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TROUBLE IN PARADISE

Perfection has its drawbacks.

In a perfect economy, where inflation is contained to acceptable limits and where (real) unemployment is almost non-existent, labour has the upper hand.

The deterioration and disintegration of trade barriers lend themselves to intense international competition whereby traditional businesses (of days of yore) find themselves forced from their soft, comfortable positions and caused to struggle in the global marketplace without the benefit of oblique and/or statutory government subsidisation.

Reverse subsidisation, whereby domestic consumers pay the penalty for buying national products, thereby subsidising exports, will not ameliorate the situation, caused by the deterioration and/or disintegration of trade barriers.

Whereas, in the past, many manufacturers and purveyors of goods and services had comfortable niche markets in certain global areas, in today's world of the Internet and bluetooth technology, these niche markets have been eroded or destroyed – forever.

Intellectual property rights are under threat, all the time: It is almost impossible to stop the international practice of passing off of goods; the pirating and sales of computer software.

The glut of huge amounts of capital, a phenomenon, caused by strong profits' growth of many companies, is an embarrassment to many a multinational company as well as being a boon.

How to deploy surplus funds, securing the capital base and, at the same time, obtaining a reasonable rate of return, is a typical problem of management, today.

Low inflation is resulting in manufacturers and traders, finding themselves unable to raise prices, to any great extent.

Lastly, litigiousness is the end result of prosperity and national budget surpluses, the likes of which have not been seen for many a past decade.

As the capitalistic economies of the world would be under threat of instant death if there were no shortages of goods and services (shortages are the very foundations of any successful capitalistic economy), so it is fair to say that many companies and industrial undertakings of the world, that are unable to transform themselves to meet the challenges of the high-technology world of today, are under threat of annihilation.

Out Goes The Old, In Comes The New

The hub-and-spoke type of management system of old is no longer applicable in the modern world.

Decisions of materiality can no longer be the prerogative of the Chief Operating Officer or Chairman of the Board of Directors.

Today, successful companies must bow to market forces and behavioral factors in order to determine corporate direction.

Travelling at the speed of the Internet has huge rewards – but, also, it carries with it very high risks.

Enterprises that are cognizant of, and bow quickly to, the ever-changing market forces and behavioral factors are creating highly productive and more flexible economic platforms from which to grow.

Microsoft Corporation, for all the criticism levelled against it, is an example of a company that successfully met the challenges of the 21st Century – in the 20th Century.

As a result of Mr Bill Gates's nous and perspicacity, Microsoft caused computer manufacturers the world over to accede to the demands of Microsoft's new determinations in respect of its new software discoveries.

The market made its demands on the computer industry; Microsoft came up with the goods.

The market's frustrations became Microsoft's catalyst.

Microsoft's success story proved, conclusively and forever, that companies that do not lead are likely, eventually, to be trampled by the march of time.

Among other things, Microsoft proved and/or reinforced that which all successful entrepreneurs knew, but which many appeared to have forgotten: The importance of spending on research and development.

In the continuing search to find solutions to problems, today's successful companies have grown accustomed, either to allocating part of their resources to research and development or, alternatively, making acquisitions of those entities that have already bitten the R & D *'bullet'* and can produce the required goods and services, posthaste.

Aggressive companies are more than likely, today, to make use of modern and ever-changing technology to cause the marketplace to be fashioned in the manner that they perceive as being important … and very remunerative.

To be wrong is to be trampled, so corporate determinations must be tempered by market requirements and sensitivity to future trends.

Again, using the Microsoft model: Chipmakers had to improve processing speeds in order to accommodate the new software of tomorrow: Windows 95, leading to Windows 98, leading to Windows 2000, leading to the ability to forecast successfully the requirements of bluetooth technology and Universal Mobile Telecommunications Standard (UMTS), the last-named known, popularly, as Third Generation Mobile Telecommunications (3-G).

The improving and rapidly changing technological developments helped many an enterprise, substantially … and sunk those enterprises that were unable to adapt, expeditiously.

To many enterprises, it was thought – and found to be valid – that spin-offs led to leaner, meaner managements, which became more flexible and more maneuverable when needs be.

This led to the destruction of the iron rice bowl mentality.

Japan, today, is undergoing a transformation as labour realises that the pre-World War II *'zaibatsu'* and the post World War II *'keiretsu'* may not provide lifetime employment, as had been the case in the past.

This has led to many a Japanese worker to hop from one job to another.

Loyalty to the enterprise is fast vanishing in modern Japan, where labour is becoming more and more vocal and more and more demanding.

And this has caused many a Japanese enterprise to be that much more efficient, something that, just one decade ago, would have been considered a ludicrous suggestion.

As the world-famous economist Milton Friedman commented more than one quarter of a century ago: The best controller of a market is the market, itself.

Japan, the second largest economy in the world and the most important single economy of Asia, has woken up from its comfortable lethargy and come to realise that the industrial giants (the zaibatsu) and the interrelated, interdependent conglomerates (the keiretsu) are just as vulnerable to market forces as is the corner grocer, who does not carry rice and vegetables to meet the needs of his customers.

The *'death'* of the Osaka-based, multinational departmental store giant, Sogo Company Ltd, was a rude awakening for many a Japanese for it represented the largest bankruptcy in the history of Japan.

And corporate deaths continue to plague The Land of The Rising Sun where many a sun has set on dinosaurs that are caught in the tar pits of old economic practices.

<u>The Requirement For Flexibility</u>

This is the age of information.

Countries that try to stymie the flow of information will have to come to the realisation that dictatorial pursuits of yesteryear are impossible to enact in today's world.

