HSBC

HSBC SPOTLIGHT ON US TRADE

A REGIONAL PERSPECTIVE ON US INTERNATIONALISATION AND PERFORMANCE

NORTHEAST

Written by the Economist Intelligence Unit

The Economist Intelligence Unit

EXECUTIVE SUMMARY

NORTHEAST CORRIDOR

GLOBALIZING COMPANIES IN THE NORTHEAST BOAST PROFIT MARGINS NEARLY TEN PERCENTAGE POINTS GREATER THAN THOSE OF THEIR DOMESTICALLY FOCUSED PEERS

International trade first put the Northeast on the global map several centuries ago, when its vast ships ferried raw materials across the Atlantic to the mother country. But the region long ago left behind its purely extractive ways. Today, sophisticated medical devices and machinery hatched by highly educated university students and their predecessors add tremendous value to local economies, with one-of-a-kind, premium-priced goods and services sought the world over.

With the tailwinds of long-established trade pacts and others on the horizon, the Northeast — made up of Connecticut, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Vermont and Washington DC — is poised to glide into a more globally focused future. Which begs the question: is there a link between international expansion and corporate prosperity?

To further explore a connection between how internationally focused a company may be and its profit potential, the Economist Intelligence Unit (EIU) studied levels of internationalisation among a sample of companies across the Northeast between 2007 and 2012, as part of a national HSBC-sponsored study. For actionable insights, the EIU also spoke to trade experts and globalising companies. Of note are looming free-trade agreements which should boost exports further. The Northeast is much more "Europe-oriented" than other parts of the country, said Michael Czinkota, professor of international business and trade at Georgetown University's McDonough School of Business. "If you look at the East Coast, it's logistics, it's geographic distance, but it's also what I would call psychological distance … the East Coast feels psychologically more closely tied to Europe."

Highlights from the Northeast portion of the study, and how the state stacks up against others when it comes to levels of internationalisation and profitability, follow.

ABOUT THE REPORT "Spotlight on US Trade" is an Economist Intelligence Unit internationalisation study and report series sponsored by HSBC. The study assessed the link between global expansion and profitability in five US regions.
To access the report online, visit:
https://globalconnections.hsbc.com/us/en/articles/northeast-report
Detailed methodology is located at the end of this report.

The purpose of this research is to analyse the following themes with regard to international trade in the region:

- The impact of international trade on the top companies in the region. The difference in profit margins between companies with international trade and those that primarily sell products and services in the US
- Strategies for continued global expansion and success stories relevant to other business leaders

NORTHEAST HIGHLIGHTS

Profit margins for globally oriented Northeast companies were nearly ten percentage points higher than those of their US-focused peers, outperforming the national average.

GLOBALLY FOCUSED NORTHEAST COMPANIES HAD:

BETTER PROFIT MARGINS: In the Northeast, globally oriented companies enjoyed profit margins nearly ten percentage points greater than those of their US-focused counterparts in the region. The corresponding national difference was still impressive, but lower. On average, companies across the country with a high level of internationalisation had profit margins five percentage points greater than those of their more domestically oriented peers.

GLOBALLY FOCUSED HEALTHCARE MARGINS SHINE: Companies in the healthcare sector dominated the Northeast sample, with the more internationally focused companies in that sector outperforming their domestically oriented peers by a wide margin. Highly international healthcare companies enjoyed profit margins that, on average, were 10.7 percentage points greater than those of their domestically oriented peers.

