- Turkey, Poland and Russia are the most stressed

## 8 Anticipated change of ownership of business

- Just over a quarter of businesses anticipate change of ownership in next ten years...
- ...however only just over half of these businesses have made preparations for change
- Trade sale is most likely method of change of ownership

## 9 EU business trends

- Expectations for turnover (revenue), exports, profits and investment have picked up moderately
- Proportion of EU businesses exporting has sharply declined
- Larger pool of labour and ease of access to larger markets main effects of EU enlargement

## 10 Asia Pacific commercial relations with China

- China's boom boosted growth throughout the Asia Pacific region
- However, Taiwan has borne brunt of economic challenge posed by China

1 For the purposes of IBOS, "EU" refers to those EU countries covered by our survey – France, Germany, Greece, Ireland, Italy, the Netherlands, Poland, Spain, Sweden and the UK.

2 North American Free Trade Agreement – incorporating Canada, Mexico and the US.

3 For the purposes of IBOS, "East Asia" incorporates Hong Kong, Japan, the Philippines, Singapore and Taiwan.

# 1 Economic prospects for the next 12 months

## Key findings

- Businesses in most countries are optimistic about economic prospects for their countries in the year ahead
- Respondents in nine countries led by India and South Africa are extremely optimistic
- EU optimism, though improving, lags well behind NAFTA countries but the gap is closing
- Only three countries are not optimistic – Italy and Spain (both in the eurozone) are neutral, while Japan remains pessimistic. But the strong economic performance in 2003 and 2004 has produced a sharp decline in pessimism.

## Businesses remain optimistic about the economic background in the year ahead

Our survey shows that most medium sized businesses are positive about economic prospects for their countries in the coming year. Overall, they are more optimistic than they were a year ago. This reflects the strong recovery in the global economy during the months leading up to the survey and widespread expectations that the momentum will be sustained in the year ahead.

However, while the global economy has registered robust growth this year, boosting confidence, progress has not been even across the board. The recovery has to a large extent bypassed the eurozone. Moreover, there was mounting evidence that growth was faltering in some countries during the third quarter, when the survey was conducted. The result is a wide spectrum of responses, ranging from an optimism/pessimism balance of +88% in India to -27% in Japan, with six countries seeing a drop in their optimism level.

**“The pace of fiscal, economic and industrial reforms has not only continued under the new government but appears to have gathered speed. India Inc is emerging bigger, faster and stronger.”**

**Vishesh Chandio**  
Grant Thornton, India

The overall optimism/pessimism balance is +41%, marginally up on last year's outcome of +40%. This improvement is noteworthy, bearing in mind that last year's survey was conducted at a time when it was becoming obvious that the international economy was embarking on the upward phase of the economic cycle. With the cycle having peaked, it is encouraging that respondents in most countries are still very positive about the prospective performance of their economies. The rise in optimism is even more impressive bearing in mind that the US, which has a large weight in the calculation of the global figure<sup>1</sup>, experienced a marked downturn in its optimism/pessimism balance (from +78% to +62%). This decline was offset by an improvement in 16 of the 24 countries surveyed.

## India still most positive about economic prospects, followed by South Africa

India has retained its position as the most optimistic country regarding its economy's prospects, with a balance of +88% (up from +83% last year). The Indian economy is growing at an impressive pace, responding well to the economic liberalisation of the 1990s and the more recent opening up of international trade. South Africa also displays strong optimism with a balance of +84%, with very high balances also shown by Australia, Canada and New Zealand. These four economies are benefiting from the rise in commodity prices associated with the global upturn as well as robust consumer spending in domestic markets.

<sup>1</sup> Each country is weighted based on their annual GDP

### Focus on India

**GDP size:** \$3,300bn (US for comparison \$10,900bn)

**Population:** 1,050m

**GDP by sector:** agriculture 25%; industry 25%; services 50%

The economy is very large – the world's fourth largest – and is achieving rapid growth averaging over 6% per annum in the past decade. This is among the fastest growth rates of all economies.

External trade and investment have been liberalised in recent years boosting exports and inflows of foreign direct investment (FDI). In the first six months of 2004, FDI inflows surged by almost 70% mainly in pharmaceuticals, energy and electronics. Business expansion has also benefited from large-scale investment in transport and telecommunications.

India has developed a major role in business processing activities, which is boosting growth in the service sector. It is also capitalising on its large number of well-educated people skilled in English to become a major exporter of software services.

The economy continues to grow at a robust pace – over 8% in 2004 – with a similar rate in prospect for 2005. Expansion is led by strong activity in industry and services, amid healthy consumer demand and brisk export growth.

Indian businesses are very optimistic about business performance in the next 12 months and are more concerned than any other country about attracting/retaining key staff.

**Figure 1 – Outlook for country's economy over next 12 months (% balance \*)**

<b>Extremely optimistic</b>	<b>Optimistic</b>	<b>Fairly optimistic</b>	<b>Neutral</b>	<b>Pessimistic</b>
88 India	52 Sweden	31 Netherlands	9 Spain	-27 Japan
84 South Africa	50 Philippines	29 Greece	7 Italy	
79 Ireland	49 Turkey	21 Poland		
78 Australia	47 Mexico	19 France		
72 Canada	46 UK	17 Germany		
64 New Zealand		14 Russia		
62 Singapore		14 Taiwan		
62 US				
60 Hong Kong				

\* the balance is the difference between the proportion of businesses indicating optimism and those indicating pessimism

Figure 1 shows that as a result of the healthy global economic background sentiment has improved in many countries, and we have nine countries in the “extremely optimistic” category on this occasion (against five in last year’s survey). Ireland moved into that category with the sharpest increase of all countries in the survey (up 72 points to +79%), and full recovery from SARS has

also boosted the numbers, with Hong Kong and Singapore now demonstrating high optimism. The US has slipped to 8th place in the rankings as its balance has fallen from +78% to +62% but this still indicates a high degree of optimism. The decline probably reflects a perception that the US economic cycle is past its peak, though worries about the budget and current account deficit in the US may also play a part.

Business owners in Japan remain pessimistic, although the economy’s vigorous performance in 2003 and the first few months of 2004, together with

signs that deflation is ending, have produced some improvement, with the balance of respondents expressing pessimism improving from -71% in 2003, to -46% last year and -27% in this survey. However, respondents in general still appear unconvinced that Japan has finally emerged from the period of economic malaise that began in the early 1990s, a view given added substance by the fact that recovery ground to a halt in the third quarter of 2004.

#### **NAFTA very positive about economic prospects**

Respondents in Canada and Mexico have become even more optimistic this year as their economies have benefited from strengthening external demand. The growth momentum of the US has boosted exports significantly, helping to boost the economic optimism balance from +62% to +72% in Canada and more sharply, from +23% to +47%, in Mexico. However, these increases fail to offset the reduction in the US balance (given the large weight the US has in the calculation) and NAFTA’s lead over the EU has narrowed appreciably (figure 2).

“As one of the world’s largest oil exporters, Mexico has benefited from the high price of crude oil, allowing the Federal Government to finance its annual budget and thus boosting the optimism of Mexican business owners.”

#### **Héctor Pérez**

Salles Sáinz-Grant Thornton, Mexico

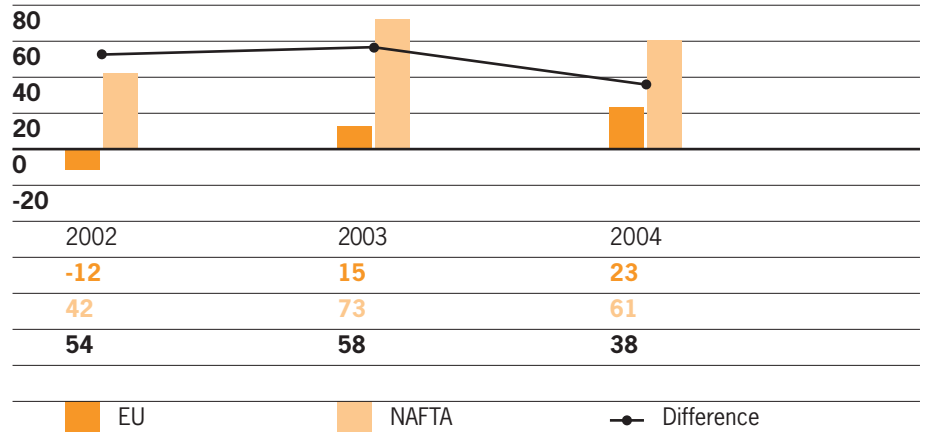
### EU remains rather downbeat (except for Ireland)

The EU enjoys a high degree of economic and political stability but this has not been enough to generate a high level of optimism in recent years, apart from in the two non-eurozone countries, Sweden and the UK. The explanation lies chiefly with the lacklustre economic performance in the eurozone since the launch of the single currency. The weak background has depressed sentiment, with the noteworthy exception this year of Ireland. Here, the positive balance soared from +7% last year to +79%, taking Ireland to third place in the global optimism rankings.

The remaining six euro member countries included in the survey are at best fairly optimistic, but in three cases – France, Germany and the Netherlands – there is an improvement on last year, (figure 3). While recent economic news from the eurozone has been weak and growth forecasts for 2005 have been scaled down, structural reform is gradually being implemented, and this might explain expectations of improving economic performance in these countries. Sentiment remains muted in Italy, which is joined in the neutral category this year by Spain where optimism has collapsed, from +49% to +9%.

Figure 2 – NAFTA and EU: the optimism gap narrows

Outlook for the economy (% balance\*)



\* the balance is the difference between the proportion of businesses indicating optimism and those indicating pessimism

“Optimism in Ireland is founded on a confidence that has been hard earned. Many of our entrepreneurs have only recently tasted success and now have an appetite for developing opportunities abroad.”

#### Gearoid Costelloe

Grant Thornton, Ireland

#### Focus on Ireland

**GDP size:** \$116bn (US for comparison \$10,900bn)

**Population:** 4.0m

**GDP by sector:** agriculture 5%; industry 46%; services 49%

Ireland has achieved impressive growth since the late 1980s. Between 1995 and 2003, GDP growth averaged 8% per annum, a rate normally associated with the “tiger” economies of the Asia/Pacific region, and unprecedented in the mature economies of Western Europe.

The economy has benefited from substantial inflows of foreign direct investment. This has established a modern and competitive industrial sector, which accounts for 46% of GDP, a very high proportion by EU or NAFTA standards. Although exports remain the primary engine for Ireland’s robust growth, the economy also benefits from robust consumer spending.

GDP growth eased to 3.6% in 2003 as exports declined in line with plummeting global demand for high tech products. However, activity picked up in 2004 amid reviving exports, and GDP grew by almost 5%. In 2005, buoyant consumer spending and a strong increase in exports are set to boost overall growth to 5.5%.

The economic revival in 2004 and prospects of even stronger growth in 2005 have boosted optimism significantly.

In common with other eurozone countries, Spain faces problems arising from high oil prices and the strong euro. However, with economic growth in Spain set to be among the strongest in the eurozone, the sharp dip in optimism probably reflects non-economic factors. The uncertainty created by the Madrid terrorist bombs in the early summer may well be responsible, a conclusion reinforced by the response to our question “How has terrorism and the threat to security affected your optimism about your country’s economy?”. Only in Mexico, where the threat of terrorist activity in the US is a major concern for Mexican businesses exposed to the US market, has there been a greater impact (figure 4).

**Figure 3 – Eurozone optimism is muted (outside Ireland), but is up in three countries**

**Outlook for the country’s economy (% balance\*)**

<b>Italy</b>		<b>7</b>	<b>7</b>
<b>Spain</b>		<b>9</b>	<b>49</b>
<b>Germany</b>		<b>17</b>	<b>-6</b>
<b>France</b>		<b>19</b>	<b>4</b>
<b>Greece</b>		<b>29</b>	<b>29</b>
<b>Netherlands</b>		<b>31</b>	<b>6</b>

\* the balance is the difference between the proportion of businesses indicating optimism and those indicating pessimism

**Figure 4 – Countries where economic optimism has been most negatively affected by terrorism (% of respondents indicating pessimism)**

<b>Mexico</b>		<b>53</b>
<b>Spain</b>		<b>49</b>
<b>Taiwan</b>		<b>42</b>
<b>Poland</b>		<b>37</b>
<b>Turkey</b>		<b>36</b>
<b>Global average</b>		<b>29</b>



“Despite the weak US\$, which is still a threat for the export-dependent German economy, the impact of cost-cutting programs allows German business owners to be a little more optimistic for the future.”

**Gernot Hebestreit**  
Grant Thornton, Germany

### Optimism in East Asia at a high level, but not in Japan

Confidence within East Asia has improved very sharply (figure 5) amid recovery from SARS and the strongest performance by the Japanese economy for almost a decade. While the balance in Japan remains firmly negative, at -27%, this represents a continuing improvement from earlier years as noted above.

Last year's survey showed Singapore among the countries most severely affected by SARS. The upswing in optimism in the wake of the subsequent recovery, and buoyant prospects for the economy, have produced a dramatic swing in the optimism balance from -30% to +62%. The same reasons contribute to the Philippines' swing from negative (-1% last year) to firmly positive (+50%) and underlie Hong Kong's move into the extremely optimistic category. Taiwan stands out in the generally improving picture in East Asia, actually recording a marked drop in sentiment about economic prospects (from +22% to +14%) despite recovery from SARS and the healthy economic climate in the region.

Figure 5 – Strong upturn in optimism in most of East Asia

Outlook for the country's economy (% balance \*)

Singapore	62	-30
Hong Kong	60	51
Philippines	50	-1
Taiwan	14	22
Japan	-27	-46

2005
  2004

\* the balance is the difference between the proportion of businesses indicating optimism and those indicating pessimism

“Filipino business owners are anticipating improved economic and fiscal policies following the re-election of our President.”

**Ben Punongbayan**

Punongbayan & Araullo, Philippines

## 2 Business performance and expectations

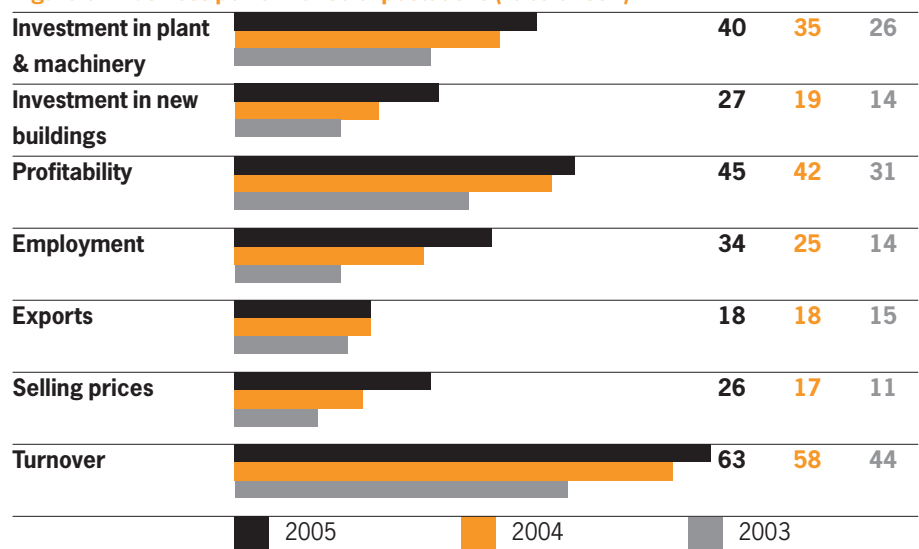
### Key findings

- Global expectations for business performance improved for the second year in a row
- Continuing health of the global economy in the year ahead is indicated by very positive turnover (revenue) and investment expectations in most countries
- India stands out with extremely buoyant expectations on all business performance indicators
- But expectations are still subdued in several eurozone and East Asian countries

At the global level, and in line with the upward phase of the economic cycle, there was further improvement this year in the medium sized business community's expectations about turnover, selling prices, employment, profitability and investment intentions. All show markedly stronger positive balances than in 2003 (figure 6). However, export expectations were unchanged from last year and are only slightly up on the 2003 outcome.

In figure 7 we highlight the countries with the best and worst expectations across the range of business performance indicators. India stands out in this analysis as a location where businesses are thriving against a robust economic backdrop. It is the only country to feature on all seven indicators, occupying the top position on four of these. Turnover and employment growth are boosted by healthy domestic activity and exports are benefiting from trade liberalisation and strong world demand. Corporate profitability is much higher in India than in any other country in our survey, and investment intentions are very buoyant.

Figure 6 – Business performance expectations (% balance\*)



\* the balance is the difference between the proportion of businesses indicating optimism and those indicating pessimism



“Now that the presidential elections are over, that uncertainty has been removed and US business owners can start planning for the longer term with more confidence.”