The People's Republic of China (PRC) will fail in its drive to limit the spread of the Internet and, with it, the spread of information.

Even today's moral standards are under siege as the Internet transforms social mores.

While the age of automation, popularised by Mr Henry Ford, who developed the modern assembly line technique, with its interchangeable parts, ushered in more efficiency in the workplace, so the age of information has brought with it a radically changing method of transacting business.

Banks, around the globe, have had to rethink the traditional ways of doing business because bricks and mortar no longer represent symbols of financial stability to customers of such institutions.

Today, banks have to be mobile, with more a personalised approach to obtaining and keeping customers: The marketplace is a jungle of bankers, all of whom are trying to seduce and to keep existing customers from hopping from one bank to another.

So cutthroat did banking become since 1997 in the Hongkong Special Administrative Region (HKSAR) of the PRC that a family, wanting to own a new flat in which to live, could dictate part of the terms of the interest factor on the loan and repayment of principal to banks – and banks had to listen or lose the business.

The requirement to run down to the local banking institution, in order to sort out a problem or to obtain information and/or financing for a project, is fast waning.

The Internet has replaced many banking activities that used to be the bailiwick of the teller in the banking hall.

More and more stock-market transactions are being conducted via the Internet, thus cutting out the intermediates – the stockbrokers and other middlemen.

Disintermediation is no longer just a term, but a living reality.

Consumers are getting more and more accustomed to buying, directly from the producer, cutting out the retailer, altogether.

By so doing, profit margins are being cut because consumers know the prices that they should be charged; they can no longer be fooled by dishonest motor-car salesmen and the like.

On-line booking services have replaced many a travel agent; and, music stores are finding their traditional customers, satisfying many of their needs by downloading music, directly from the Internet.

The Internet, also, has allowed consumers to be fully apprised of prices, set by manufacturers.

On-line auctions are the marketplaces of today, with prices, being determined by supply-demand factors (the Milton Friedman model, exemplified).

The framework of tomorrow's consumer purchases is carved in stone: It is irreversible.

Because the consumer has come to learn about the new flexible economic model, he has demanded more of the same; he will brook no denial.

While the Internet has made markets much more efficient, due to the proliferation and dissemination of information to consumers, the pertinent, information revolution has made for more transparency which, in turn, has spiked the guns of autocratic governments.

He, with the most information, is he who, in the long run, will win the race.

The consumer refuses to be kept in dark; he, also, will not suffer fools, gladly.

Internationalisation

When the US Government, the Mexican Government and the Canadian Government signed the North American Free Trade Agreement (NAFTA) on January 1, 1994, it meant that many comfortable economic situations in the US and Canada ceased to be as comfortable as before NAFTA came into being.

NAFTA levelled and cleared the campo … and, with NAFTA, came the collapse of many cozy little national institutions.

Cross-border tariff reductions led to inefficient industries, having to change in order to meet the challenge … or die.

It led, also, to the requirement for more flexibility.

The expansion of the World Trade Organisation (WTO) has opened up huge markets to US industrialists – as well as threatening them if they cannot cut the mustard.

The inefficiency of PRC, State-run enterprises cannot continue.

The PRC Government will soon get its comeuppance as that despotic political system, ruled by an oligarchy, which maintains that law by rule is the keynote to control of the populous, joins the WTO and, by so doing, is required to abide by the letter and spirit of the WTO's terms and conditions, as prescribed by that unified body of nations.

If the PRC Government does not abide by the spirit of the WTO, it will lose its place in the world's most-important trade club.

While the Western World may not appreciate the political style and despotic nature of the PRC system of government, where a man may be executed by a bullet in the brain for stealing a few hundred of thousands of dollars, or caught, bribing a petty government official, the country and its peoples cannot be denied.

For, if the US, for instance, banned the importation of PRC-made goods and services, it would spell inflation – which is a political and economic no-no.

US industry cannot compete with the cost of many consumer products, manufactured in the PRC, where labour and land costs are a fraction of those in the US.

If the US banned PRC-made goods, or imposed high tariffs on those products, brought into the US, then the PRC would sell its goods elsewhere; and, US producers of similar goods would have the market to themselves.

But it would be the US consumer, who would have to pay the piper since he would have to pay a higher price for the domestically produced goods.

This, in turn, would lead to demands by labour for higher wages in order to cope with rising consumer prices: Inflation would definitely follow.

So the US Government, even though it does not, and never has, endorsed the PRC Government's oppressive rule over its peoples, has been forced to grant that country Most Favoured Nation Status, year after year, applying preferential import tariff rates to PRC-made goods, imported into the US by wholesalers.

The US Government was among the first governments of the Western World to realise the importance of the growing trend toward internationalization.

It had little choice in the matter since the European Union (EU), established in 1958, was a fiat accompli and posed the biggest challenge to American industry.

The European Monetary Union, with the creation of the euro as the unified currency of the EU, was another nail in the US industries' coffin of intransigence.

The US, today, faces the biggest challenge of the past century as imports of foreign-produced goods flood the American market.

There is no turning back the clock because imported foreign goods represents in excess of 35 percent of all goods, bought in US marketplaces.

Globalisation has brought with it many manifestations, one of which is the recent intense competition as companies vie, internationally, in order to execute mergers and acquisitions as a shortcut to accomplishing corporate goals.

The world of today recognises the importance of economic globalisation for no company can rely on the domestic market for the sale of its goods and services, only.

A clear consommé may appear, to the uneducated, to be easy to create, but its subtle hues and odours belie the complexity of its production … **TO BE CONTINUED**

While TARGET makes every attempt to ensure accuracy of all data published, TARGET cannot be held responsible for any errors and/or omissions.

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