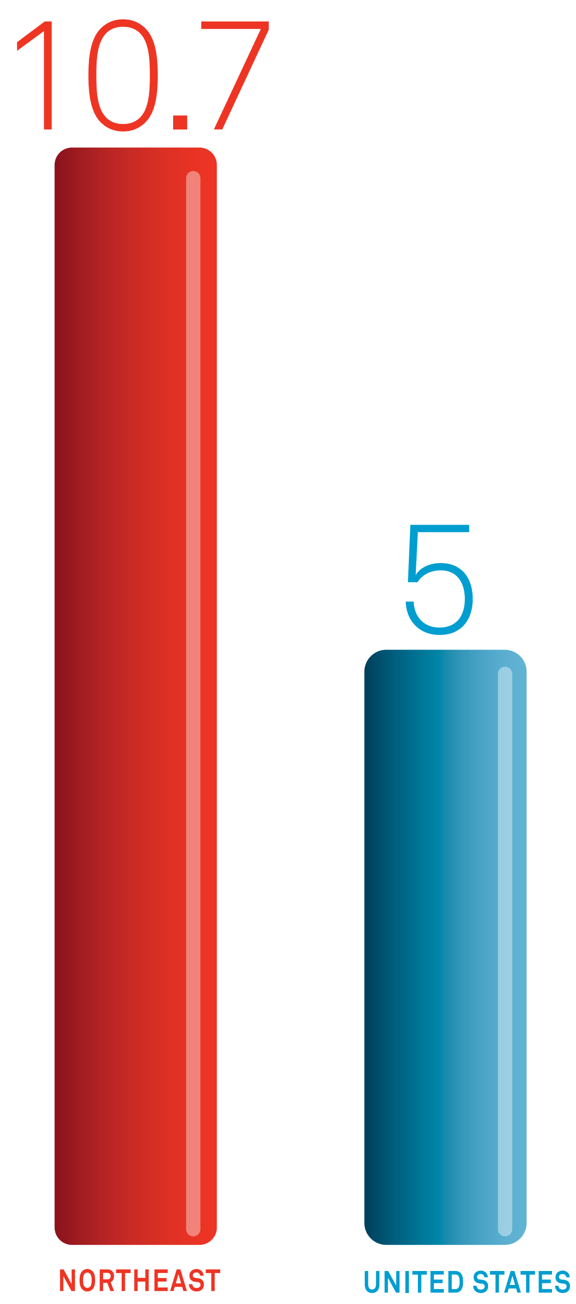
MORE STABLE PROFITS: Year-on-year profit margins of highly international Northeastern companies were less variable that those of their US-focused peers. Profit margins for globally oriented companies rose gradually, while those of their more domestically oriented peers experienced considerable volatility. Greater global exposure over the rocky recessional years may have made more global firms more resilient.

NATIONALLY, THE HIGH INTERNATIONAL, HIGHER PROFIT MARGINS CORRELATION HELD TRUE: The relationship between high profit margins and greater levels of internationalisation was evident in all of the sectors in the study: healthcare, ICT, consumer goods and industrials.

REGIONALLY, GLOBALLY ORIENTED COMPANIES ALSO OUTPERFORMED: When compared with other regions, regions that were more internationally oriented enjoyed higher average profit margins.

Collectively, these findings make a strong case for going global, for both diversification and better profit potential. Details of and the methodology for the study follow.

OUTPERFORMANCE OF HIGHLY INTERNATIONALISED COMPANIES, PERCENTAGE POINTS



DOES GOING GLOBAL BOOST PROFIT POTENTIAL?

Highly internationalised companies in the Northeast had average profit margins nearly ten percentage points greater than those of their domestically oriented peers, according to an EIU internationalisation study sponsored by HSBC.

COMPANIES that go global do so to access new markets, to leverage different production methods, and to capitalise on costs that are lower than those at home. Against a backdrop of fierce domestic competition, arriving before one's peers in a new market can help solidify a company's leadership position.

The roots of international trade run deep in the Northeastern United States. The region began selling goods abroad in the colonial era, when sailing ships carried goods to Europe, Asia and other parts of the world.

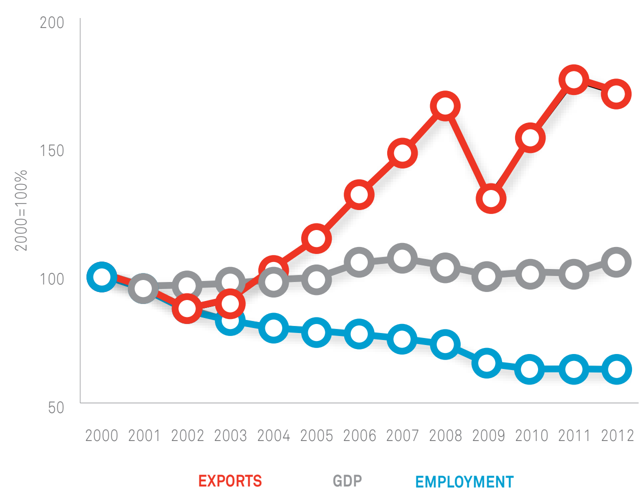
To further understand the connection between international expansion and corporate prosperity, the EIU, with sponsorship from HSBC, studied the level of internationalisation at a variety of companies in five US regions, including the Northeast.