Carol Riehl

Grant Thornton, US

**Figure 7 – Top and bottom five countries in key business performance expectations (% balance\*)**

Turnover	Selling prices	Exports	Employment	Profitability	Investment in new buildings	Investment in plant & machinery
87 India	54 Philippines	40 Turkey	59 India	75 India	50 India	60 Poland
82 US	54 Russia	35 India	57 Philippines	62 N Zealand	36 Turkey	58 Ireland
81 Australia	54 S Africa	35 Philippines	55 Turkey	62 Philippines	34 Ireland	58 Turkey
75 S Africa	47 N Zealand	32 Australia	55 US	61 S Africa	34 S Africa	57 Greece
68 Canada	45 India	31 Poland	52 Australia	61 Sweden	32 Poland	54 India
63 Global average	26 Global average	18 Global average	34 Global average	45 Global average	27 Global average	40 Global average
43 France	3 France	15 Greece	9 Spain/Italy	24 Spain	12 Ger, Mex, Neth	28 France
38 Singapore	0 Taiwan	12 France	8 Sweden	22 Italy	11 Hong Kong	23 Netherlands
34 Germany	-2 Hong Kong	9 Taiwan	6 Poland	15 France	11 Sweden	20 Germany
33 Taiwan	-4 Singapore	4 Japan	5 France	4 Japan	9 France	17 Taiwan
27 Japan	-25 Japan	2 Russia	-7 Germany	-11 Taiwan	2 Singapore	14 Singapore

\* the balance is the difference between the proportion of businesses indicating optimism and those indicating pessimism

At the other extreme, the eurozone and East Asia feature prominently. France features among the bottom five in each of the seven key business performance categories we investigated. Expectations in Germany, Japan, Singapore and Taiwan are also very low on most indicators.

Businesses in France and Germany see little prospect of turnover rising significantly. Consumer demand remains muted and this depresses investment plans and other indicators of performance. Medium sized businesses in Japan operate in an even more difficult environment. The recent export surge did little to help these companies who are often unable to capitalise on export growth since this remains, to a great extent, the domain of large companies. Nevertheless, the strong performance of the economy in the past two years has had a positive impact, bolstering turnover expectations.

#### Focus on Canada

**GDP size:** \$958.7bn (US for comparison \$10,900bn)

**Population:** 32.5m

**GDP by sector:** agriculture 2%; industry 29%; services 69%

Canada has a market-oriented economic system closely integrated with that of the US. An abundance of natural resources, a skilled labour force, and modern capital plant have underpinned solid economic expansion in the past decade, with growth averaging 3.4% per annum.

The close cross-border trade relationship with the US was reinforced by the 1989 US-Canada Free Trade Agreement (FTA) and the 1994 North American Free Trade Agreement (NAFTA), which includes Mexico.

Growth in 2004 was below trend, but still healthy as strong household demand and business investment boosted economic growth to 3%. With consumer spending, business investment and export growth remaining robust, GDP expansion is forecast to reach 3.3% in 2005.

Against the favourable economic background, our survey showed that medium-sized businesses in Canada are very optimistic about turnover in the year ahead.

**“Canadian business owners are benefiting from increased exports to the US, as well as increased demand for raw materials and commodities. It is therefore not surprising they are optimistic about their turnover prospects for the coming year.”**

**John Holdstock**

Grant Thornton, Canada

### Turnover (revenue)

Expectations about turnover globally improved from +58% last year to +63%, continuing the increase from +44% in 2003 before the upturn in the global economic cycle got under way. Figure 8 shows the countries with the strongest upturns this year, but none move into the top five which is again dominated by the same countries as last year – India, US, Australia, South Africa and Canada (figure 9). In these countries economic performance is buoyant and expectations are fuelled by persistently strong domestic demand and export growth.

### Selling prices

Selling prices are expected to increase further globally, the balance rising from 11% in 2003 to 17% last year and 26% in this survey. The outstanding feature in a generally mixed picture is that the same four countries as last year – Japan, Singapore, Hong Kong and Taiwan – occupy the bottom four places. These countries are still experiencing deflation or very low inflation.

“Twelve years of economic growth, notwithstanding international and regional rises, leaves the Australian economy in a robust condition, making business owners optimistic about their turnover for the year ahead.”

**John Clark**

Grant Thornton, Australia

**Figure 8 – Largest increases in turnover (revenue) expectations 2004 to 2005 (change in % balance \*)**

<b>Netherlands</b>		<b>30</b>
<b>Poland</b>		<b>30</b>
<b>Singapore</b>		<b>25</b>
<b>Japan</b>		<b>21</b>
<b>Ireland</b>		<b>14</b>
<b>Global average</b>		<b>5</b>

\* the balance is the difference between the proportion of businesses indicating an increase and those indicating a decrease

**Figure 9 – Turnover (revenue) expectations (% balance \*)**

<b>India</b>		<b>87</b>
<b>US</b>		<b>82</b>
<b>Australia</b>		<b>81</b>
<b>South Africa</b>		<b>75</b>
<b>Canada</b>		<b>68</b>
<b>New Zealand</b>		<b>67</b>
<b>Sweden</b>		<b>65</b>
<b>Ireland</b>		<b>63</b>
<b>Global average</b>		<b>63</b>
<b>Netherlands</b>		<b>62</b>
<b>Philippines</b>		<b>62</b>
<b>UK</b>		<b>62</b>
<b>Russia</b>		<b>57</b>
<b>Greece</b>		<b>56</b>
<b>Mexico</b>		<b>54</b>
<b>Hong Kong</b>		<b>53</b>
<b>Turkey</b>		<b>53</b>
<b>Italy</b>		<b>51</b>
<b>Poland</b>		<b>50</b>
<b>Spain</b>		<b>44</b>
<b>France</b>		<b>43</b>
<b>Singapore</b>		<b>38</b>
<b>Germany</b>		<b>34</b>
<b>Taiwan</b>		<b>33</b>
<b>Japan</b>		<b>27</b>

\* the balance is the difference between the proportion of businesses indicating an increase and those indicating a decrease

## Exports

The global average at +18% is the same as last year, though slightly up on 2003 (+15%), suggesting that, despite global recovery, export prospects remain fundamentally unchanged. Within this stable picture there were a few large movements: positive balances increased markedly in Australia (boosted by higher commodity exports); the Philippines and Singapore (helped by strong growth in the US and China); and Poland (benefiting from EU entry and currency devaluation). Large declines were seen in Greece and in Spain, reflecting weakening eurozone growth prospects, and in Russia.

## Employment

Global employment expectations registered another strong increase at +34% (up from +25% in 2004 and +14% in 2003) as the global upswing continues to generate jobs. The upturn in employment during 2004 can be seen in figure 10, which shows that globally, a balance of +26% of companies increased their workforce, a strong rise from the +8% of 2003. India leads the way with more than half its businesses expanding employment, but there were also marked increases in many other countries. In the EU, however, employment creation among medium sized businesses was muted, except in Ireland and the UK which are near the global average.

Employment creation among medium sized businesses in India, Australia and South Africa was particularly strong last year (figure 10), but these countries have consistently experienced employment growth at well

Figure 10 – Change in the number of people employed in the past year (% balance \*)

India	55
Australia	50
New Zealand	43
South Africa	43
Turkey	39
US	39
Canada	38
Philippines	32
Ireland	29
Taiwan	27
Global average	26
UK	24
Singapore	18
Japan	15
Greece	14
Russia	12
Hong Kong	11
Spain	11
Poland	6
France	4
Italy	1
Germany	0
Sweden	-2
Mexico	-3
Netherlands	-12

\* the balance is the difference between the proportion of businesses indicating an increase and those indicating a decrease

above the global average in the three years since their inclusion in our survey (figure 11). By contrast, Mexico and Germany have had three poor years in terms of employment creation. This is not surprising in Germany given the weak economic environment, but Mexico has seen employment contraction against buoyant expectations expressed in our surveys and in the face of a robust economic recovery in 2004.

“The Filipino respondents anticipate greater demand for their products that would result in increasing their ability to raise prices, create more employment and generate higher profits.”

**Ben Punongbayan**

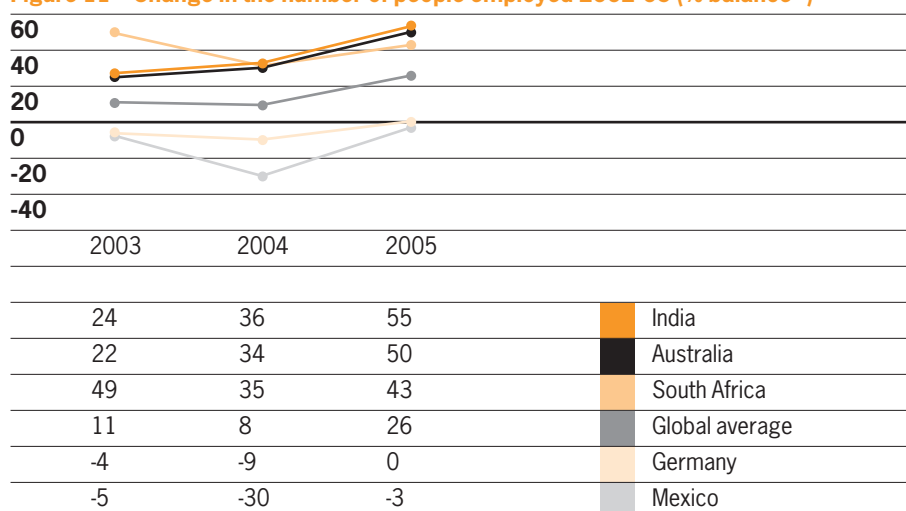
Punongbayan & Araullo, Philippines

The strongest increases in expectations for the year ahead were in the Philippines (up 39 points) and India (up 22 points) and these two countries also have the largest positive balances (figure 7). Prospects in Germany remain bleak – the expectations balance at -7% is still negative, though less so than in the past two years. Employment prospects in several other eurozone countries – France, Italy and Spain – are also subdued by the weak economic environment.

### Profitability

Prospects for profitability continue to improve, with the global average rising to +45% from +42% last year and +31% in 2003. The strongest positive balances, as shown in figure 7, are in those countries – India, New Zealand, the Philippines and South Africa – which expect to be able to raise selling prices, coupled with good turnover prospects. At the other extreme, Taiwan's negative balance has increased from -7% to -11%, and expectations in Japan are also very subdued, but with a sharp improvement from -15% last year to +4%.

Figure 11 – Change in the number of people employed 2002-05 (% balance \*)



\*the balance is the difference between the proportion of businesses indicating an increase and those indicating a decrease

### Focus on France

**GDP size:** \$1,661bn (US for comparison \$10,900bn)

**Population:** 60.4m

**GDP by sector:** agriculture 3%; industry 24%; services 73%

The French economy, traditionally featuring extensive government ownership and intervention, has become more reliant on market mechanisms in recent years. Economic growth has been among the best in the eurozone, averaging 2.3% over the past decade, but has suffered from weak demand from Germany, its major trading partner, and lags the growth rate achieved in the rest of the EU and North America.

The government is focusing on the problems of the high cost of labour and labour market inflexibility resulting from the 35-hour workweek and restrictions on lay-offs. The government is also pushing for pension reforms and simplification of administrative procedures.

The economy picked up in 2004 after two years of very weak growth, as household spending increased by 2.3%, but GDP growth was still modest at 2%. Growth at this pace is expected to be sustained into 2005 as a modest slowdown in consumer spending is offset by stronger business investment.

Expectations of business performance in the next 12 months are very pessimistic – France was in the bottom five countries on each of the seven indicators in our survey.

**Investment**

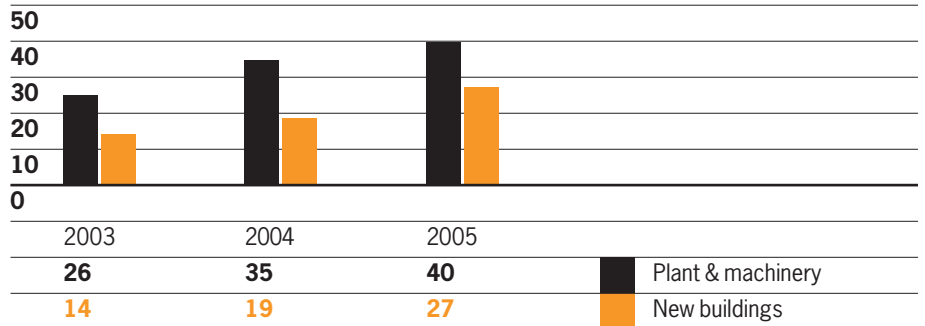
Investment expectations have strengthened for the second successive year (figure 12). India features prominently in terms of both buildings and plant & machinery followed by Ireland, Poland and Turkey, all countries with positive views of economic prospects and business performance. Singapore, despite its appearance in the “extremely positive” group regarding economic performance (see figure 1), has low expectations about turnover and selling prices, and is least optimistic regarding investment in the next 12 months. Taiwan’s decline in economic optimism and low levels of expectations on key business performance indicators explain its low ranking in terms of investment in plant & machinery. Three eurozone countries – Germany, France and the Netherlands – register muted views about investment.

“Strong investment in plant and machinery continues the trend in Poland to substitute labour by automation.”

**Andrew Kinast**

Grant Thornton, Poland

**Figure 12 – Expectations for investment – global average (% balance\*)**



\* the balance is the difference between the proportion of businesses indicating an increase and those indicating a decrease

**Focus on Australia**

**GDP size:** \$571.4bn (US for comparison \$10,900bn)

**Population:** 19.9m

**GDP by sector:** agriculture 4%; industry 26%; services 70%

Australia’s prosperous economy has consistently been among the fastest growing mature economies over the past decade, with annual growth averaging an impressive 3.7%.

Economic growth was slightly below trend in 2004, at 3.5%, as the impact of serious drought and the appreciation of the Australian \$ subdued exports, offsetting in part the boost to activity from buoyant domestic spending.

Stronger growth is forecast for 2005 as export activity picks up following the easing of the drought and consumer spending, though moderating, remains robust.

Our survey found that against a healthy economic backdrop, medium sized businesses in Australia are very upbeat about turnover over the next 12 months; they are also among the most optimistic regarding export prospects in the year ahead.

## 3 Constraints on growth

### Key findings

- Regulations/red tape is cited globally as the main constraint on business expansion
- It is regarded as a particularly significant constraint in Poland and Russia
- Lack of availability of a skilled workforce is now identified globally as the second most significant constraint, replacing shortage of orders

### We asked businesses about the constraints on their ability to expand

As in earlier surveys, regulations/red tape is seen as the most significant constraint on business expansion (figure 13). However, lack of availability of a skilled workforce is now identified as the second most important constraint, replacing shortage of orders. This reflects strengthening demand and a tightening labour market in many countries, consistent with the upward phase of the economic cycle. Financial factors (shortage of working capital, long-term finance and cost of finance) declined slightly in importance for the second survey in a row (figure 14). They are not regarded as the main constraint in any country, but are still significant in a few countries such as Mexico, Poland and Russia (discussed later in this chapter).

Figure 13 – Major constraints on expansion plans (%\*)

Regulation/red tape	36
Lack of availability of skilled workforce	28
Shortage of orders/reduced demand	27
Shortage of working capital	20
Shortage of long term finance	18
Cost of finance	17

\* % of respondents rating this 4 or 5 on a scale of 1 to 5, when 1 is not a constraint and 5 is a major constraint

Figure 14 – Constraints on expansion 2003 to 2005 (%\*)

	2003	2004	2005
Regulation/red tape	35	37	36
Lack of availability of skilled workforce	31	23	28
Shortage of orders/reduced demand**	–	32	27
Shortage of working capital	24	22	20
Shortage of long-term finance	22	19	18
Cost of finance	20	18	17

\* % of respondents rating this 4 or 5 on a scale of 1 to 5, when 1 is not a constraint and 5 is a major constraint

\*\* this option was not surveyed in 2003



“In the relatively recent past there was little active promotion of trade apprenticeships in New Zealand. This has contributed to gaps in the skilled workforce.”

**Peter Sherwin**

Grant Thornton, New Zealand

### Regulations/red tape as a constraint

There is little difference between the global average (36%) and the proportion of businesses in many countries citing regulations/red tape as a major problem. However, there are a few significant variations (figure 15). This issue is viewed as a particular constraint in Poland, by 72% of respondents, followed by 58% in another former communist country, Russia. Transition to a market-oriented economic structure in these countries appears to have had limited impact so far. However, fears that EU membership will exacerbate the problem for Poland appear to be unfounded, given that in France and Ireland, the proportion of businesses viewing regulations/red tape as a major constraint is well below the global average. Indeed in France, the proportion citing this as a major constraint has declined in recent years reflecting the government's efforts to improve and simplify administration.

