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## INDIA, RUSSIA, CHINA AND THE PHILIPPINES

### Emerging Tech Hot Spots



**Daniel W. Roberts  
President**

The information technology industries will offshore software development, customer service, back office accounting and other functions to countries like India, Russia, China and the Philippines, as well as Japan, United Kingdom and Germany.

It is estimated that 3.3 million U.S. industry jobs, or \$136 billion in wages will move offshore over the next 15 years. A software consultancy in San Francisco, Sand Hill

Group, claims that companies can reduce about 40 percent from their overall budgets by

offshoring. Market researcher Gartner Inc. says by next year, one out of every 10 technology jobs will move outside the United States.

Companies like Oracle Corp., Hewlett Packard Co., Intel Corp and Cisco Systems have moved offshore. Cheap labor is not the only reason for offshoring. It normally begins with the customers because companies become familiar with business customs, available high-tech talent, government policies, technology infrastructure and the geopolitical landscape. Moving operations to a particular region will assist in supporting local sales staffs and provide local customer service. Some hurdles these companies may face when offshoring operations are geopolitical and economic instability. But the largest concern would be being able to manage and control these operations from such a far distance.

In India, most Indians speak English. Individuals there are highly skilled and IT labor is fairly inexpensive. More than 2,000 developmental jobs are being moved there

from Oracle Corp., including accounting, payroll and customer service. HP also had 1,200 Compaq customer service jobs moved from Florida to its India center. The largest risk is geopolitical uncertainty.

Russia has had many technical achievements, mostly in the telecom industry. This has attracted the attention of U.S. tech companies. Sun Microsystems Inc. has worked with at least one software developer there in developing security products. Intel is also engaged in product development work in Russia. The concern with Russia is the signs of instability with the government and its people.

China has an enormous labor pool, but not highly skilled. Entry-level programmers in Tokyo, London or Chicago earn 50 percent more than China's programmers. Offshoring in China may be risky due to all the levies on U.S. tech companies. A big risk factor that has caused issues is the lack of intellectual property rights.

The Philippines is the third largest English speaking country in the world, with a state-of-the-art telecom infrastructure, and one of the largest call centers in the world. Delta Air Lines Inc., Sony Corp., DHL International Ltd. are among the two dozen companies who have phone operations there. One of the setbacks is the small population in the Philippines will have a tough time keeping up with other offshoring hotspots like India. The Philippines also face geopolitical instability.

### Intel Outside

Craig Barrett, CEO of the world's largest chipmaker, Intel Corp., believes India, China and Russia's regulations are much more business friendly, with between 250 million and 500 million skilled workers. Intel was founded in Santa Clara in 1969, but currently has more employees in Oregon than in its state of inception. Intel does not currently have future investment plans for California, but more plans toward continued offshoring of IT jobs overseas. The reason for Intel's move is due to California's economic and political malfeasance.

Intel's chairman, Andy Grove, stated there would be more software staff in India than the United States by 2010.

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## EUROPE

### Hopping the pond

The markets outside the United States are growing fast, and will most likely surpass U.S. markets. Mature and startup companies should plan for globalization in Europe to boost sales, since the market is becoming stagnant domestically. Companies must be flexible in order to adapt to different cultures, and have strategies for global marketing and distribution.

Intalio Inc. and NetSuite Inc. both unveiled plans for expansion in Europe. At least half of Intalio's revenue is from Europe, which is incentive for them to open offices in London and Brussels. This allows Intalio to better serve their local clients. Intalio's software, business process management (BPM), helps large companies standardize operations in multiple locations. This software is beneficial for European companies with many divisions throughout many countries. Intalio plans to open more offices throughout Europe. They have worked with local resellers in Belgium, Finland, France, Germany, Switzerland, and the United Kingdom.

The spending for BPM software in Europe is forecast to hit \$850 million this year and top \$1.67 billion in 2005, while worldwide spending will reach \$6.32 billion by 2005. BPM software has barely touched Europe currently, making it fertile ground.

NetSuite develops business applications over the Internet for midsize companies. Their applications are able to handle everything from language nuances to local accounting requirements.