The findings show that on nearly every level of analysis, companies with a greater international focus enjoyed higher average profit margins than their domestically oriented competitors. In other words, companies with a higher concentration of international sales, operations or a combination of both generally perform better. This pattern held true, nationally, regionally and by sector, with few exceptions.

The gap in profit margins is also noteworthy in every grouping. Taken as a whole, highly internationalised firms had average profit margins more than five percentage points greater than those of their domestically focused peers. That difference was even greater in the Northeast. Globally oriented companies in the Northeast enjoyed profit margins nearly ten percentage points greater than those of their US-focused counterparts.

NORTHEAST EXPORT GROWTH 2000-12

Northeast exports have risen sharply since 2002, and climbed steadily from 2009 to 2011.



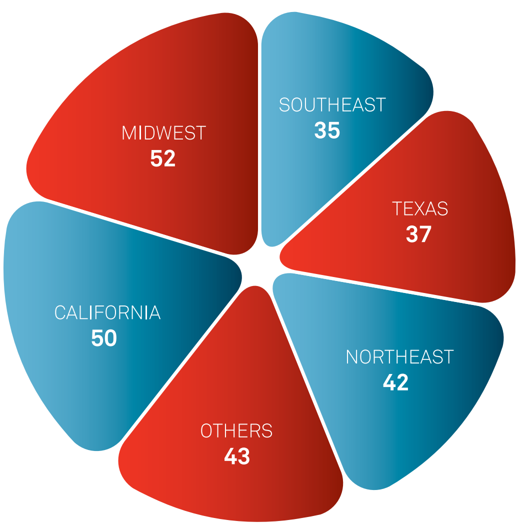
Source: WISERTrade

OVERVIEW OF ANALYSIS

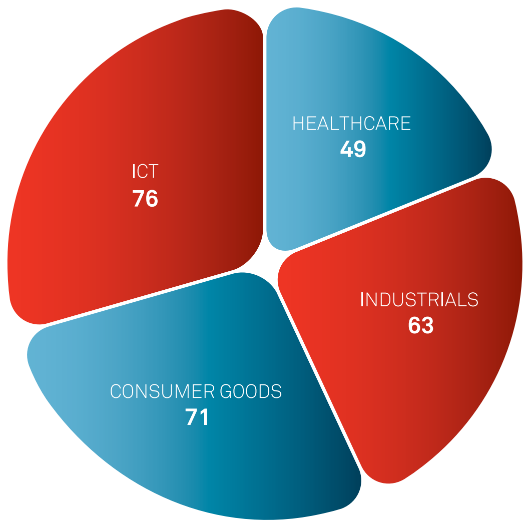
IN BRIEF, the study tested the relationship between companies' international presence and profit margins. The analysis drew on the hypothesis that more internationally oriented companies often benefit by either gaining access to new markets or by producing goods with cheaper inputs.

This study measured the level of internationalisation for a sample of 259 publicly listed US companies in four sectors (consumer goods, healthcare, industrials, and information and communications technologies-ICT) and in five regions (California, the Midwest, the Northeast, Texas and the Southeast). These measures considered both international sales and international operations, and categorised each company as having a high or low level of internationalisation, based on its global orientation relative to its national, sectoral or regional peers.

NUMBER OF COMPANIES BY REGION



NUMBER OF COMPANIES BY SECTOR



The study focused on sales and international operations to more fully understand a company's international presence.

Different business models require a different mix of international sales and operations. For instance, some companies in the sample, such as Fluor and Qualcomm, have high international sales but relatively small overseas operations. By contrast, companies like the Gap and Gannett earn much of their revenue domestically but have a large percentage of their operations abroad. To ensure the most robust and accurate classification, both metrics were considered, individually and in combination, when analysing the dataset.

Companies were then compared at the national, sectoral and regional levels with their peers based on average yearly profit margins from 2007 to 2012. Profit margins, an important measure of profitability, allow the analysis to infer the relationship between firms' performance and their levels of internationalisation. The study's hypothesis was that higher levels of internationalisation should be correlated with higher profit margins. As the results of the analysis indicate, this hypothesis was strongly supported by the data.

INTERNATIONAL OPERATIONS

IN MEASURING internationalisation, considering the level of a company's international operations is crucial. In analysing operations, the study considered two variables: the percentage of international sites and the percentage of international employees.