In Singapore, the vast majority of businesses do not perceive regulations/red tape as a problem. Its importance has diminished significantly in recent years, from 48% of respondents in 2003 to just 8% on this occasion.

Figure 15 – Regulation/red tape as major constraint on expansion plans (%\*)

Poland	72
Russia	58
Germany	57
Mexico	47
Greece	45
Netherlands	42
Australia	40
Philippines	40
New Zealand	39
South Africa	39
India	38
Global average	36
Hong Kong	36
Turkey	35
UK	34
Italy	32
US	32
Sweden	31
Japan	30
Spain	30
Canada	29
Taiwan	26
Ireland	25
France	24
Singapore	8

\* % of respondents rating this 4 or 5 on a scale of 1 to 5, when 1 is not a constraint and 5 is a major constraint

#### Focus on Sweden

**GDP size:** \$238.3bn (US for comparison \$10,900bn)

**Population:** 9.0m

**GDP by sector:** agriculture 2%; industry 29%; services 69%

Sweden has a mixed system of high-tech capitalism and extensive welfare benefits. It has excellent internal and external communications and a skilled labour force. In September 2003, Swedish voters turned down entry into the euro system, concerned about the impact on democracy and sovereignty. Economic growth has averaged 2.6% per annum over the past decade, a steady rate of expansion that comfortably surpasses the eurozone rate. The global slowdown of 2001-3 depressed growth, but recovery got under way from the end of 2003.

Economic expansion gathered pace during 2004 driven by exceptionally strong export growth and a recovery in business investment. With exports continuing to perform well and tax cuts boosting household spending, GDP growth in 2005 is forecast at a robust 3.3%.

Despite the current healthy performance of the economy, our survey showed that medium sized businesses view shortage of orders as a significant constraint on expansion.

### Lack of availability of skilled workforce as a constraint

The global economic upswing has heightened labour market pressures and twice as many countries as last year cite shortages of skills in the workforce as the major constraint on expansion. Economies such as Australia, Canada and New Zealand, which have enjoyed years of solid growth, feature prominently in this context (figure 16). So too does Spain, which has also experienced strong output growth but without reducing the unemployment rate in the past half decade. The co-existence of widespread skills shortages with an 11% unemployment rate highlights important socio/economic issues for Spain.

Figure 16 – Most significant constraint on expansion plans (%\*)

Regulations/red tape	Lack of skilled workforce	Shortage of orders/reduced demand
72 Poland	50 New Zealand	61 Sweden
58 Russia	44 Australia	55 Japan
57 Germany	38 Spain	48 Hong Kong
47 Mexico	36 Turkey	40 Italy
45 Greece	34 Canada	38 France
42 Netherlands	34 UK (joint with regulations/red tape)	25 Ireland (joint with lack of skilled workforce and regulations/red tape)
40 Philippines	30 Taiwan	25 Singapore
39 South Africa	25 Ireland (joint with regulations/red tape and shortage of orders)	
38 India	32 US	
34 UK (joint with lack of skilled workforce)	25 Ireland (joint with lack of skilled workforce and shortage of orders)	

\* % of respondents rating this 4 or 5 on a scale of 1 to 5, when 1 is not a constraint and 5 is a major constraint

### Focus on Russia

**GDP size:** \$1,282bn (US for comparison \$10,900bn)

**Population:** 143.8m

**GDP by sector:** agriculture 5%; industry 35%; services 60%

The government struggled to establish a modern market economy during the 1990s. Until 1999 the economy contracted, very sharply in some years, but since then structural reforms have raised business and investor confidence, establishing a basis for economic activity to flourish. Growth in the past six years has averaged over 6% per annum.

Russia remains heavily dependent on exports of commodities, particularly oil, natural gas, metals, and timber, leaving the country vulnerable to swings in world prices and to a stop-go economic cycle. Nevertheless, a more broad-based economic structure is now in place and is expanding steadily.

Rising household spending, an acceleration in fixed investment and high oil prices underpinned strong economic growth in 2003 and 2004 at over 7%. More moderate but still robust expansion is forecast for 2005.

Our survey showed that regulation/red tape is viewed as a major constraint on expansion by medium sized businesses in Russia.

### Shortage of orders/reduced demand as a constraint

Only seven countries cite shortage of orders as the main constraint. These include surprisingly four economies – Hong Kong, Ireland, Sweden and Singapore – that grew robustly during most of 2004 as a result of buoyant domestic demand and strong export growth. However, evidence that the global upturn was faltering may have caused respondents to focus on the downside risks to sustained growth, including high oil prices. Moreover, in Ireland and Singapore, the proportion of respondents citing this issue as the main constraint was quite low at 25%. The other three countries citing shortage of orders have all encountered disappointing economic growth in recent years. This includes Japan whose economic revival appears to have run out of steam from about the middle of 2004, and Italy and France which have suffered from the eurozone's lacklustre performance.

### Finance – shortage and cost – as a constraint

This is a major constraint in relatively few countries. In the majority of cases 20% or less of respondents cited cost of finance, shortage of working capital or shortage of long-term capital as a constraint. The main exceptions are Mexico, Poland and Russia where around 40% of respondents cite each factor as a constraint on expansion, and Japan and Greece where around 30% cite shortage of working capital.

Figure 17 – Average days for payment of sales invoices

Russia		23
Poland		34
New Zealand		36
Germany		36
Sweden		38
India		39
US		40
South Africa		41
Canada		41
Netherlands		44
Australia		44
UK		45
Mexico		46
Global average		47
Philippines		50
Turkey		53
Hong Kong		55
France		55
Ireland		59
Taiwan		60
Japan		60
Singapore		62
Spain		78
Greece		81
Italy		85

Figure 18 – Main changes in average days for payment of sales invoices 2003 to 2005\*

Singapore		18
Greece		13
Turkey		10
Australia		8
Taiwan		8
Ireland		7
Global average		0
France		-7

\* change since 2004 for Taiwan and Turkey (both of which were not included in 2003 survey)

### Payment periods

Sales invoice payment periods vary significantly from country to country. Russia is the clear leader in terms of quick settlement, with an average payment period of 23 days (figure 17). Almost 40% of businesses receive payment in 1-7 days, a reflection of the continuing prevalence of cash on delivery (COD) in the system. In second place, but well behind Russia, is Poland. An interesting feature here is that the relatively low average payment period owes little to settlement in 1-7 days (only 6% of invoices are paid within that period) but 53% of businesses receive payment in 8-29 days, over three times the EU average.

As in earlier surveys, Italy, Greece and Spain are the slowest payers, and in all three cases the payment period has lengthened over the past year. This is most marked in Greece, where the average payment period increased from 70 days in 2004 to 81 days in the current survey, with 49% of businesses having to wait more than 90 days for payment, up from 38% in 2004.

At the global level, there has been no change in average payment periods since 2003, but this masks some interesting country trends. The most substantial movements over the past two years are shown in figure 18. The only country showing a marked decline in average payment periods is France, a reduction that continues the downward trend evident since 1994, when the average period was 74 days. The sharp increase in Singapore occurred mainly between 2003 and 2004 while the deterioration in Greece has been over the past year.

### Focus on Poland

**GDP size:** \$370bn (US for comparison \$10,900bn)

**Population:** 37m

**GDP by sector:** agriculture 3%; industry 31%; services 66%

A programme of liberalisation and reforms during the 1990s enabled the country to transform its economy sufficiently to join the EU in May 2004, but structural problems persist in agriculture, and state sectors such as coal, steel, and railways need reform.

Improvements in health care, education and the pension system have resulted in onerous fiscal pressures. High unemployment, still near 20%, is also a cause for concern.

The economy has performed robustly in recent years, driven by strong export growth – helped by the depreciation of the zloty in 2003 and EU accession. In 2004, buoyant household spending also made a strong contribution and GDP growth reached 5.5%.

The pace of activity is forecast to moderate in 2005, as export growth slows in reaction to recent zloty appreciation, but strong household spending and investment recovery should underpin GDP growth at over 4%.

The strength of domestic and external demand underpins the strong rise in investment expectations revealed in our survey. Regulation/red tape is regarded as a major constraint on expansion.

“Singapore enjoys the benefits of a government which has, over the years, taken a pro-active approach to encouraging entrepreneurs.”

**Kon Yin Tong**

Foo Kon Tan Grant Thornton, Singapore



## 4 The global market

### Key findings

- Just over one third of businesses surveyed export
- In Poland, Australia and Italy the proportion of exporting businesses has increased strongly over the past year
- Russia has replaced Japan as the country with the smallest proportion of exporting businesses

### Little change at the global level, but some large movements in individual countries

The proportion of medium sized businesses that export, at just over a third, has shown little change at the global level over the past two years but this masks some appreciable movements in a number of countries. The largest changes compared with last year are shown in figure 19.

Some of these movements have a plausible explanation. The marked increase in Australian exporting businesses probably reflects the strengthening demand for commodities and the ending of the serious drought of recent years; Poland has benefited from currency depreciation and EU accession; while Mexican businesses have responded to the upturn in demand from the US this year. Among the countries showing a decline, Singapore's currency appreciation against the dollar over the past year might account at least in part for the falling proportion of exporting businesses.

The decline in the proportion of exporting businesses in Russia, from 18% to 10%, is on the surface surprising, given the country's booming exports. But this boom is largely accounted for by the strong expansion of energy and other natural resources in which medium sized businesses have a relatively small role. At the same time, the vigorous growth of the domestic market has given medium-sized businesses the opportunity to expand without engaging in more time-consuming export sales.

Figure 19 – Proportion of businesses exporting (change from 2004)\*

#### Top and bottom four countries

Poland	22
Australia	15
Italy	12
Mexico	9
Russia	-8
Singapore	-10
Turkey	-10
Hong Kong	-16

\* change in percentage between those responding "yes" in 2004 and those responding "yes" in 2005

Figure 20 – Proportion of exporting businesses

Poland	52	30	-
Australia	44	29	33
Italy	60	48	40
Mexico	38	29	41
Russia	10	18	20
Singapore	42	52	59
Turkey	48	58	-
Hong Kong	46	62	54

Figures for Poland and Turkey not available for 2003. These countries were not included in the survey in that year.

In Turkey, the marked decline owes much to the fact that with inflation down sharply in 2004 to little over 10% and the Turkish Lira more stable, the incentive for businesses to earn hard currency to protect their financial position was eroded.

As a result of the movements seen this year, the overall structure of exporting businesses by country has changed significantly from that seen in previous surveys. Hong Kong, Singapore and the Netherlands, which occupied most of the leading positions in 2003 and 2004, have all slipped down the rankings and do not now feature among the top five. The country with the highest proportion of exporting businesses is now Italy, which has moved up sharply from a position among the lowest in Europe in 2003. Independent businesses have clearly shared fully in the revival of the country's export volumes this year and are among the most optimistic in the EU about prospects for 2005, with a balance of +27%, compared with +22% for the EU as a whole. Poland is second in the rankings following the sharp increase in this year's survey, highlighted in figure 20.

#### Focus on Hong Kong

**GDP size:** \$213bn (US for comparison \$10,900bn)

**Population:** 6.8m

**GDP by sector:** agriculture 0%; industry 12%; services 88%

Hong Kong became the Hong Kong Special Administrative Region (SAR) of China in 1997. Under agreement with China, it retains its free market economy, highly dependent on international trade. China has promised that its socialist economic system will not be imposed and that Hong Kong will enjoy a high degree of autonomy in all matters except foreign and defence affairs until 2047.

Hong Kong has, nevertheless, been integrating its economy with China because China's growing openness to international trade has increased competitive pressure on Hong Kong's service industries, and on its important re-export business from China.

After three years of relatively weak growth, the economy regained momentum in 2004, boosted by robust consumer spending and strong exports amid global recovery and dollar weakness. However, growth at 7.4% is unlikely to be sustained into 2005, as consumer spending and export growth moderate. GDP is expected to grow by 4.6% this year.

Our survey revealed a sharp decline in the proportion of medium sized businesses that export, from 62% to 46%, and that the balance of companies are pessimistic about export prices.

**“The market in Russia is substantial, internal demand is growing and therefore medium sized businesses prefer to develop their trade in the local market.”**

**Sergey Aslibekian**

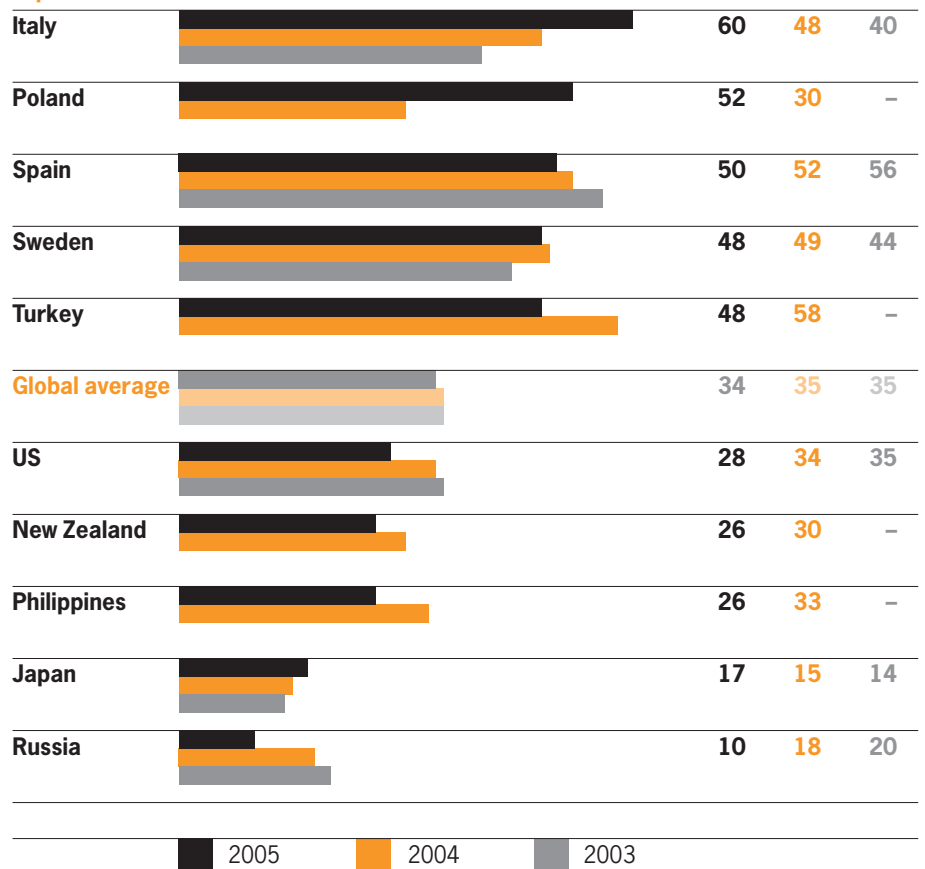
Grant Thornton Trid, Russia



At the other extreme, Russia has replaced Japan as the country with the lowest proportion of exporting businesses (figure 21). In Japan, we have noted in previous surveys that the low proportion reflects the fact that surveyed businesses are medium sized and focus on domestic business, providing products and services to large companies. Things appear to be changing gradually as the proportion exporting has risen from 14% in 2003, to 15% in 2004 and 17% this year, though the change is small and may prove not to be significant.

**Figure 21 – Proportion of businesses exporting (%)**

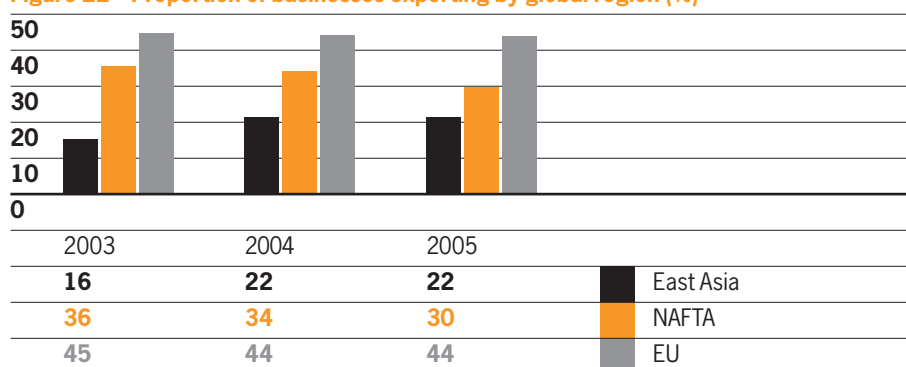
**Top and bottom five countries in 2005**



Figures for New Zealand, Philippines, Poland and Turkey not available for 2003. These countries were not included in the survey in that year

Among the global regions, the proportion of businesses exporting is far higher in the EU than in NAFTA or East Asia (figure 22). There are two reasons for this. Firstly NAFTA exports are constrained in a way that EU exports are not, because cross border trade in the EU (for example a Polish firm sending goods to Ireland) counts as an export, while trade across state borders in the US, an equally large market, does not. Secondly, the East Asia figure is depressed by the heavy weighting of Japan, which as we have seen has a low proportion of exporting businesses. The gap between the EU and NAFTA has widened since 2003 with the proportion of US businesses exporting falling from 35% to 28%. It remains to be seen whether the steep devaluation of the dollar in the autumn of 2004 will reverse this trend.