### Chip Makers See 2004 as "One of Best Years Ever"

Revenue forecasts have grown for electronic sales, since the aftermath of the Iraq war and concerns of severe acute respiratory syndrome (SARS). The demand for computers, cellular phones and electronic gears was strong, and all these devices use chips. During the second and third quarter, corporate technology purchases were also recovering. Deferred investments in new factories that reduce excess capacity and help chipmakers raise prices also will assist in making 2004 look prosperous.

In June, the Semiconductor Industry Association originally projected that worldwide revenue would grow 16.8% next year, but has now been forecasted to grow to 19.4% to \$194 billion in 2004. The trade group raised sales in 2003 from 10.1% growth to 15.8% to \$163 billion.

The Asian-Pacific market is expected to grow 18.6% in 2003 and 23.4% in 2004. North and South America's sales are seen to rise 1.9% in 2003 to 17.7% in 2004. Europe's sales are expected to be 17.3% in 2003 compared to 14.7% in 2004. Overall sales growth is expected to slow to 5.8% to \$206 billion in 2005 and rise 6.8% to \$219.6 billion in 2006.

### BlackBerrys Grows Oversea

The device maker, Research in Motion Ltd., makes BlackBerrys, a wireless gadget with a color screen and phone/email capabilities. The stock prices have soared and the company has profited compared to its eight quarterly losses in the past.

BlackBerrys have mainly been used in the United States, but has recently gone global. About 15% of the business comes outside of North America. But Research in Motion has worked on deals to make the BlackBerrys market more lucrative internationally. There are more than 50 carriers worldwide who have BlackBerrys agreements with Research in Motion. Vodafone Group PLC, a United Kingdom wireless carrier in Europe, with over 122 million customers, will offer a BlackBerrys model with a Vodafone user interface. Hutchinson Whampoa Ltd.'s Hutchison Telecommunications in Asia will have English language BlackBerry service in China and elsewhere. Research in Motion also has plans to market Chinese language BlackBerrys service next year.

Nokia, Microsoft Corp., Palm Source Inc. and other wireless hand held manufacturers and related technology companies have licensing agreements to use Blackberry technology. Nokia will soon market the first BlackBerrys enabled device, which will be sold internationally. A U.S. launch is hindered due to patent infringement legal issues with NTP Inc., an Arlington, Virginia company.

Research in Motion's employment has nearly doubled to 2,300 during the past two years. There were 711,000 BlackBerrys subscribers as of August 30 this year, and this number is expected to grow. The company said sales surged 71% for the second quarter that ended August 30 to \$125.7 million. A year earlier, the company had a loss of \$14.2 million while having a profit of \$2.1 million this year. Research in Motion forecast further gains in revenue and earnings.

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## **ASIA**

### **Rise of Flat-Screen TVs Reshapes Industry**

Flat-screen technology first took off three years ago, and few thought it would be affordable in larger screens used in TV sets. But the industry is looking promising, with breakthroughs in technical designs and factory processes.

Traditional TVs use picture tubes, and for 30 years, Sony Corp. and RCA parent Thomas SA have been the leaders as the two biggest selling television brands in the United States. Sony and RCA failed to invest in flat-screen TV technology, which gave other companies a chance in the industry. But Sony has formed a joint venture with Samsung to build next-generation flat-screen plant. Companies that have invested in flat-screen technology are Sharp Corp. and Matsushita Electric Industrial Co. of Japan, Samsung Electronics Co. and LG Electronics Inc. of South Korea, and AU Optronics Corp. and Chi Mei Optoelectronics Corp. of Taiwan.

Forecasts say 15% of the world wide market will own flat-screen TVs by 2007, which is 28 million TVs out of a projected total market of close to 200 million. Japan expects to outsell tube models by 2005.

Manufacturers and retailers are yielding seven to eight times revenue as tube TVs of comparable size. Profit margins for flat-screen TVs exceed 30% while less than 10% for tube TVs. Popularity is climbing also with the prices falling fast.