Consideration of both variables allowed the model to robustly classify companies regardless of their business models. For instance, some companies, such as Diodes and Columbia Sportswear, have strategies that result in a high percentage of sites, but a low percentage of employees abroad. By contrast, The Gap and Freeport-McMoran, for instance, have a relatively small percentage of their employees in the United States but most of their sites are within its borders. By incorporating both of these variables, the model is able to capture this difference in business strategy.

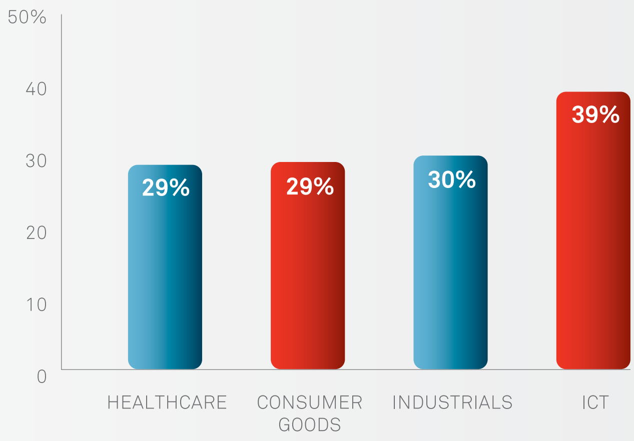
At the national level, the average company in the study had 44% of its sites and 23.9% of its employees outside of the US. Not surprising, these figures varied by sector. In terms of sites, the consumer goods sector was the most international, with the average company having 50.1% of its sites abroad. By contrast, the average industrials company had just 40.2% of its sites abroad. The average percentage of international employees was more closely aligned among the sectors, ranging from 23.1% in industrials to 24.4% in ICT.

Considerable variation also existed among the regions for both variables. Companies in Texas had the least internationally oriented operations. The average Texan company had just 31.2% of its sites and 19% of its employees located abroad. By contrast, Midwestern companies had the highest average percentage of international sites (50.4%), while Californian companies had the highest average percentage of international employees (27.2%).

INTERNATIONAL SALES

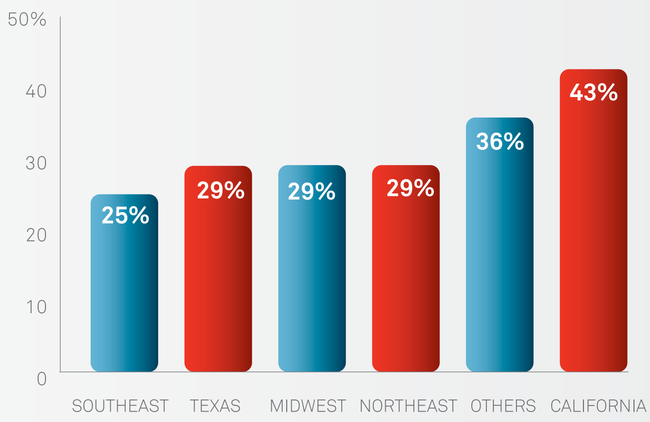
AVERAGE LEVEL OF INTERNATIONAL SALES (2007-12)
BY SECTOR

Of all sectors, ICT had the highest percentage of sales abroad.



AVERAGE LEVEL OF INTERNATIONAL SALES (2007-12)
BY REGION

Of all regions, California had the highest percentage of sales abroad.



ONE INDICATOR of a company's level of internationalisation is its international sales figures. Highly international companies will often realise a substantial portion of their revenues from non-domestic sources. In the study, a company's level of international sales was determined from its percentage of revenues derived from non-US geographies from 2007 to 2012.