Figure 22 – Proportion of businesses exporting by global region (%)



#### Focus on Turkey

**GDP size:** \$458.2bn (US for comparison \$10,900bn)

**Population:** 68.9m

**GDP by sector:** agriculture 12%; industry 30%; services 58%

Turkey's economy is a mix of modern industry and commerce along with a traditional agriculture sector that still accounts for over a third of employment although only 12% of GDP. Until recently, the economic situation was marked by high inflation and serious imbalances, notably the fiscal deficit.

Recent economic results have been much better reflecting action to implement IMF-supported programmes, tighter fiscal policy and reforms associated with Turkey's candidacy for EU membership. Inflation has been brought down from well over 50% to 10.7% in 2004.

In 2004, Turkey enjoyed GDP growth at almost 10%, driven by exceptionally strong consumer spending and a surge in business investment. Strict monetary and fiscal policies to bring down inflation will dampen household spending in 2005, but overall economic growth is still forecast to exceed 6%.

Business performance expectations are very buoyant. In our survey, Turkey is the most optimistic country regarding exports in the next 12 months, and among the most upbeat for employment and new investment.

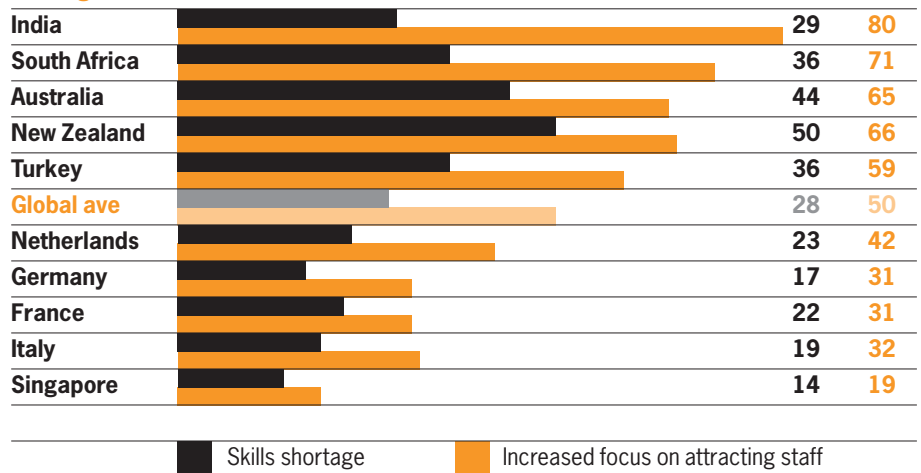
## 5 Attraction and retention of staff

### Key findings

- Many countries experiencing skill shortages have become more focused on attracting/retaining staff
- Possessing a good corporate reputation is perceived as the most important factor for attracting/retaining employees with the major exception of Japan

The need to retain key staff in a competitive environment and a tightening skills market in many countries is a challenge for medium sized enterprises. With regard to key skilled labour, we asked businesses whether they were more or less focused on attracting and retaining staff than they were a year ago. Many countries in our survey that highlight skill shortages as a major constraint on business expansion (see chapter 3) also demonstrate increased attention to attracting/retaining key staff. Using Australia in figure 23 as an example, we see the proportion of respondents saying they have become more focused on attracting/retaining staff (65%) and the proportion citing skill shortages (44%) are both well above the global average (50% and 28% respectively). In India and South Africa the need to attract and retain key skilled staff in a healthy economic environment with growing skill shortages is particularly evident. The converse also applies – where lack of workforce skills is not seen as a serious constraint, as in Italy for example, the proportion of respondents focusing more on attraction and retention of key staff is quite low.

**Figure 23 – Increased focus on attracting/retaining key staff\* and perceived skill shortage\*\***



\* the proportion of businesses saying they are more focused or significantly more focused than they were a year ago

\*\* % of respondents rating this 4 or 5 on a scale of 1 to 5 when 1 is not a constraint and 5 is a major constraint



“We have seen positive employment trends in medium sized businesses since IBOS began in 2003. This business sector is making a strong contribution towards reducing unemployment in South Africa.”

**Leonard Brehm**

Grant Thornton, South Africa

### Good reputation viewed as a winning strategy

A good corporate reputation is viewed as the key factor in attracting and retaining employees in all countries surveyed except Japan and New Zealand. In New Zealand, this factor is pushed marginally into second place by “ensuring that all employees understand the company’s core values, mission and goals.” Japan’s case is much more interesting, displaying far greater divergence from the pattern elsewhere. The proportion of respondents in Japan citing possession of a good corporate reputation, at 66%, is well below the global average (84%), and this factor is relegated to fourth place. “Understanding core values, mission and goals” is regarded as the most important issue in Japan, followed by “coaching, training and mentoring top performers for leadership positions” and “monitoring employee perceptions and acting on results”.

“It is clear that employers are realising the importance of a business’s culture and reputation in order to attract employees, as opposed to relying on competitive reward packages.”

**Jim Rogers**

Grant Thornton, UK

**Figure 24 – Importance of various strategies for attraction/retention of employees (%\*)**

Possessing a good corporate reputation	84
Understanding of core values, mission & goals	77
Coaching, training and mentoring top performers	69
Competitive reward systems and benefit packages	67
Monitoring employee perceptions and acting on results	66
Providing training and development packages	60
Flexible attitude to working patterns	47
Allowing work beyond retirement age	26
Providing facilities for leisure activities for employees	17

\* % of respondents rating this 4 or 5 on a scale of 1 to 5 when 1 is of little importance and 5 is extremely important

#### Focus on South Africa

**GDP size:** \$456.7bn (US for comparison \$10,900bn)

**Population:** 42.7m

**GDP by sector:** agriculture 4%; industry 31%; services 65%

South Africa is a middle-income country with an abundant supply of resources, well-developed financial, legal, communications, energy, and transport sectors, and a modern infrastructure supporting an efficient distribution of goods to major urban centres throughout the region.

Economic growth has accelerated in the past decade to an annual average of 2.8%, double the rate of growth in the previous ten years. This improved performance is helping to alleviate poverty among disadvantaged sectors of society, and GDP per head is among the highest in sub-Saharan Africa, but formidable problems persist.

The economy performed quite strongly in 2004, with most sectors experiencing solid expansion against a background of healthy consumer demand boosted by low and stable interest rates.

Business confidence was at an extremely high level in our survey amid expectations of sustained strong economic expansion in 2005. Skills shortages have led to increased focus on attracting/retaining key staff in the past year.

Figure 24 highlights the fact that the two strategies involving people's perceptions of the company – “good corporate reputation” and “understanding of core values, mission and goals” are regarded as the most important in the context of employee retention/attraction. Around 80% of respondents globally view these factors as very important. Developing competitive reward systems, benefit packages and training is regarded as rather less important (they are cited by 60% to 69% of respondents). Lifestyle issues, (flexible attitude to working patterns, allowing working beyond retirement age and provision of leisure facilities) are regarded as of crucial importance by less than half of respondents.

The global results mask some interesting country differences. These are evident for example in respect of attitudes to allowing work beyond normal retirement age as a strategy for attracting/retaining employees. As illustrated in figure 25, the proportion using this method as a means of attracting/retaining staff is very low among businesses in mature economies with high unemployment (France, Greece, and Spain), or with a highly trained workforce (Ireland and Sweden), but is high in countries where skills are in short supply, irrespective of the unemployment rate.

**Figure 25 – Importance of allowing work beyond normal retirement age as a strategy for attracting/retaining employees (%\*)**

**Top and bottom countries**

<b>Russia</b>		<b>50</b>
<b>Mexico</b>		<b>49</b>
<b>Turkey</b>		<b>39</b>
<b>Global average</b>		<b>26</b>
<b>Ireland</b>		<b>9</b>
<b>Poland</b>		<b>9</b>
<b>Spain</b>		<b>9</b>
<b>Sweden</b>		<b>9</b>
<b>France</b>		<b>8</b>
<b>Greece</b>		<b>7</b>

\* % of respondents rating this 4 or 5 on a scale of 1 to 5 when 1 is of little importance and 5 is extremely important

**Focus on New Zealand**

**GDP size:** \$85.3bn (US for comparison \$10,900bn)

**Population:** 4m

**GDP by sector:** agriculture 5%; industry 27%; services 68%

The economy has undergone major restructuring over the last 20 years involving reduced dependence on agriculture and the encouragement of industries that can compete globally. GDP growth has averaged a healthy 3.4% per annum over the past decade. Buoyant consumer spending supported the economy during the global downturn of 2001-02 and ensured healthy growth in 2003.

Consumer spending grew vigorously in the first half of 2004, while business investment and government spending also showed strong growth. Fears of over-heating led to a tighter monetary stance, which has successfully steered the economy onto a more sustainable growth path.

In year-on-year terms, economic growth is likely to moderate from 4.8% in 2004 to 2.1 % in 2005.

This will help subdue inflationary pressures, although labour shortages persist and wage growth may accelerate.

Skills shortages were cited as the main constraint on expansion in our survey, and a high proportion of businesses said that over the past year they had increased the focus on attracting/retaining key staff.

“Japanese people generally think reputation is only a concern for large enterprises. They do not join a medium sized business to be involved in its good reputation.”

**Shigeru Oe**

Grant Thornton, Japan

The development of a competitive reward system (salaries and benefit packages) also shows interesting divergences in this context. It is considered very important in the US, but much less so in some EU countries and in New Zealand (figure 26); and this is also given an important role by respondents in Taiwan and Hong Kong, but not in Singapore.

**Figure 26 – Importance of developing competitive reward systems and benefit packages as a strategy for attracting/retaining employees (%\*)**

**Top and bottom countries**

<b>US</b>	<b>83</b>
<b>Taiwan</b>	<b>80</b>
<b>Hong Kong</b>	<b>74</b>
<b>Global average</b>	<b>67</b>
<b>Spain</b>	<b>47</b>
<b>Sweden</b>	<b>47</b>
<b>Ireland</b>	<b>46</b>
<b>New Zealand</b>	<b>39</b>
<b>Singapore</b>	<b>25</b>

\* % of respondents rating this 4 or 5 on a scale of 1 to 5 when 1 is of little importance and 5 is extremely important

“Taiwanese employers are preparing for the impact of new regulations which will entitle employees to claim a pension even if they have left the company. Therefore, the need to develop competitive reward systems is at the forefront of their minds as there will be a financial imperative for them to retain employees.”

**Jay Lo**

Grant Thornton Losoon, Taiwan

**Focus on Singapore**

**GDP size:** \$109.4bn (US for comparison \$10,900bn)

**Population:** 4.4m

**GDP by sector:** agriculture 0%; industry 32%; services 68%

Singapore is a highly developed and successful free-market economy, enjoying an open and corruption-free environment, stable prices, and a modern competitive manufacturing sector, which has been the main engine of the impressive growth recorded in the past two decades.

GDP growth averaging 4.6% per annum in the past decade would have been even stronger but for the fact that the economy endured three years of unusually weak expansion. This was caused by the slowdown in the global economy in 2001 and 2002, and damage inflicted by the SARS outbreak in 2003.

The economy regained its former momentum in 2004 with growth at 8.3% boosted by an export revival in line with global recovery and buoyant consumer spending. These factors will operate less strongly in 2005, and growth is forecast to moderate to around 4%.

Despite the favourable economic environment, investment intentions in Singapore are the most downbeat of all countries included in our survey. Skill shortages are less in evidence than elsewhere.

## 6 Impact of modern communications technology on business

### Key findings

- Business owners spend on average 1.5 hours a day accessing/responding to e-mail
- NAFTA is much more positive than the EU regarding the effect of e-mail and the internet on turnover (revenue)
- E-mail and internet usage among medium sized businesses in Japan is well below that in NAFTA and the rest of East Asia

E-mail and internet usage have become established features of commercial life. We included a number of questions in this year's survey to take stock of how much medium sized businesses use communication technologies, to what extent businesses depend on them and to what degree being in constant contact with the business created personal stress. The results revealed some interesting variations among the countries in the survey.

Firstly, we asked business owners how much time they spent accessing and responding to e-mail. In Hong Kong and India, almost a quarter of respondents said they spent more than three hours a day, although this was exceptional. The average time among all respondents was 1.5 hours a day, but individual countries showed considerable divergences (figure 27).

The average time shown for Russia is depressed by the fact that 15% of respondents do not have e-mail (figure 28). This is attributable to the low quality telecommunication networks outside of large cities and the comparatively high price for access in some regions. This is a far higher percentage than anywhere else, the closest surprisingly being Japan and Taiwan both with 7% of respondents without e-mail, followed by New Zealand with 5%. Elsewhere, the proportion without e-mail is negligible or zero.

Figure 27 – Time spent accessing/responding to e-mail\* (hours per day)

#### Top and bottom countries

<b>Philippines</b>	2.1
<b>Hong Kong</b>	2.0
<b>India</b>	2.0
<b>US</b>	2.0
<b>Global average</b>	1.5
<b>France</b>	0.9
<b>Poland</b>	0.9
<b>Turkey</b>	0.9
<b>Greece</b>	0.8
<b>Russia</b>	0.8

\* Including those who do not have/deal with e-mail, who have been allocated a time of 0 hours

Figure 28 – Proportion of businesses without e-mail (in all other countries less than 3% do not have email)

<b>Russia</b>	15
<b>Japan</b>	7
<b>Taiwan</b>	7
<b>New Zealand</b>	5
<b>France</b>	3
<b>Poland</b>	3

We also investigated the extent to which e-mail and other communication technologies were helping develop businesses by increasing turnover and improving efficiency. The responses showed remarkable diversity. The EU was generally negative regarding the contribution of e-mail and the internet to increasing turnover. In France, a balance of -61% of respondents disagreed there has been an impact, and there were marked negatives in Italy and the Netherlands, as shown in figure 29. Among other EU members, there was a small negative balance in Germany and near average positive responses in Greece, Sweden and the UK. Only Ireland and Spain agreed strongly that turnover was improved. NAFTA, boosted by a strong response in Mexico and an above average balance in the US, is much more positive. East Asia, depressed by a small negative balance in Japan emerges well below the global average in this context.

“It is not surprising the email and internet have helped Spanish business owners increase their turnover. As a medium of promotion, the internet provides cheap and easy access.”

**Alfonso López-Pelegrín**  
Grant Thornton, Spain

**Figure 29 – E-mail and the internet have helped increase turnover/revenue (% balance\*)**

Philippines	76
India	70
Spain	53
Mexico	42
Ireland	31
Hong Kong	29
Turkey	21
US	16
New Zealand	16
UK	13
Sweden	12
Singapore	12
Global average	12
Russia	11
Taiwan	8
Greece	8
Australia	5
Canada	2
South Africa	0
Japan	-5
Poland	-6
Germany	-7
Netherlands	-11
Italy	-17
France	-61

\* the balance is the difference between those who agree and those who disagree

**Figure 30 – Being in constant contact with the business and clients enhances efficiency (% balance\*)**

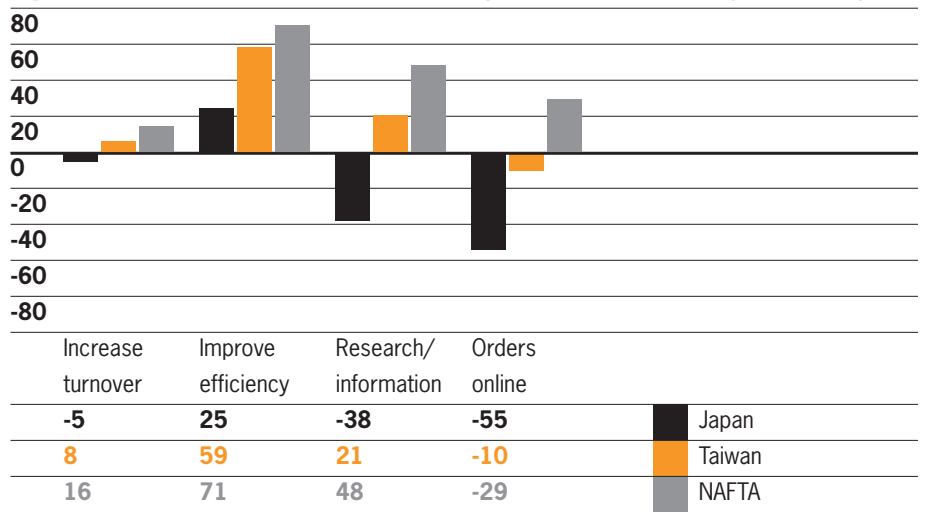
Philippines	82
Turkey	80
Poland	75
US	73
Global average	61
Singapore	51
UK	51
France	33
Japan	25

\* the balance is the difference between those who agree and those who disagree

There is much stronger and more widespread agreement that efficiency is enhanced by being in constant touch with the business and clients through modern communications technology. The Philippines was again most prominent followed by Turkey (figure 30). Japan's response was the weakest, reinforcing the perception that e-mail and the internet have had less impact among medium sized businesses in Japan than in the rest of East Asia (we have used Taiwan as an example) and NAFTA (figure 31).