More efficient production processes for features such as brightness and larger LCD screens have helped in driving prices lower, but manufacturers have struggled a bit in keeping up with the demand for production of the flat panels, which is 85% of the cost of the flat-screen TV.

### **China's Trade Policies Hurt Silicon Valley**

China has been accused by the U.S. lawmakers and the Bush Administration of stealing jobs from America, by keeping their currency low. But changing the currency policy may not be very beneficial for the American and global economies.

China's unfair trade policies are undercutting the viability of businesses in Silicon Valley and beyond. The focus should probably be placed on these issues, or this could be detrimental to the U.S. semiconductor industry and cost America jobs and technology leadership.

A value added tax, a sort of sales tax, of 17 percent is placed on chips sold in China, and China is becoming one of the world's largest semiconductor markets. There is a 14 percent rebate for value added taxes given by China, for chips made or designed there. The World Trade Organization principle considers this a violation for unfair subsidy for locally made chips. Most chips are subject to this tax because a majority of these chips are imported. Therefore, this gives chipmakers incentive to build their next plant in China. In turn, this causes a growing risk for the intellectual property of the U.S. companies because copying of designs and outright theft is very common in China.

### **Easing Restrictions**

China has survived the SARS epidemic it was faced with in the beginning of this year, and now they have eased their restrictions by allowing foreign companies to setup export divisions on its shores. This will assist in the growth of China's semiconductor industry. Now with this option, electronic companies that buy and manufacture components in China will not have to rely on local exporters to ship goods out of the country; which will assist in cutting cost. In the past, companies would have to contract with government import and export agencies.

Companies have already expressed interest in setting up a division in the Chinese city Shenzhen; which includes Hewlett Packard Co. of Palo Alto, Dell Inc. of Austin, Texas, and Royal Philips Electronics N.V. of The Netherlands.

### **Silicon Valley companies eye opportunity in China**

China has been attracting many Silicon Valley companies since the 1990s. There have been many challenges facing U.S. companies; ranging from cultural hurdles, red tape that have caused impediments for international trade, remnants of the SARS epidemic, human rights abuses, and intellectual property theft.

Sales for enterprise resource planning software in China is predicted to grow \$400 million by 2007, while last year it grew by 40 percent to \$85.5 million. China also has a telecom infrastructure built with the latest routers and switches from Cisco Systems Inc. With over 270 million wireless subscribers in China, there is an abundance of opportunity for U.S. companies to provide wireless service.

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Both U.S. and Chinese companies are wary of each other. U.S. companies should find trustworthy companies to partner with in China. Chinese companies are wary that U.S. companies will take off after making some quick cash. Despite all these concerns, Silicon Valley is continuing to open offices and make investments in China. Next generation government leaders in China are being educated in U.S. schools. The relationship continues to grow between the United States and China.

## **LATIN AMERICA**

### **Bulls Look Anew at Latin America**

Korn/Ferry International, a consulting firm based in Los Angeles, did a survey based on the business environment in Latin America. The results looked like many companies were considering aggressive investment in the region. Latin American companies and regional units of multinationals such as Microsoft Corp., MasterCard International Inc. and Novartis AG plan to take advantage of the upward trend in Latin America, compared to the traditionally volatile economy in this region.

The survey was based on 212 executives from a broad array of sectors from large companies. Based on the survey, 32% planned to invest aggressively, some 49% would be conservative, while 15% would wait and see how things look. The survey also showed that 41% of respondents planned to hire more executives over the next two years, than they have in the past two. This is the first survey of its type for this region, so there are no comparative figures.

Signs of global recovery in the U.S. have improved Latin economies with strong export. Latin America has also received rising prospects with the U.S. for regional free trade agreements.

### **About Roberts & Ryan Investments Inc.**

**At this time of year, we take the opportunity to wish our clients a very Happy Holiday season and a Great New Year.**

**Daniel W. Roberts**  
*President*

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*This is a timely newsletter for our institutional clients. The information herein has been assembled with the utmost attention to detail, however, as with all research, the accuracy cannot be guaranteed.*

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