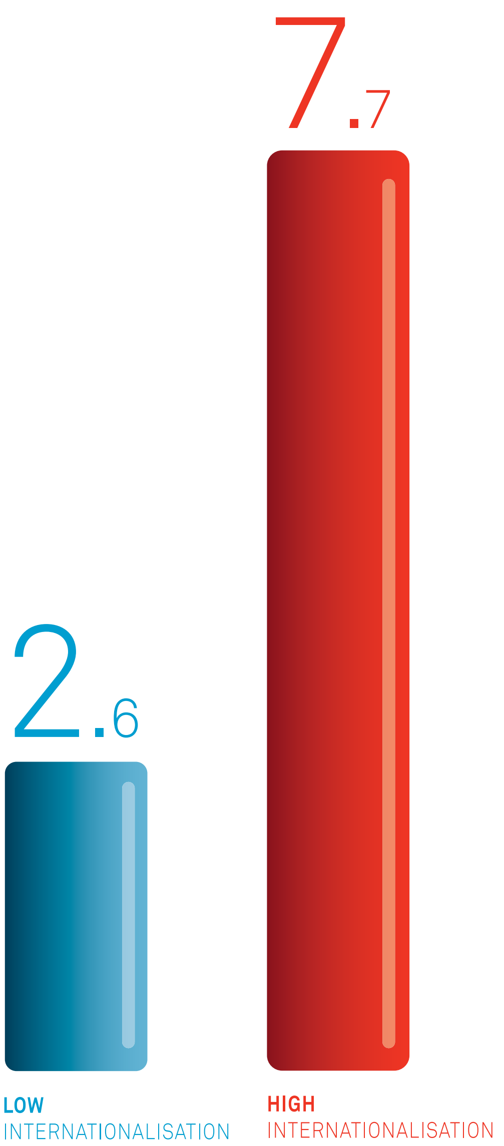
Nationally, the average company earned slightly above 32% of its revenue from international sources. However, this figure varied considerably within different sectors and regions. ICT, for example, was the most international sector, with the average company earning more than 39.1% of its revenue from abroad, while healthcare was the most domestic, with the average company receiving only 28.8% of its revenues from international sales.

Likewise, considerable differences were evident in international sales by region. Of the five regions, California was by far the most internationalised. The average California-based company received more than 42% of its revenues from outside of the United States—much more than that of the least international region, the Southeast (25%).

NATIONAL RESULTS

Profit margins for globally focused companies were almost triple those of their US-oriented peers.

PROFIT MARGINS, BY LEVEL OF INTERNATIONALISATION
NATIONAL, AVERAGE 2007-12, %



THE PRIMARY analysis compared all companies in the national set (that is, the combined pool of all companies in the four selected sectors). This portion of the study aimed to provide a national framework for the US. The resultant analysis revealed a powerful relationship between the level of internationalisation and profit margins. Nationally, companies with a high level of internationalisation drastically outperformed their peers.

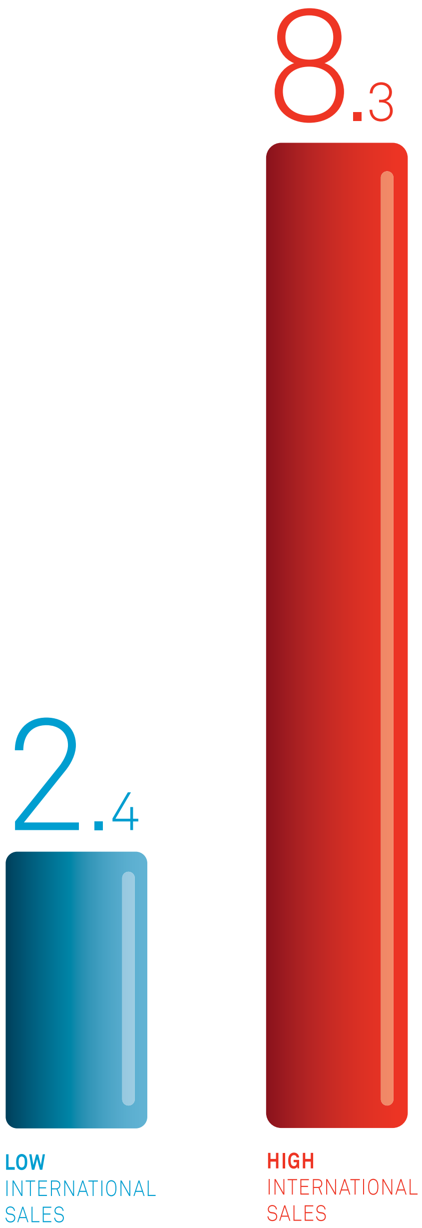
Over the relevant period (2007-12), highly internationalised companies boasted an average profit margin of 7.7 versus an average of 2.6 for low-internationalised companies. The highly internationalised firms achieved a level of performance nearly three times greater than those companies with a low level of international presence.