While most businesses find the internet useful, in general it has not become essential in order to do business. Businesses have a low degree of reliance on the internet for ordering online from suppliers or taking orders online from customers. Only in the Philippines and Turkey is the balance of respondents positive in both cases. These two countries also lead in terms of dependence on the internet for research/gathering information. Turkey also emerged as the country most dependent on the internet for advertising and marketing. In all these areas, Japan showed the largest negative balance, indicating relatively low dependence on the internet for running the business.

**Figure 31 – Use of e-mail and the internet in Japan, Taiwan and NAFTA (% balance\*)**



\* the balance is the difference between those who agree and those who disagree that e-mail and other communications technologies help in the areas shown

**Focus on Spain**

**GDP size:** \$885.5bn (US for comparison \$10,900bn)

**Population:** 40.3m

**GDP by sector:** agriculture 4%; industry 29%; services 67%

Spain's economic performance has been one of the strongest in the EU over the past decade. Healthy economic growth during this period, averaging 3.2% per annum, has enabled strong employment creation to take place. Unemployment has consequently been falling steadily from its 1994 peak of 18.4% of the workforce, and at 10.9% the rate is now not far above the eurozone average.

Consumer spending has been buoyant in recent years amid relaxed monetary conditions, sustaining overall economic expansion at a rate well above the eurozone average. GDP growth in 2004 was 2.6%, a similar outturn to the previous year's, and would have been even higher but for a strong increase in imports.

With household spending set to moderate only slightly in 2005 GDP growth is forecast at 2.7%. This should produce a further decline in the unemployment rate. However, inflation is expected to pick up to over 3%, around 1 percentage point higher than in the eurozone as a whole.

Spain was by a wide margin the most positive EU country in our survey regarding the contribution of e-mail and the internet to business turnover. But it was least positive in terms of developing ties with the ten new EU members.

As we have seen, the Philippines emerges as the leader in most indicators of e-mail/internet usage and usefulness, but at a cost. The high volume of e-mail was cited by 41% of respondents as a factor contributing to stress, the largest proportion in any country in our survey.

However, being in constant contact with the business and clients via telephone, e-mail etc was not a factor causing stress in the Philippines. The prime sufferers in this context were Singapore (+39%), India (+32%), Mexico (+29%) and the US (+28%).

#### Focus on the Philippines

**GDP size:** \$390.7bn (US for comparison \$10,900bn)

**Population:** 86.2m

**GDP by sector:** agriculture 18%; industry 33%; services 44%

Agriculture retains an important place in the economy, but light industry and services are growing strongly, increasing their share of GDP. The government has promised to continue economic reforms to help the Philippines match the pace of development in the newly industrialised countries of East Asia. The strategy includes improving the infrastructure, better tax collection to boost government revenues, further deregulation and privatisation of the economy, strengthening the financial system, and increasing trade integration with the region.

Economic growth in the past decade, averaging 3.8% per annum, has been modest by the standards of Asian developing countries. However, the past three years have seen a perceptible acceleration, with growth approaching 5% per annum.

Economic growth in 2004 at 6.1% was the strongest in a decade. Agricultural harvests were good, exports strong and consumer spending buoyant. These factors are expected to be less supportive in 2005, but GDP growth is still forecast to reach 4%.

Medium sized businesses are upbeat regarding performance in the year ahead, particularly for employment prospects, selling prices and profitability. Our survey also showed the Philippines as the leading country in terms of internet and e-mail usage.



“French business owners generally don’t see the internet as a tool which increases turnover by itself.”

**Jean-Luc Carpentier**  
Grant Thornton, France

## 7 Stress among business owners

### Key findings

- Increased competition and more demanding customer expectations are leading factors generating stress among business owners
- The Netherlands, Italy and France have the lowest stress levels despite weak economies and downbeat business performance expectations
- Turkey, Poland and Russia are most stressed, mainly reflecting regulation/red tape and economic worries

The health risks posed by stress are well recognised. The pressure on business owners is especially strong given the burden of running the enterprise in addition to social and family anxieties. We asked business owners which work-related issues caused them most concern. Increased competition, the economy, more demanding customer expectations, cash flow and red tape emerged as the main issues generating stress among medium sized businesses (figure 32).

The level of stress generated by business pressures in individual countries does not appear to be closely linked to the economic background or performance expectations in the country concerned. Figures 33 and 34, showing the most stressed and least stressed countries, highlight a paradoxical situation where some of the weakest-performing economies with depressed business expectations have relatively low business-related stress levels.

Figure 32 – Contribution to stress level (%\*)

<b>Increased competition</b>	43
<b>Economic environment</b>	38
<b>More demanding customer expectations</b>	37
<b>Cash flow/pressure on profit margins</b>	36
<b>Regulation/red tape</b>	36
<b>Not enough time with family/friends</b>	32
<b>Shortage of leisure time</b>	32
<b>Keeping up with technical developments</b>	24
<b>Change in audit requirements</b>	23
<b>High volume of e-mail</b>	21
<b>Wealth and how it is tied to business</b>	20
<b>Relations with partners/shareholders</b>	19
<b>Future ownership of company</b>	15
<b>Terrorism</b>	14
<b>Involvement of the family</b>	9

\* % of respondents rating this 4 or 5 on a scale of 1 to 5, when 1 does not cause stress and 5 causes extreme stress

### Focus on Italy

**GDP size:** \$1,550bn (US for comparison \$10,900bn)

**Population:** 58.1m

**GDP by sector:** agriculture 2%; industry 29%; services 69%

Economic performance has been constrained in recent years by lacklustre demand from major trading partners in the eurozone and subdued consumer demand at home. GDP growth has averaged only 1.5% per annum in the past decade.

The government has introduced measures to improve competitiveness and long-term growth.

Progress has been slow, however, on implementing structural reforms, such as lightening the high tax burden and overhauling Italy's rigid labour market and over-generous pension system.

Exports and investment picked up in the first half of 2004 helping the economy to revive after two years of virtually no growth. However, the strengthening euro and weak demand from Germany depressed exports in the second half of the year, constraining GDP growth for the year to just 1.2%. Only slightly faster growth is forecast for 2005.

Despite downbeat expectations about business performance, particularly profitability, medium sized businesses in Italy are among the least stressed in our survey as a result of business concerns.

In France for example, stress caused by the business is well below the global average, yet as we saw in figure 7 respondents in France are in the bottom five in terms of expectations for all seven business performance indicators investigated. To illustrate the point, we focus in figure 34 simply on expectations for profitability for the countries included in figure 33. France, Italy and the Netherlands are the three least stressed countries, but also have the lowest expectations of profitability.

Among countries exhibiting high stress levels, the absence of a link with business performance also holds. South Africa and New Zealand exhibit high stress levels (figure 33), but feature prominently among the most optimistic countries regarding profitability and other expectations and have economies that are performing buoyantly.

**Figure 33 – Countries where the business causes most and least stress (%\*)**

Turkey	81
Poland	64
Russia	61
South Africa	61
New Zealand	59
Global ave	44
Singapore	38
Sweden	38
UK	38
France	37
Italy	25
Netherlands	17

\* % of respondents rating this 4 or 5 on a scale of 1 to 5, when 1 does not cause stress and 5 causes extreme stress

**Figure 34 – Profitability expectations (% balance\*)**

Turkey	35
Poland	28
Russia	41
South Africa	61
New Zealand	62
Global average	45
Singapore	30
Sweden	61
UK	57
France	15
Italy	22
Netherlands	34

\* the balance is the difference between the proportion of businesses indicating optimism and those indicating pessimism

“What is interesting is that the top contributory factors to stress levels are not going to go away, in fact they may get worse so business owners need to learn to adjust accordingly!”

**Aykut Halit**

Arkan & Ergin Grant Thornton, Turkey

The highest stress levels are in Turkey, Poland and Russia. Of great concern in Poland are regulation and red tape. But there is also a link with business performance, given Poland's downbeat expectations for turnover and profitability. In Turkey and Russia terrorism and the threat to security are major worries (figure 35). These countries occupy the top positions, along with Mexico whose tourism and manufacturing businesses are concerned at the potential threat from terrorism in the US.

**Figure 35 – Contribution towards stress from terrorism and threat to security (%\*)**

**Top and bottom five countries**

<b>Russia</b>		<b>49</b>
<b>Mexico</b>		<b>40</b>
<b>Turkey</b>		<b>38</b>
<b>Philippines</b>		<b>30</b>
<b>Italy</b>		<b>23</b>
<b>Global average</b>		<b>14</b>
<b>Canada</b>		<b>5</b>
<b>UK</b>		<b>5</b>
<b>Australia</b>		<b>3</b>
<b>Ireland</b>		<b>3</b>
<b>Sweden</b>		<b>2</b>

\* % of respondents rating this 4 or 5 on a scale of 1 to 5 when 1 does not cause stress and 5 causes extreme stress

**Focus on Japan**

**GDP size:** \$3,360bn; (US for comparison \$10,900bn)

**Population:** 127m

**GDP by sector:** agriculture 1%; industry 26%; services 73%

The Japanese economy, the world's third largest after the US and China, endured a difficult decade to 2003. Weak consumer demand was partly responsible, reflecting an ageing and slow growing population. Structural problems exposed by the over-investment and inflated asset prices of the late 1980s exacerbated the problem.

Performance in 2003 and the first quarter of 2004 showed a marked improvement, boosted by strong export and business investment growth. This raised hopes that the period of stagnation was over, but the revival ground to a halt in the second and third quarters. While prospects for 2005 are for weak growth, structural adjustments are laying the foundation for improvement in the longer term. Deflation, a problem for much of the past decade, persists despite higher oil prices, making it difficult to increase prices. This is reflected in the large negative balance for selling price expectations in our survey. However, the era of falling prices is expected to be nearing its end.

Medium sized businesses are downbeat about business performance and shortage of orders is a major constraint on expansion. Our survey revealed that a significant number of Japanese business owners have experienced an increase in their stress levels over the past year.

**Figure 36 – Principal stress driver in each country (%\*)**

Cash flow/ pressure on profit margins	High volume of e-mail	More demanding customer expectations	Increased competition	Regulations/ red tape	Impact of economic environment	Not enough time with family and friends
50 South Africa	32 Sweden	39 Canada	80 Philippines	73 Poland	67 Turkey	35 Italy
47 Australia	(joint with not	39 Ireland	64 Taiwan	60 Russia	54 Mexico	32 Sweden (joint
37 US (joint	enough time with	37 US (joint with	61 Japan	49 Germany (joint	49 Germany (joint	with high volume
with more	family/ friends)	cash flow)	61 Singapore	with impact of	with regulations	of e-mail)
demanding			60 Hong Kong	economic	/red tape)	
customer			58 Greece	environment)	44 France	
expectations)			58 Netherlands	48 New Zealand		
			57 India	37 UK		
			45 Spain			

\* % of respondents rating this 4 or 5 on a scale of 1 to 5 when 1 does not cause stress and 5 causes extreme stress

Many countries cite increased competition as the main generator of stress, including all those in Asia (figure 36). This reflects the continuing heavy reliance of Asian economies, both mature and emerging, on exports in a fiercely competitive environment. In most other countries increased competition is ranked in the top four, but is less of an issue in the UK (where it ranks 5th), South Africa (6th) and New Zealand (7th).

Concern over the economy is the major issue in France and Germany, and is the second most critical issue in Greece and the Netherlands, a strong indication of the toll taken by the eurozone's weak performance.

Regulation/red tape is a major factor in Poland and Russia, and also in Turkey, where it is the third major concern behind the impact of the economic environment and increased competition.

“The survey was conducted in the wake of the hostage crisis in Beslan, which capped a series of terrorist attacks in Russia. These had significant impact on all lives, including business owners.”

**Sergey Aslibekian**

Grant Thornton Trid, Russia

### Business owners more stressed than a year ago

Our survey showed a significant rise over the past year in the stress level endured by business owners. The sharpest increase was in Taiwan, which also registered a marked drop in sentiment regarding overall business prospects. Despite strong economic growth averaging over 4% in the past three years, in line with the average for the past decade, medium sized businesses report low turnover growth over the period, and expectations for the year ahead are also quite gloomy. A balance of +61% of business owners in Taiwan said their stress levels had increased over the past year (figure 37).

Stress levels in the other East Asian countries included in our survey have also risen strongly – a balance of +46% in the Philippines, +45% in Hong Kong, +44% in Japan and +43% in Singapore. Business performance in these countries (except in the Philippines) is subdued, and turnover growth has been sluggish (figure 38) which might well explain the increase in stress felt by business owners.

In Russia and India, the marked increase in stress (figure 37) reflects more positive factors. These economies are booming, turnover has increased quite strongly in Russia and very strongly in India (figure 38) and business performance expectations, especially in India, are high. Increased competition (India and Russia) and more demanding customer expectations (India) are key stress drivers.

Figure 37 – Increase in stress level compared with last year (% balance \*)

Taiwan	61
Russia	48
Philippines	46
India	45
Hong Kong	45
Japan	44
Singapore	43
Turkey	40
Mexico	38
South Africa	38
France	31
Greece	31
Ireland	30
Spain	25
Global average	25
Germany	24
Poland	19
UK	19
Italy	17
New Zealand	12
US	12
Australia	10
Canada	6
Sweden	6
Netherlands	5

\* the balance is the difference between the proportion of businesses indicating an increase and those indicating a decrease

“The Dutch are very down-to-earth by nature. Business owners will try to put their economic situation into perspective, thus they do not experience an increase in their stress levels.”

Gerard Mulder

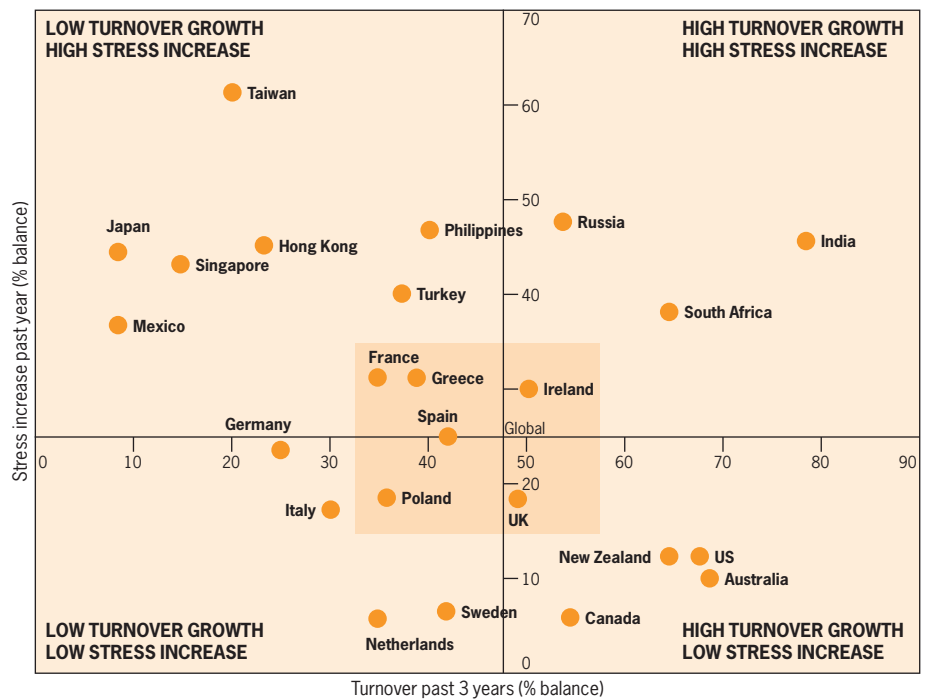
Arenthals Grant Thornton, the Netherlands

At the other extreme, Canada, Australia, the US and New Zealand have seen relatively little increase in stress over the past year (figure 37). This is a group of countries where medium sized businesses have enjoyed strong turnover growth but they know how to cope with success and are not stressed by it (figure 38).

In the Netherlands and Sweden, turnover growth has been slow in the past few years, but business owners do not become too stressed by this. As we saw in figure 36, increased competition is an important factor generating stress in the Netherlands, but has not raised stress levels significantly over the past year (figures 37 and 38). In Sweden, the most important factors creating stress are high volume of e-mail and not enough time with family and friends, suggesting lifestyle pressures rather than business worries.

