



# GLOBAL IMPACT



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## DOING BUSINESS IN A VOLATILE WORLD

**UNDERSTAND AND MINIMIZE RISK**

Dear Friends:

*We are all very much aware of volatility in stock markets, declining economic growth projections and high unemployment forecasts. And uncertainty, a major factor paralyzing businesses, is likely to linger. To protect your company, it's important to understand the risks and plan accordingly (p1-2).*

*As noted above, there are many reasons for pessimism. But there is a bright spot. The United States has a tremendous advantage over other developed countries due to American population growth projections and the impact this will have on our economy. But emerging markets stand to gain even more. What is the impact on your business? It may be time to update your global strategy (p3-4).*

*We hope you enjoy this issue and, as always, welcome your comments.*

Sincerely,

John A. Rowney  
Divisional President  
Ocean Marine Division

**U**p one day and down the next, major stock markets continue to be volatile. And economic growth projections seem continually to be revised downward. In fact, on September 20th, the International Monetary Fund reduced global economic growth estimates from 5 percent in 2011 and 2012 to 4 percent for both years. It also lowered U.S. projections to 1.5 percent and to 1.8 percent for 2011 and 2012, respectively.

Additionally, high U.S. unemployment rates, at 9.1 percent in August, are unlikely to decline significantly any time soon. Some analysts say this figure may be as high as 16 percent if you add those only finding part-time work and others who have stopped looking altogether.

In September, Moody's Analytics, a risk management consultancy, said "The uncertain global economy has taken a toll on business confidence and hiring intentions in the fourth quarter." But even if the United States were performing better in terms of economic growth, it's still unlikely that unemployment would dramatically improve. Why?

The exponential increase in U.S. technology has boosted productivity and enabled fewer American workers to produce more goods in less time. As a result, labor is impacted and may continue to be in relatively less demand.

Many business people say that due to uncertainty, they will continue to have a higher share of cash on their balance sheets in case the U.S. and global economy worsens. In better times, this excess cash typically is invested in new plants, equipment and employees.

Unless costs associated with certain U.S. macro-economic policies, health care, and various regulations are reduced, some analysts believe an element of uncertainty will linger. Plus, risks associated with the European debt crisis, especially involving Greece and possibly larger European countries like Italy, as well as risks associated with the Arab Spring—the term used to describe the revolutionary movement in the Middle East and North Africa—will continue to impact investment decisions.

### THE JOBS PROPOSAL

To boost economic growth, investment and employment, our elected officials have proposed and implemented various programs to spur economic activity. The latest proposal announced by President Obama on September 8, 2011 has its benefits and disadvantages.

According to Mark Zandi, an analyst at Moody's Analytics, the jobs proposal would help stabilize confidence, keep the U.S. from sliding back into recession, add two percentage points to



GDP growth plus 1.9 million jobs in 2012, and cut the unemployment rate by one percent.

However, Zandi says it would cost about \$450 billion and involve approximately \$250 billion in tax cuts and \$200 billion in spending increases. Plus, he says the plan is unlikely to pass Congress.

In response to the President's announcement, U.S. Chamber President and CEO Tom Donohue says the jobs plan "fails to adequately address the fundamental challenge facing our economy—too little growth—or the business reality that keeps companies from expanding payrolls—too few customers." Regardless of whether or not this plan is implemented, one thing is certain: domestic risks will remain high. And levels of risk outside the United States, including country risks and currency risk, also will continue to remain elevated.

#### ASSESSING COUNTRY RISKS

Country risk has traditionally been viewed in terms of economic, political and social factors. Economic risks are reflected in levels of national growth, inflation, unemployment, balance of trade, and taxes. Political risks often are assessed in terms of country stability and sometimes measured by the level of confidence in a government. And social risks are traditionally viewed in terms of social unrest.

In less developed countries, a change in leadership is often a time of instability. Should social turmoil envelop the nation, the disruption of

activities could put foreign buyers' businesses at risk. And, a new government may impose economic policy that could effectively prevent American exporters from getting paid.

Today, these risks are topping the charts, disrupting supply chains and causing international receivables to go unpaid. Consequently, it's important to recognize these risks, and if documentary collections (methods of obtaining payment for goods shipped, including documents against payment, documents against acceptance, and letters of credit) were not utilized in the past, they may be

warranted now.

Should exporters prefer to offer foreign buyers attractive open terms with payment due in 30, 60 or 90 days, it's wise in this volatile environment to consider insuring the receivable with export credit insurance.

#### ASSESSING CURRENCY RISK

Each nation's currency also can have a major impact on country risk, affecting the economy, as well as political and social stability. Plus, currency values can impact an exporter's ability to collect payment.

For example, if the value of your foreign buyer's currency is deval-

ued by half, and you collect in U.S. dollars, it will take twice as much of the buyer's currency to pay you. This could put an enormous financial strain on your customers' business. On the other hand, if you collect in the foreign currency, you'll receive half of what was expected. In either situation, this could put you in a very difficult position.

Factors affecting currency trends are complex and impacted by seemingly independent activities, in addition to macroeconomic forces. As such, predicting whether a currency will increase or decrease in value is

**Managing foreign currency exposure often requires a sound hedging strategy, including spot, forward and option contracts to minimize risks against losses due to currency fluctuations.**

extremely risky. As experienced with the Arab Spring, a change in national leadership can result in instability that creates even greater social turmoil leading to currency devaluations.