This held true not just for internationalisation but, individually, for both international sales and international operations. When analysing both of the sub-metrics of internationalisation, the results remained robust. Profit margins of companies with highly international operations were nearly double those of companies with low international operations (6.8 to 3.6), while those with high international sales outperformed by an average of 5.9 (8.3 to 2.4). Whether a company was international in terms of operations or sales (or both) did not seem to matter—a more global business model was strongly related to higher profit margins.

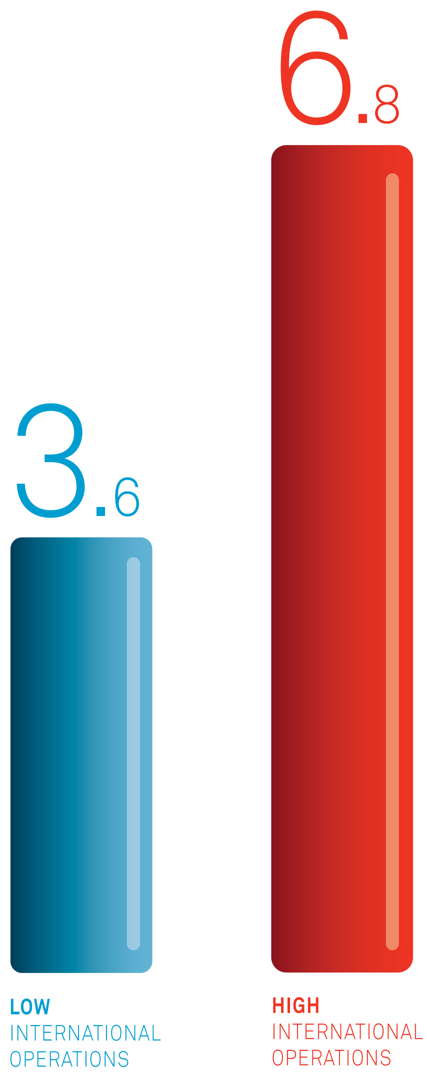
While the study did not attempt to address the causal mechanisms of this relationship, such a strong result has significant implications for business managers. Greater internationalisation implies broader access to markets, both for inputs and final products, thus allowing businesses to more effectively source inputs and diversify their customer base. By widening their options, companies are able to operate more efficiently and reduce the risks of overexposure to one particular market. This may explain why companies with higher rates of internationalisation were more profitable, particularly during the recession.

Profit margins of globally focused companies were multiples higher than those of their US-focused peers, based on both their levels of international sales and operations.

PROFIT MARGINS, BY LEVEL OF INTERNATIONAL SALES
NATIONAL, AVERAGE 2007-12, %



PROFIT MARGINS, BY LEVEL OF INTERNATIONAL OPERATIONS
NATIONAL, AVERAGE 2007-12, %



SECTORAL RESULTS

Globally focused companies outperformed their US-oriented peers in all four industries.

IN ADDITION to studying the national landscape, the analysis explored four major sectors: consumer goods, healthcare, industrials, and information and communications technologies (ICT). In this portion of the analysis, which confirmed the results of the national analysis, companies in each sector were compared only with their peers for more meaningful apples-to-apples comparisons. For instance, what may be considered a high level of internationalisation for a healthcare company may actually be low for an ICT company.

As noted, the pattern observed on the national level proved true within all four sectors. On average, the sectors demonstrated a profit margin spread between companies with high and low levels of internationalisation of 6.2. However, considerable divergence was observed among the sectors. The less-mobile industrials sector had the smallest spread.

Highly internationalised industrial companies had an averaget profit margin of 5.5—nearly double the performance of low-international industrials (3.0).

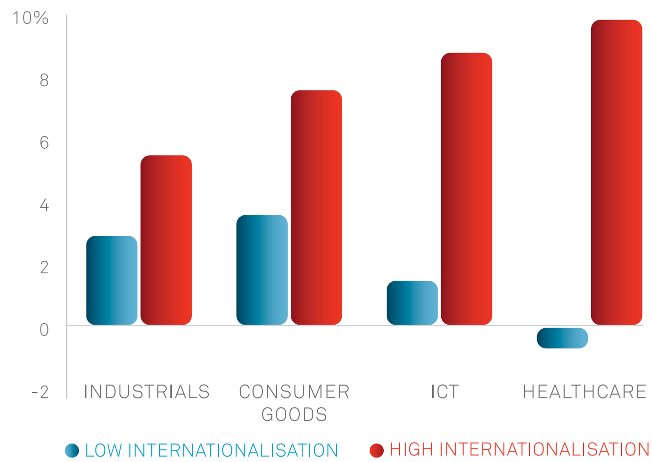
Average profit margins were, in general, higher in the consumer goods sector. Highly international companies had an average profit margin of 7.6, compared with 3.6 for their domestically oriented peers. As with industrials, this indicated that profit margins were roughly double for companies with a substantial international focus.