Finally in figure 38 is a group of countries where turnover growth has been satisfactory, and where business owners report only a moderate rise in stress. These countries are all in Europe, have good economic growth (except for France), and do not seem to present the difficult environment that has generated higher stress elsewhere.

Figure 38 – Change in stress level over past year and turnover (% balance)



#### Focus on the Netherlands

**GDP size:** \$461.4bn (US for comparison \$10,900bn)

**Population:** 16.3m

**GDP by sector:** agriculture 3%; industry 24%; services 73%

The Netherlands' location makes it a key centre of transport and distribution for Europe, and one of the most important transport hubs in the world. Economic performance is heavily reliant on trade growth. The economy's strong competitive position and the steady expansion of international trade underpinned a robust performance between 1994 and 2000, with annual growth rates well above the eurozone average.

However, economic growth has slowed sharply in the past four years, as the economy reacted to the global slowdown and more recently depressed consumer spending. In the four years from 2001 to 2004 GDP growth averaged just 0.6% and the unemployment rate rose from 2% to 5%.

The economy staged a mild recovery in 2004 from the severe recession of the previous year with GDP growth of 1.2%. However, the euro's strength and weak demand from Germany will constrain exports in 2005, and domestic demand is still depressed by high unemployment. Another year of meagre growth is in prospect.

Our survey showed that despite the Netherlands' economic problems, business issues contribute less to stress than in any other country.

### Recourse to medical advice for stress least common in Western Europe

We saw in figure 33 that business-related stress was least common in the Netherlands, Italy, France, the UK and Sweden. Except for France, this group of countries features prominently among the least likely to seek medical advice for stress-related illness (figure 39). Most likely by a wide margin are business owners in Mexico, 30% of whom say they sought medical advice over the past 12 months.

Figure 39 – Business owners seeking medical advice for stress-related illness in last 12 months (%)

Mexico	30
India	17
New Zealand	16
Russia	16
South Africa	16
Turkey	15
Global average	10
Ireland	7
Netherlands	7
Taiwan	7
US	7
Italy	5
UK	5
Sweden	4

#### Focus on Mexico

**GDP size:** \$941bn; (US for comparison \$10,900bn)

**Population:** 105m

**GDP by sector:** agriculture 4%; industry 26%; services 70%

Mexico has a market-oriented economy with a mixture of modern and traditional industry and agriculture. Recent administrations have expanded competition in many areas, and the private sector is becoming increasingly important.

Trade with the US and Canada has tripled since the implementation of the North American Free Trade Agreement (NAFTA) in 1994. This has been beneficial to GDP growth, which averaged over 5% per annum in the second half of the 1990s. Closer economic ties with the US have reinforced Mexico's vulnerability to the performance of its large neighbour, and growth faltered in 2002/3, but a strong recovery got under way in 2004 fuelled by high oil prices and the US upturn.

Growth prospects for 2005 and 2006 are encouraging as the US continues to grow robustly and domestic demand remains strong.

A major concern for medium-sized businesses in Mexico is the threat of terrorist activity in the US. In our survey, Mexico also emerged as the country where business owners are most likely to seek medical advice for stress related illnesses.

## 8 Anticipated change of ownership of business

### Key findings

- Just over a quarter of businesses expect a change of ownership in the next 10 years
- Trade sale is the most likely method of change of ownership
- Just over half of businesses who anticipate a change in ownership have made preparations for this change

Our survey revealed considerable diversity around the global average of 28% of businesses expecting a change of ownership over the next decade, ranging from 6% in the Philippines to around 50% in Australia and New Zealand (figure 40). Among companies expecting a change in ownership, a quarter of businesses globally expect this change to occur within the next two years, but in France the proportion is over 70% and in Japan just 11%.

Trade sale (sale of shares to another company) is the most likely method of change (cited by 24% of companies expecting a change), but three other methods are not far behind, each accounting for around 20% – merger, bringing in private equity/bank investors, and selling or passing to other members of the family.

Figure 40 – Expectations of ownership change in next 10 years (%)

#### Top and bottom five countries

<b>New Zealand</b>		<b>51</b>
<b>Australia</b>		<b>50</b>
<b>Canada</b>		<b>47</b>
<b>Mexico</b>		<b>47</b>
<b>South Africa</b>		<b>47</b>
<b>Global average</b>		<b>28</b>
<b>Greece</b>		<b>11</b>
<b>Russia</b>		<b>11</b>
<b>Singapore</b>		<b>11</b>
<b>France</b>		<b>10</b>
<b>India</b>		<b>9</b>
<b>Turkey</b>		<b>9</b>
<b>Philippines</b>		<b>6</b>



“We meet many Swedish business owners who have no successors within the family. This may cause them to keep on working and postpone preparations for a change of ownership.”

**Peter Bodin**

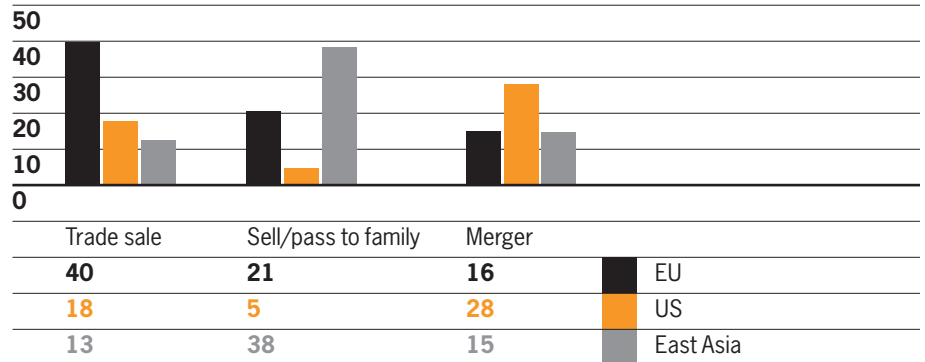
Lindebergs Grant Thornton, Sweden

There are distinct regional patterns among three of these four methods of ownership change (figure 41). Trade sale is much more likely in the EU than in the US or East Asia; keeping the business in the family either through sale or passing it to a family member is much more common in East Asia than the other regions, and a merger is most likely in the US.

Overall, only 57% of those who anticipated a change of ownership in the next ten years have started to plan for this change. The highest proportions are in Canada (73%) followed by France (67%). But in three countries – Sweden (28%), the UK (43%) and Spain (44%) – the proportions with preparations under way are below 50%. The types of preparation undertaken are shown in figure 42.

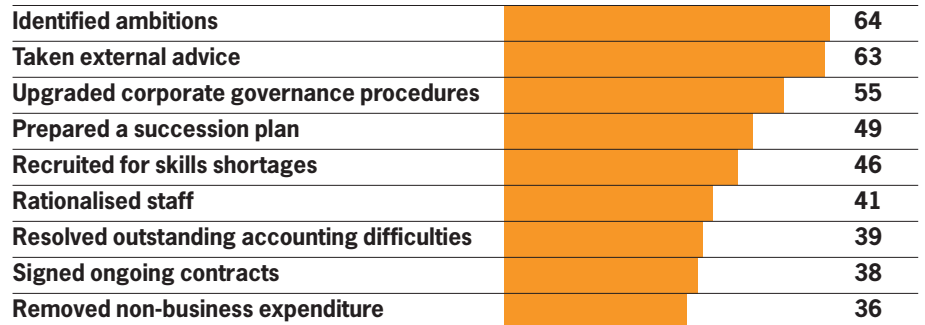
It is interesting to note that respondents appear to have taken some action in preparing their business for ownership change. What is perhaps of more concern for the future well-being of medium sized businesses is that there are 43% who indicated that a change of ownership is anticipated but have not started to plan for this change. The secret to a successful change of ownership, be it a transfer to the next generation or a sale, is to plan early.

**Figure 41 – Type of deal most likely for ownership change (%\*)**



\* % of companies expecting a change

**Figure 42 – Main type of preparation made for ownership change (%\*)**



\* % of companies expecting a change and having made preparations

#### Focus on the US

**GDP size:** \$10,900bn

**Population:** 293m

**GDP by sector:** agriculture 1%; industry 26%; services 73%

The US economy features a dynamism that other high-income countries cannot match. Economic growth in the past decade has averaged a vigorous 3.4% per annum, contrasting sharply with pedestrian growth in the eurozone and Japan. The US boom was interrupted in 2001, but stimulative fiscal and monetary policies helped GDP growth recover and the economy was back on course by 2003.

Strong consumer spending and a sharp upturn in business investment supported a return to vigorous growth during 2004, although high oil prices created a growth “soft spot” in the second quarter. This proved a temporary blip and GDP growth for the year as a whole was an exceptionally strong 4.4%.

Monetary policy became less supportive during 2004 and is expected to tighten further in 2005, dampening household spending. However, healthy profit margins are boosting business investment, and export growth is robust in line with the weak dollar. Overall growth is forecast at 3.3%.

Businesses in the US are more likely to effect a change of ownership through merger than any other method. The proportion of businesses expecting to use this means (28%) was also higher than any other country in the survey.

# 9 EU business trends

### Key findings

- Expectations about turnover (revenue), exports, profits and investment have picked up, but only moderately as economic prospects in the eurozone remain subdued
- The proportion of EU businesses that export is much lower than in the 1990s, reflecting the strength of the euro and muted demand from Germany
- A larger pool of labour and ease of access to larger markets are seen as the main effects of EU enlargement

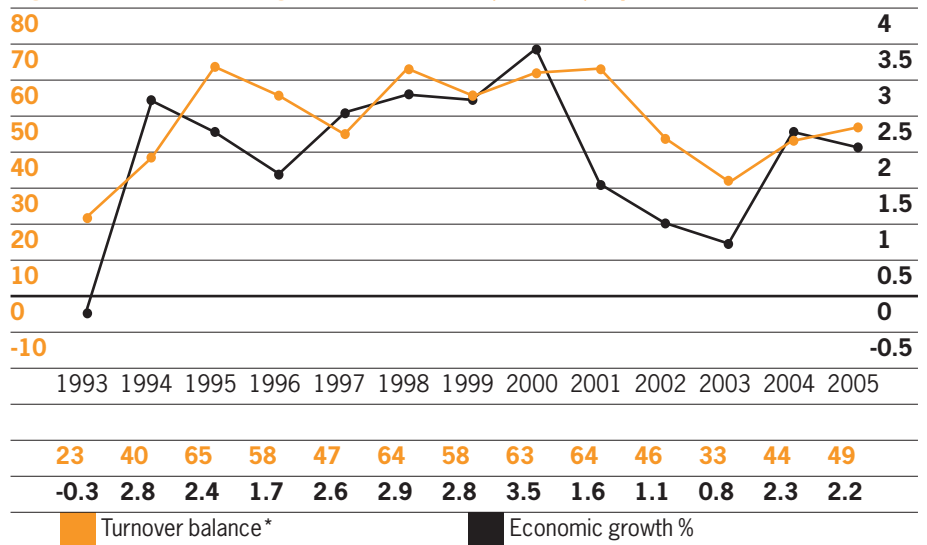
### For the EU, we have data from 1993, allowing us to track key business developments for the past 13 years

The long run of data available enables us to see clearly the close correlation between the economic environment and expectations of turnover, profits, employment and investment. The first figure in this chapter highlights this feature, showing economic growth and turnover; later figures illustrate the same pattern of expectations for other business performance indicators. Trends such as payment periods, presented later in the chapter, are determined more by legal factors, local custom and the availability of working capital.

### Business expectations

In figure 43, we compare economic growth in the EU with turnover expectations in our survey. Over the whole of the period, the balance of responses regarding business turnover in the year ahead has been a good predictor of actual growth achieved. In the latest phase of the economic cycle, turnover expectations during 2001-03 were subdued, in line with the economic slowdown, but the upturn in expectations for turnover in our 2004 survey foreshadowed a year of stronger economic growth. A modest upturn in expectations in the 2005 survey matches economic forecasts of another year of solid rather than vigorous economic expansion.

Figure 43 – EU economic growth and turnover (revenue) expectations since 1993



\* the balance is the difference between the proportion of businesses indicating an increase and those indicating a decrease

### Focus on the UK

**GDP size:** \$1,929bn (US for comparison \$10,900bn)

**Population:** 60m

**GDP by sector:** agriculture 1%; industry 25%; services 74%

The economy has been one of the strongest in the EU over the past decade. Inflation and unemployment are low, and economic growth at 2.8% per annum has out-performed the eurozone average (2.0%) over the period. Monetary and fiscal policies have contributed to a more stable and shallow economic cycle than that of earlier decades.

Consumer spending has remained resilient in recent years, boosted by rapid growth in credit. Government spending has also been strong in an effort to improve the provision of health and education services. These factors have outweighed weak investment and falling exports, enabling the economy to grow by around 2% per annum in the period 2001 to 2003, in contrast to virtual stagnation in the eurozone. Supported by buoyant consumer spending and a recovery in business investment, overall economic growth exceeded 3% in 2004. Consumer spending is expected to moderate in 2005 under the impact of higher interest rates and a cooling housing market, but a prospective upturn in exports should underpin growth at 2.7%.

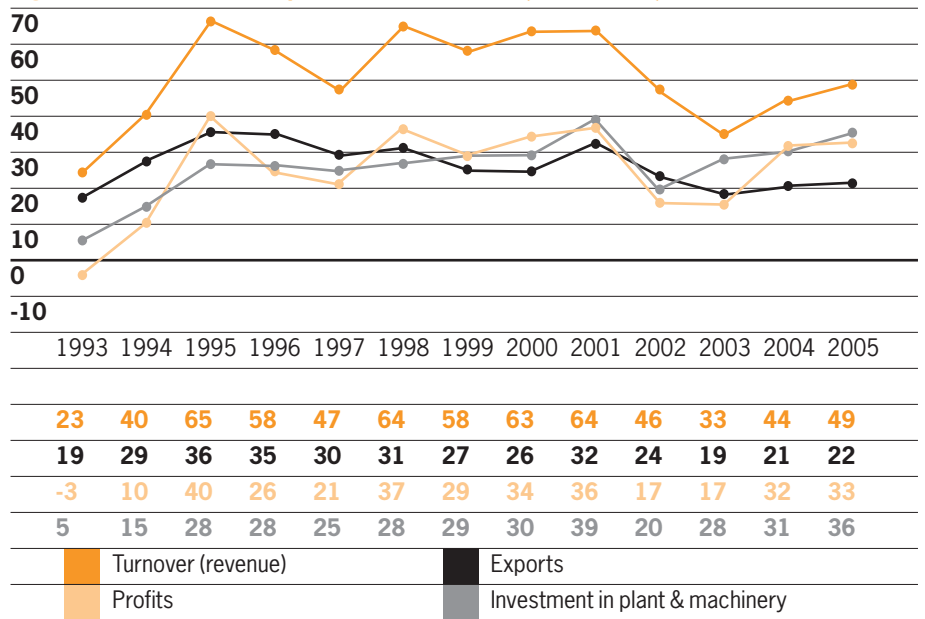
Medium sized businesses in the UK have become less supportive of euro membership than they were in our survey two years ago. The balance favouring joining fell from 50% to 42%.

Other key indicators (figure 44) all show an improvement in line with continuing economic recovery, but the upturn is marginal or moderate given that economic growth prospects are still unexciting. Caution is very much in evidence regarding exports, where expectations are subdued by the strong euro, and the positive balance remains much lower than in the period from 1994 to 2002. In the case of profits, where competitive pressures limit opportunities to increase selling prices, expectations also show only a marginal increase. The increase in investment intentions in plant and machinery is more encouraging, raising the balance to its second highest level on record, and well above the level during the recovery of the early 1990s. This suggests that medium sized businesses are reasonably confident about longer-term prospects and recognise the need to raise productivity by investing in new plant and machinery.

**Exporting companies**

The proportion of businesses in the EU that export was unchanged from the 2004 survey, at 44%. While this figure is appreciably higher than the global average (34%) it remains the lowest on record for the EU (figure 45) reflecting persistently weak activity in the eurozone and the 20% appreciation of the euro against the dollar in the past two years.

**Figure 44 – EU business expectations since 1993 (% balance \*)**



\* the balance is the difference between the proportion of businesses indicating an increase and those indicating a decrease

**Focus on Germany**

**GDP size:** \$2,271bn (US for comparison \$10,900bn)

**Population:** 82.4m

**GDP by sector:** agriculture 1%; industry 31%; services 68%

Germany is one of the slowest growing economies in the eurozone. Growth in the past decade has averaged 1.4%. The integration of the East German economy continues to be a drain on public spending, adding to the burden of an ageing population and high unemployment. This has been exacerbated by structural rigidities in the labour market – including strict regulations on laying off workers and the setting of wages on a national basis. However, significant steps towards reform are being implemented.