As a result, managing foreign currency exposure often requires a sound hedging strategy. Through the use of spot, forward and option contracts, for example, U.S. companies can minimize risks against losses due to currency fluctuations. For more information on how to protect your company against country, currency or other financial risks, contact your financial lender or the Export-Import Bank of the United States. ■

# SHIFTING POPULATIONS AND GROWTH PROJECTIONS MAY REQUIRE NEW GLOBAL STRATEGIES

*THE UNITED STATES AND DEVELOPING NATIONS WILL BENEFIT*

Although there are many reasons for economic pessimism, there is a bright spot. Surprising to many, the United States has a tremendous advantage over other developed countries due to its population growth projections and the impact this will have on the American economy.

But emerging markets, recipients of virtually all non-U.S. population growth moving forward, stand to gain even more. What does this mean for your business?

## DEVELOPING VS. DEVELOPED NATIONS

Although the annual population growth rate of 2.1 percent experienced during the 1960s has declined to 1.2 percent per year, world population growth continues to rise by 83 billion annually, according to the Population Reference Bureau in Washington, D.C. As a result, in April 2012, world population is anticipated to reach 7 billion. And virtually all non-U.S. growth will occur in developing countries.

According to the Census Bureau, in 2011 the population of the less developed and more developed countries was 5.7 billion and 1.2 billion, respectively. By 2050, the numbers in less developed countries will swell to nearly 8.2 billion, yet remain under 1.3 billion in more developed ones.

Yet, population growth rates are not the only thing increasing faster in developing countries. Their economies also are projected to grow more than three times faster than advanced economies next year, the International Monetary Fund says. In turn, emerging market demand is projected to rapidly rise while developed country demand falls.



According to Credit Suisse, a financial services company, the American share of world consumption, at approximately 27 percent in 2010, is expected to decline to 21 percent by 2020. During the same period, China's share of world consumption is estimated to climb from

at BlackRock Inc., the world's largest money manager, claims 70 percent of their incremental earnings growth will come from abroad. Although estimates differ, the percentage likely is much higher for many of the biggest U.S. corporations.

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10 to 21 percent. India's share is expected to double to 5.3 percent; Asia's overall share, with the exception of Japan, is predicted to rise from 17 to 32 percent.

Due to these and other global realities, many American corporations may be forced to limit the numbers of employees they hire in the United States in favor of increasing employment abroad where economic growth is significant.

How important are foreign markets? Standard & Poor's analyst Howard Silverblatt says roughly half the sales and profits of S&P 500 companies are generated in foreign markets. Robert Doll, Chief Equity Strategist

## U.S. PROJECTIONS

From 2000 to 2011, the U.S. population grew by 10 percent reaching 312 million, according to the Census Bureau. States in the South and the West grew the fastest, while many rural areas lost population, including much of the Great Plains and northern and central Appalachia.

By 2020, U.S. population is projected to jump another 8 percent to 336 million. Immigration is partly responsible. In fact, in fiscal year 2009 alone, the United States issued more than 1.1 million permanent residence permits, 70 percent more than the next highest country destination.

By 2020, the populations of

several developed nations, including Japan, Germany and Russia, will decline. And while the U.S. work force will grow over the next two decades, the European and Japanese labor forces are projected to shrink by 5 and 17 percent, respectively, says Doll. Why is this important?

The long-term growth rate of any economy is the change in the size of the work force multiplied by its productivity, Doll says. Although American productivity recently slowed, its overall performance is good. And this puts the United States ahead of many developed countries.

Importantly, the United States has demonstrated a history of great achievements, even while overcoming economic difficulties. For example, over the last decade, American gross domestic product (GDP) growth increased 18 percent in inflation-adjusted dollars. That is significant considering the bursting of the dot-com bubble in 2001 and the recent Great Recession, which continues to have a significant drag on the economy. And keep in mind that American GDP also is 2.5 times greater than China's, the world's next largest economy.

In addition, Americans only represent 4.5 percent of global population, yet U.S. innovation delivers more than half the world's patents each year. Plus, the U.S. share of world value-added manufacturing is nearly 20 percent, United Nations statistics indicate.

Although the American market is expected to perform poorly over the short term, it will once again be a major engine of growth—and a growing population certainly will help.



### REASSESS YOUR GLOBAL STRATEGY

When creating short and long-term global business and investment strategies, it's imperative to know where your target consumers will live and their demographics, including median age, gender, mobility, home ownership, employment status, income, etc. In turn, this will provide insight regarding consumer needs, habits and tastes.

According to Harry S. Dent, Jr., an author and expert of demographic trends, over the last decade Americans entered the workforce, on average, at age 19, got married at age 25.5, had their first children two years later, and purchased their first homes at age 34. They typically traded up to the largest homes they would own by age 44, and fully furnished them by age 46.5. Although the patterns and associated spending habits Dent observed may have changed since the Great Recession, understanding shifting demographic here and abroad can help companies determine which markets to pursue.

For many companies this may mean focusing on faster-expanding segments in the United States. For

others, it may be best to continue obtaining greater U.S. marketshare while primarily focusing on fast-growing developing countries. But to succeed, it may be necessary to redesign or add new product lines or services to satisfy different demographic tastes and needs. It also may be important to think outside the box in terms of market potential.

For example, average per capita incomes in developing countries are relatively low. In 2010, GDP per person was estimated by the United Nations at almost \$4,500 in China, slightly more than \$1,300 in India, approximately \$10,600 in Brazil, and \$47,000 in the United States. At first glance, U.S. producers are likely to assume that consumers in developing countries can't afford their products. This is a mistake.

India, for instance, has a middle class of approximately 200 million consumers with the same purchasing power as the United States' middle class. Compared to the entire U.S. population, many would agree that an additional market of 200 million consumers with substantial buying power is well worth pursuing. ■

For more information on how we can help your business stay profitable, contact your agent or **Ed Wilmot** at (212) 510-0135 and [ewilmot@gaic.com](mailto:ewilmot@gaic.com)

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