After three years of stagnation, the economy staged a mild recovery in 2004, but the export-led revival was constrained by the appreciation of the euro. GDP growth of 1.7% was insufficient to prevent the unemployment rate approaching 11%, almost 5 million people.

Weak consumer spending and export growth are expected to keep overall expansion below 1.5% in 2005.

Germany features prominently among the most pessimistic countries in our survey regarding business performance in the year ahead. Medium sized business are particularly downbeat about employment prospects.

As figure 45 shows, the peak year for EU exports was 1997, when 64% of medium sized businesses reported that they exported. Since then, the export climate has deteriorated steadily, though it may now be levelling out, as the proportion exporting has remained in the mid-forties for the past three years. Among the individual EU countries for which comparative data are available, experience has been mixed (figure 46). Spain has seen a slight increase and Ireland has experienced little change in the proportion of businesses exporting, but elsewhere, notably in France, Germany, Greece and Italy, the proportion has dropped remarkably. One reason is the subdued state of demand in Germany, the largest market in the EU. This has constrained exports from major trading partners whose economies have become increasingly integrated with the German market. Only Poland shows a significant increase in the proportion of businesses exporting, from 36% in 1998 to 52% in the 2005 survey.

Figure 45 – Proportion of EU businesses exporting (%)

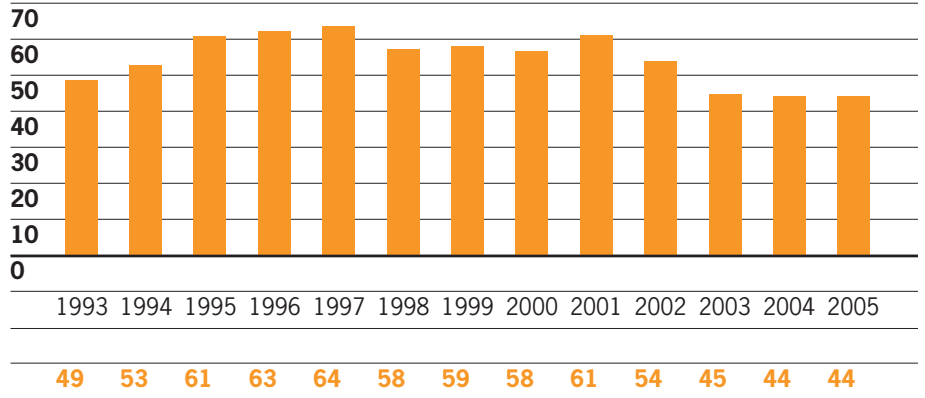
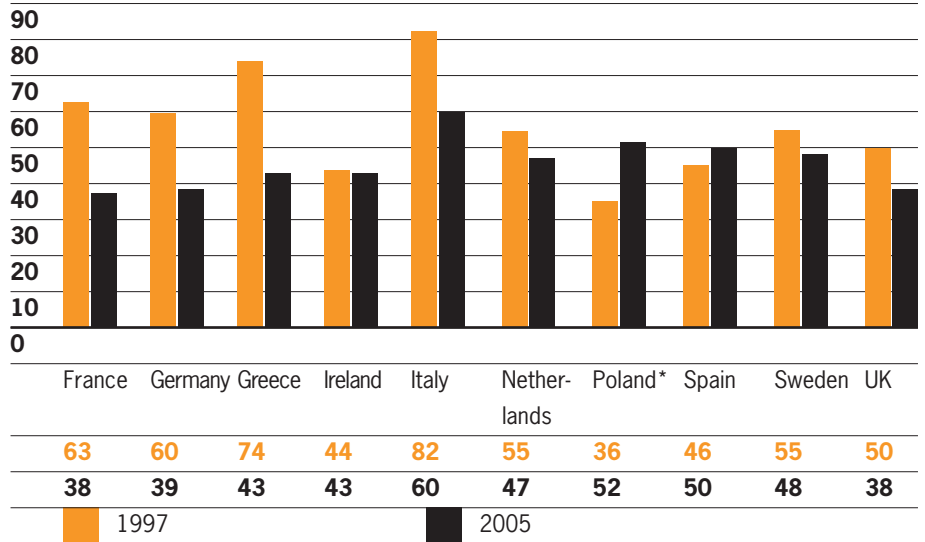


Figure 46 – Proportion of companies exporting in EU countries (%)



\* Poland's figure is for 1998 (this country was not included in the 1997 survey)

“Even though more than half of Greek business owners anticipate exporting to the new EU member countries, this has not yet led to an increase in the number of businesses exporting.”

Vassilis Kazas

Grant Thornton, Greece

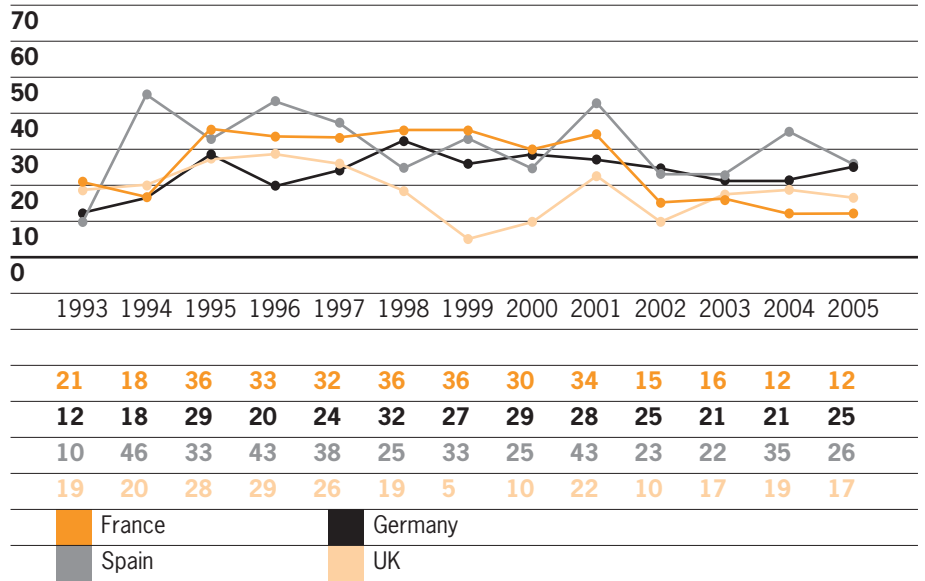
The subdued export picture emerging from figure 46, which relates to recent experience, is reinforced by expectations (figure 47). While there is an encouraging upturn in Germany, the French figure remains very muted, Spain reveals a sharp downturn, and the UK shows a modest fall.

**Invoice payment periods**

The average payment period for sales invoices in the EU improved between 1993 and 1999 from 65 to 55 days, reflecting the success of EU legislation to speed up payments, but has been remarkably stable in recent years (figure 48).

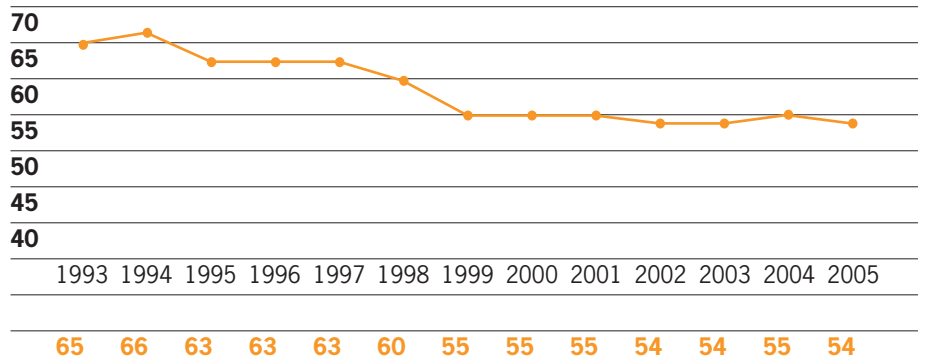
In a number of countries (Germany, Ireland, the Netherlands, Spain and Sweden) there has been little annual variation in payment periods. Figure 49 focuses on the other four EU countries where a clear trend has emerged. This is most marked in France where the reduction in the payment period is continuing and is now virtually the same as the overall EU figure, having been well above the EU average in the early 1990s. Both Greece and Italy, which appeared to be on a downward trend between 1996 and 2003, have experienced a lengthening of payment periods in the past two years and are the only countries in our survey where the average is over 80 days. In the UK, the gradual downward trend seen between 1993 and 2003 has been arrested in recent years.

**Figure 47 – Export expectations in largest EU economies since 1993 (% balance\*)**



\* the balance is the difference between the proportion of businesses indicating an increase and those indicating a decrease

**Figure 48 – Average payment period in the EU for sales invoices since 1993 (days)**



**Impact of EU enlargement on operations**

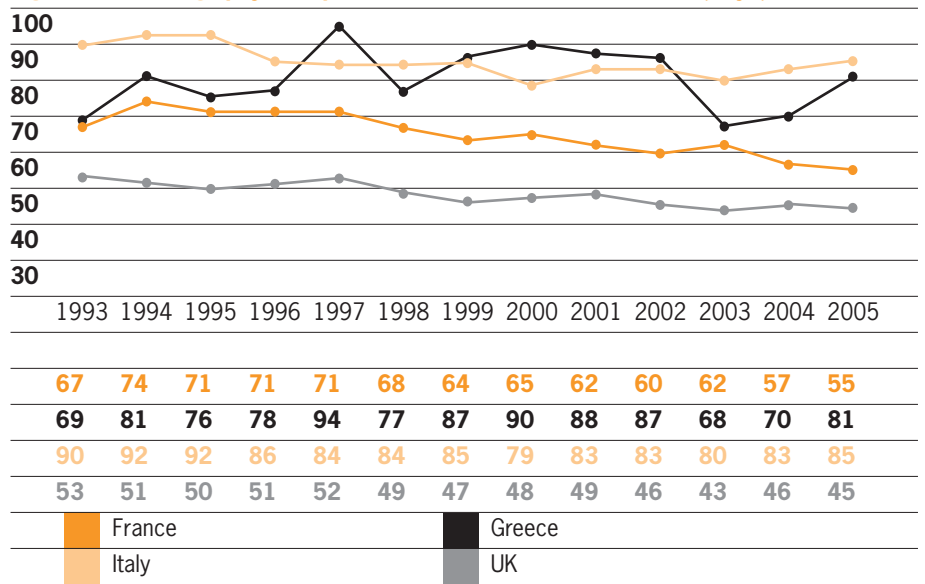
The EU expanded from 15 to 25 countries during 2004, with the accession of new members mostly from Central and Eastern Europe and the Baltics. We asked businesses in the EU what effect they felt enlargement would have on their operations. The results are shown in figure 50.

Labour supply issues featured prominently in responses. The expansion of the labour pool was cited by 37% of respondents, with 16% having already experienced the impact. This was seen most strongly as an issue in Poland (88% of respondents, but only 12% had already experienced it). Among the existing EU members, this effect was mentioned by a large proportion of respondents in Greece (56%), Germany (48%) and Ireland (43%). The Irish figure may understate the impact as 45% say they have already experienced an expansion of the labour pool.

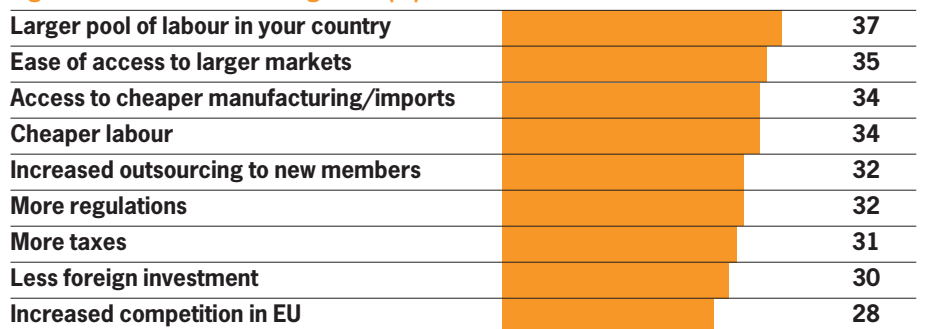
The associated issue of cheaper labour was mentioned by 34% of respondents in the EU with a similar pattern among individual countries that noted labour pool expansion.

More regulations as a result of enlargement were cited by almost a third of respondents, but the proportion was much higher (83%) in Greece. Interestingly, in Poland the proportion expressing concern on this issue was low, just 18%, but 82% of respondents in Poland said they had already experienced greater regulation.

**Figure 49 – Average payment period for sales invoices since 1993 (days)**



**Figure 50 – Effects of EU enlargement (%)**



### Relocation of operations to new members

Plans to relocate all or part of activities to one or more of the ten new EU countries vary markedly among the existing members (figure 51). This is an important factor in Germany, where 48% of businesses had already relocated or planned to relocate some operations, reflecting the opportunity to benefit from lower labour costs in neighbouring countries with whom trading links are strong. In Greece and Sweden the proportions are even higher. At the other extreme is the UK, where only 6% had relocated or planned to relocate, France (12%) and Spain (14%). None of these countries has developed trading ties with Central and Eastern Europe in the way that Germany has. Poland, itself a new member, also features among the countries with a low proportion of businesses planning to relocate. Despite geographical proximity and close trading ties, Poland has little opportunity to lower labour costs by transferring operations to neighbouring countries.

“Rather than being negative about the Euro, UK business owners are experiencing a stable and favourable economic environment and therefore are not focusing on currency as an issue. They are looking at other issues such as skills shortages and red tape.”

**Andrew Godfrey**  
Grant Thornton, UK

**Figure 51 – Relocation of activities/part of activities to one or more of the new EU members (%\*)**

<b>Greece</b>		<b>60</b>
<b>Sweden</b>		<b>52</b>
<b>Germany</b>		<b>48</b>
<b>Ireland</b>		<b>37</b>
<b>Netherlands</b>		<b>36</b>
<b>Italy</b>		<b>27</b>
<b>EU average</b>		<b>26</b>
<b>Spain</b>		<b>14</b>
<b>Poland</b>		<b>13</b>
<b>France</b>		<b>12</b>
<b>UK</b>		<b>6</b>

\* the percentage includes respondents who have already relocated activities and those who plan to relocate activities



**Figure 52 – Have taken or plan to take action with regard to the new EU members (% of respondents)**

**Top and bottom three**

Hiring staff with experience of these countries	Exporting to one or more of these countries	Using suppliers/outsourcing to one or more of these countries	Merging with/acquiring companies in one or more of these countries
64 Greece	58 Greece	60 Greece	59 Greece
53 Sweden	53 Poland	53 Sweden	56 Sweden
46 Germany	53 Sweden	45 Germany	47 Germany
28 EU average	36 EU average	35 EU average	26 EU average
20 France	31 France	34 Italy	16 France
17 UK	26 Spain	25 Spain	10 Spain
14 Spain	19 UK	20 UK	6 UK

**Hiring staff from new members**

Medium sized businesses in Greece (57% of respondents), Sweden (54%) and Germany (47%) are the most likely to hire staff from the new member countries. High unemployment rates in Poland and Spain partially account for the low propensity of businesses in these countries (only around 13% of respondents) to hire staff from new members.

**Developing ties with new members**

Measures to develop closer ties with the new member countries are most evident among Greek businesses. Figure 52 demonstrates that around 60% of respondents have acted or plan to act in terms of hiring staff with experience in these countries, exporting, outsourcing and merging/acquiring companies in the new member states. Sweden and Germany are also prominent in this respect, but the most Western parts of the EU, notably France, Spain, and the UK, appear to be enhancing their presence in the new member states less dynamically.

**The euro**

Two countries in our survey – Sweden and the UK – are EU members but are not in the eurozone. We asked medium sized businesses in these two countries whether they would like their countries to adopt the euro. Enthusiasm in Sweden

is high, but has diminished since we first asked this question in 2002 (figure 53). In the UK, businesses remain lukewarm, with sentiment moving away from eurozone membership in the past two years.

**Focus on Greece**

**GDP size:** \$213.6bn (US for comparison \$10,900bn)

**Population:** 10.6m

**GDP by sector:** agriculture 7%; industry 22%; services 71%

GDP growth has accelerated over the past decade to 3.6% per annum, well above the eurozone average (2.0%). Growth has been boosted by buoyant consumer demand and strong investment flows, benefiting from EU structural funds.

The economy weathered the effects of global slowdown, with annual growth remaining near 4% in 2001 to 2003. Weak export markets were more than offset by buoyant consumer demand and investment associated with the Olympic Games.

Healthy consumer demand underpinned robust GDP growth of 3.8% during 2004, double the rate for the eurozone. The unemployment rate continued its recent encouraging decline. However, inflation at 3.1% is well above the eurozone average, threatening to erode Greece's international competitiveness.

Buoyant domestic demand is expected to sustain overall growth at a brisk 3.5% in 2005.

Our survey shows that medium sized businesses in Greece are the most likely among all EU countries to develop ties with the new members, by exporting, outsourcing, merging/acquiring companies or hiring staff with experience in these countries.

The lacklustre economic performance of the eurozone since its inception in 1999 probably accounts for the diminishing support for the euro in the two non-participating countries. However, the favourable business climate in both Sweden and the UK, measured by output growth, low inflation and a strong labour market, despite remaining outside the eurozone, has reduced pressure for change and reinforced the anti-euro views of many medium sized businesses.

The relatively weak economic performance of the eurozone is highlighted in figure 54. It should be stressed that this does not necessarily reflect a failure of the euro-project. In the six years prior to the establishment of the eurozone, both Sweden and the UK achieved consistently faster growth than the average for the countries that eventually formed the euro area. The performance of the past five years merely continues that trend.

Figure 53 – Saying yes to adopting the euro (%)

	2002	2003	2005
Sweden	93	89	78
UK	43	50	42

Question not included in 2004 survey

Figure 54 – GDP growth – Sweden and UK (difference compared to eurozone in percentage points)

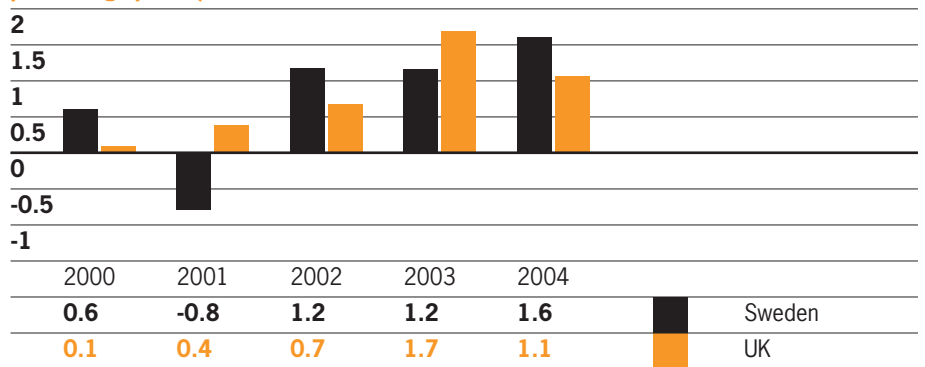
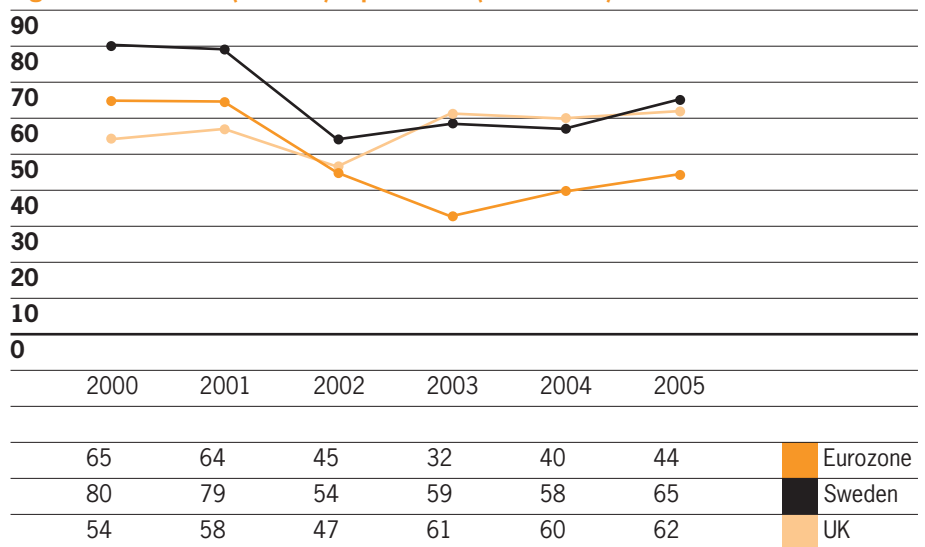


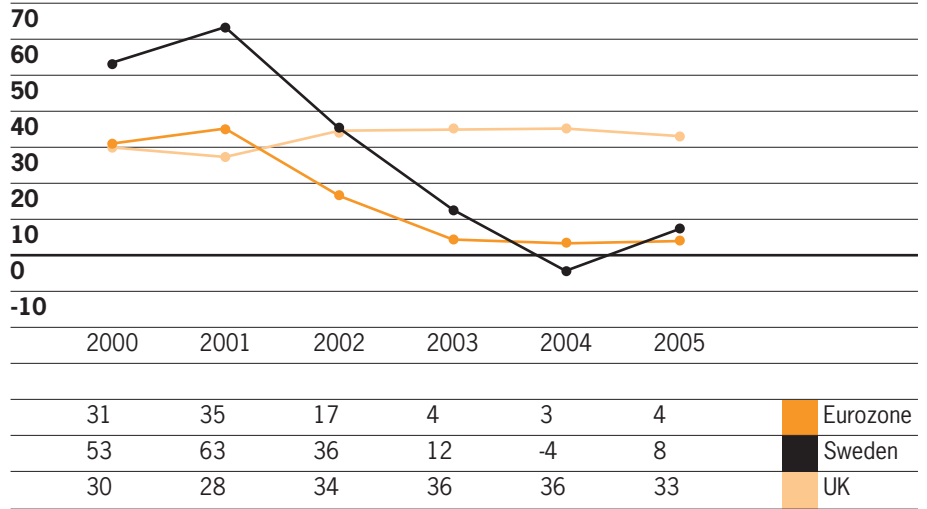
Figure 55 – Turnover (revenue) expectations (% balance \*)



\* the balance is the difference between the proportion of businesses indicating an increase and those indicating a decrease

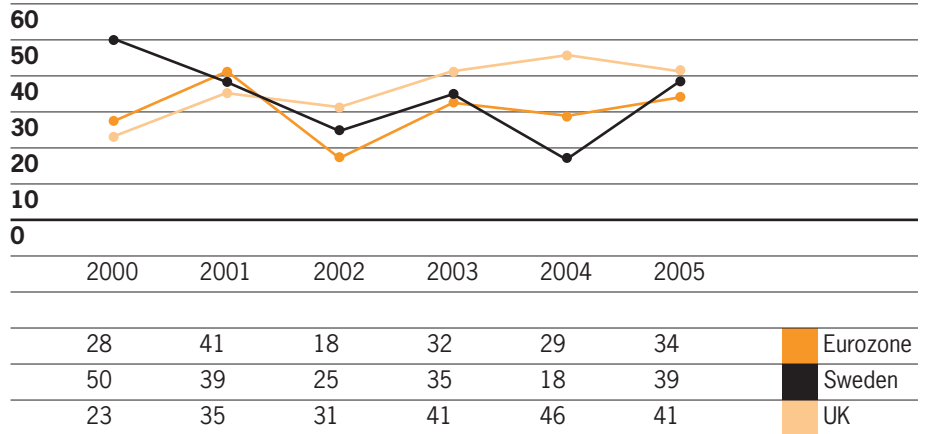
The relatively strong economic performance of Sweden and the UK shown in figure 54 is reflected in much more positive expectations in our survey regarding turnover, employment and investment than in the eurozone. While expectations in the eurozone have slipped on all three indicators since 2000, they have picked up in the UK (figures 55 to 57). In Sweden, the particularly high positive balances of early 2000 have not been regained but the balances are, as in the UK, much stronger than in the eurozone.

**Figure 56 – Employment expectations (% balance\*)**



\* the balance is the difference between the proportion of businesses indicating an increase and those indicating a decrease

**Figure 57 – Investment expectations in plant and machinery (% balance\*)**



\* the balance is the difference between the proportion of businesses indicating an increase and those indicating a decrease

## 10 Asia Pacific commercial relations with China

### Key findings

- Over half of Hong Kong's medium sized businesses import from China, almost one third export to China, and almost three quarters have operations there
- China's boom has boosted growth throughout the region – Hong Kong, Singapore and Australia are the main beneficiaries but a quarter of respondents in the Philippines say business has decreased
- Nevertheless, in terms of accessing cheaper labour and imports, increased opportunities for exporting and outsourcing, the Philippines is the main beneficiary of the opening up of the Chinese market
- Enterprises in Taiwan have borne the brunt of the economic challenge posed by China. Competition for business, labour and capital has intensified here more than anywhere else in the region

China is now established as an international economic superpower, on some measures second only to the US. Accession to the World Trade Organisation (WTO) has expanded China's trade and brought increasing integration in recent years within the global economy. China is now the third largest importer in the world. The country plays a particularly important role in the Asia Pacific economy, and we asked medium sized businesses in other countries in the region how commercial relations with China are developing, and what impact China is having on their business.

### Trade between China and other regional economies

Trade between China and Hong Kong, a Special Administrative Region (SAR) of China since 1997 but historically an important trading partner, is extensive. Over half of businesses in Hong Kong import from China and almost one third export to China (figure 58). Despite political tensions, 29% of businesses in Taiwan export to China, the same proportion as in Hong Kong, and only in Taiwan is the proportion of businesses that export to China higher than the proportion importing.

Figure 58 – Business trading with China, ranked by exports (%)

Hong Kong	54	29
Taiwan	21	29
Singapore	25	19
Australia	29	17
Japan	14	12
India	14	9
New Zealand	11	6
Philippines	37	5

Imports Exports

Figure 58 highlights a few countries with relatively little exposure to China. India has only recently liberalised its external trade, and it will be interesting to see how trade between the two Asian superpowers develops as outward-oriented growth strategies develop. Medium sized businesses in Japan, as we noted earlier, have relatively small exposure to international trade. In New Zealand, the proportion of both exporting and importing businesses is very low.

“It is interesting to see that while enjoying positive impacts as a result of China's growth, the Philippines and Taiwan are wary of the competition China poses.”

Gabriel Azedo

Grant Thornton, Hong Kong

Almost three-quarters of Hong Kong businesses have operations in China, and a further 10% are considering establishing an operation (figure 59), a very high actual and potential presence reflecting Hong Kong's geographical and economic status. Elsewhere, the pattern is similar to that seen in trade relations. In Taiwan, a fifth of businesses have operations in China, and an equal number are considering establishing a presence. Japan is interesting, with as many as 18% of businesses considering establishing an operation in China.

### Impact of the Chinese boom

The rapid economic expansion of China, featuring average annual growth of near 9% over the past two decades, has significantly stimulated business elsewhere in the region. Hong Kong, Singapore and Australia are the main beneficiaries over the last two to three years. While all countries in our survey showed positive balances (figure 60) there have been some casualties, notably in the Philippines. Over a quarter of businesses there say that business has contracted, presumably reflecting increased competition from China's manufacturers.

Figure 59 – Businesses with operations in China (%)

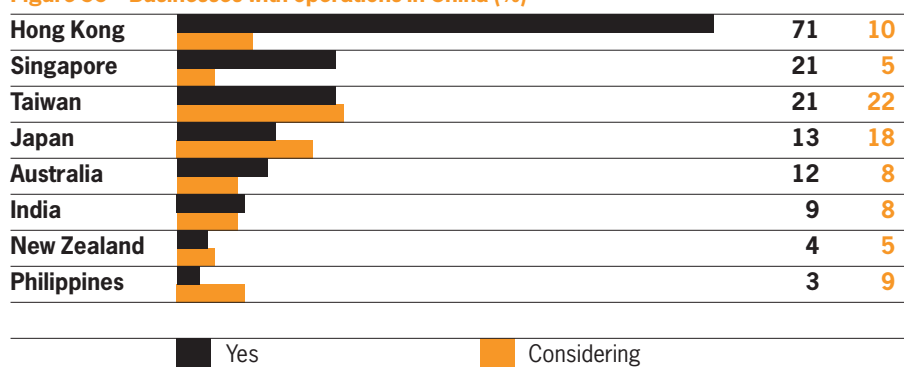
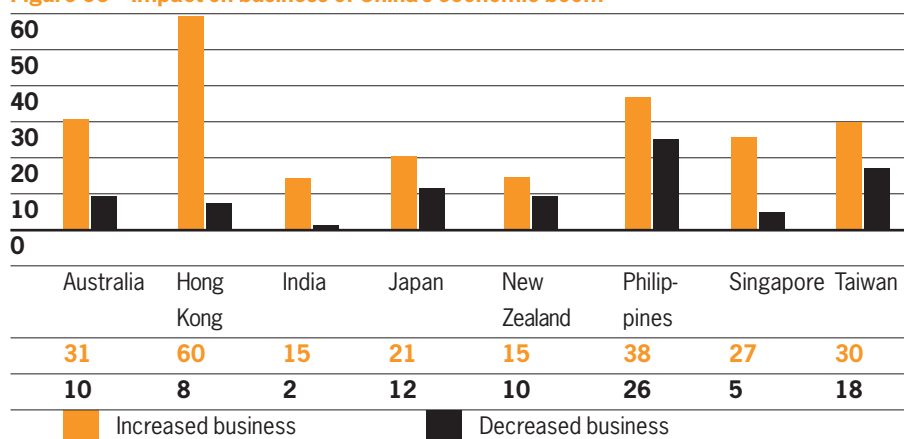


Figure 60 – Impact on business of China's economic boom



### Focus on Taiwan

**GDP size:** \$290bn (US for comparison \$10,900bn)

**Population:** 23m

**GDP by sector:** agriculture 2%; industry 31%; services 67%

GDP growth at around 7% per annum, based on rapidly expanding manufacturing exports, was achieved during the last two decades of the previous century. The pace of growth has slowed in the past five years, which have included both SARS and the global slowdown, but has still averaged around 4% per annum.

Manufacturing exports are still a key driver of growth, but domestic demand is assuming a more significant role. This should make the economy less reliant on external circumstances in the future. GDP growth accelerated to 5.8% in 2004 boosted by strong export growth (up about 20% in value terms). High oil prices and slowing global growth are expected to reduce GDP growth to 4% in 2005, producing a more cautious view about the country's economic prospects.

Businesses in Taiwan have borne the brunt of China's growing international presence; increased competition for business, labour and capital has affected Taiwan more than any other country in the region.

### Effect of opening up of the Chinese market

The liberalisation of the Chinese market has presented opportunities and threats across a range of business areas. These are examined from the perspective of other regional economies in figure 61.

In terms of opportunities, the main beneficiary among the eight countries in our survey seems to be the Philippines, where a relatively high proportion of businesses (50% to 60%) are benefiting in three ways – accessing cheaper labour in China; acquiring cheaper imports from China and exploiting increased opportunities for outsourcing back office services. In addition, a third of businesses in the Philippines are experiencing increased export opportunities to China.

However, China's increasing presence on the international scene also poses a major threat to existing businesses. According to our survey, enterprises in Taiwan have borne the brunt of this economic challenge. Competition for business has intensified to the point where 86% of respondents in Taiwan say they have felt the impact, but the proportion in the Philippines (74%) and Hong Kong (65%) is also high. Competition for labour has also affected Taiwan to a much greater degree than elsewhere in the region, and in the case of capital Taiwan is also most affected, although only marginally ahead of the Philippines. India also makes an appearance in the top four most affected countries in this context, as China establishes itself as a major competitor for international capital.

Figure 61 – Effects of opening up China's market

Main countries whose businesses have been affected by cheaper labour/imports from China and an increase in activity shown (%)

<b>Cheaper labour</b>	Philippines (57)	Hong Kong (51)	Singapore (51)	Taiwan (25)
<b>Cheaper imports</b>	Philippines (59)	Singapore (49)	Australia (40)	New Zealand (36)
<b>Opportunities for exporting</b>	Philippines (34)	Taiwan (34)	Singapore (32)	Australia (25)
<b>Setting up manufacturing operations</b>	Hong Kong (54)	Philippines (34)	Taiwan (32)	Singapore (31)
<b>Outsourcing back office services</b>	Philippines (50)	Singapore (48)	Hong Kong (47)	Taiwan (24)
<b>Competition for business</b>	Taiwan (86)	Philippines (74)	Hong Kong (65)	Singapore (48)
<b>Competition for labour</b>	Taiwan (74)	Hong Kong (53)	Philippines (49)	Singapore (28)
<b>Competition for capital</b>	Taiwan (57)	Philippines (56)	Hong Kong (38)	India (20) Singapore (20)
<b>Investment/expansion opportunities</b>	Hong Kong (55)	Taiwan (52)	Philippines (51)	Singapore (40)

The impact of China's entry onto the global trading scene varies from country to country. The effect is largely dependent on a country's industrial and trade structure. As our survey results show, New Zealand, with a high proportion of agricultural products, is much less affected than Taiwan, a major producer of electronic goods that compete on world markets with China's exports.



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