Despite such a strong story for the industrials and the consumer goods sector, their results paled in comparison with the massive divergence between domestically focused and highly internationalised companies in the ICT and healthcare sectors.

In the ICT sector, companies with a low level of internationalisation had, on average, a rather low profit margin of 1.5. By contrast, their peers with a high international orientation had an average profit margin of 8.8. This nearly sixfold increase makes clear the importance of an international focus for ICT companies. While low-international ICT firms were barely getting by with some of the lowest average profit margins, their internationally oriented counterparts enjoyed tremendous results.

The healthcare sector told an even more forceful story—pitting the worst-performing group against the best. The sector had the largest spread between high and low internationalisation (10.7). Highly international healthcare companies had the greatest average profit margins (10.0), while those that focused primarily on the US market had negative average profit margins (–0.8).

PROFIT MARGINS, BY LEVEL OF INTERNATIONALISATION
SECTORAL, AVERAGE 2007-12



This relationship and these results, though, were evident not only during the relevant period (2007-12), but showed an extremely consistent trend year-over-year. Not only did every sector demonstrate this trend during this period, but the divergence between the performance of low- and high-international companies was observed in nearly every individual year. In just one instance (2008 for industrials) did low-international companies, on average, narrowly outperform their more internationally oriented peers (2.1 to 1.7). In all other sector-years, profit-margin spreads ranged from 1.6 to an astronomical 37.2.

Such a large and consistent performance gap between companies with low and high levels of internationalisation provides convincing evidence of the internationalisation-profit relationship. The robustness of the results, when comparing similarly situated companies in a given sector, not only reaffirms the national results, but also provides meaningful information for companies seeking to understand the successes and failures of their competitors.

REGIONAL ANALYSIS

More international regions had higher profit margins than less international regions.

ALTHOUGH the national and sectoral analyses provide substantial insight into the relationship between internationalisation and company performance, the study also analysed the issue in a regional framework. The regional analysis, which confirmed the national and sectoral results, was conducted to develop an understanding of how, for instance, Northeastern companies performed vis-à-vis companies in other regions.

Regions may have unique characteristics—for instance, climate or legislative environments—that could affect corporate performance or internationalisation levels. Accordingly, the study divided the United States into five regions—California, the Midwest, the Northeast, the Southeast and Texas—with the remaining states grouped into a sixth regional category, Others.

Despite examining the dataset from a perspective very different from the national and sectoral analyses, the regional analysis showed the same clear and reliable relationship between profit margins and internationalisation—higher profit margins were associated with higher internationalisation. This was readily apparent on both a cross-regional and an intra-regional basis.

On a cross-regional basis, a very strong relationship (correlation=0.7) was evident between the two variables—regions with higher average profit margins also tended to be more international. Of all the regions, California had companies with the highest average profit margins. The average California company enjoyed a profit margin (12.1) that was nearly double that of companies in the next-closest region, the Midwest (6.4).

Unsurprisingly, California was also the most internationally oriented region. The real regional laggard was the Southeast, with an average profit margin of 1.2; it just barely beat Texas as the least international region. The remaining regions fell in between the Southeast and California in both average profit margins and their levels of internationalisation.

The trend from domestically oriented regions with low average profit margins to internationally oriented regions with high average profit margins reveals characteristics that are related to corporate success. Regions that are more international, whether due to politics, sector composition, incentives, trade pacts, geography or other factors, are also more profitable. Shying away from international markets seems to imply shying away from high profits.

NORTHEAST

Globally focused Northeastern companies outperformed by nearly 10 percentage points.

THE REGIONAL analysis did not only highlight this relationship when comparing across regions, but also when examining the performance of companies within a given region. On a very consistent basis, highly international companies once again outperformed their low-international peers.

This narrative proved to be particularly strong in the Northeast. Of all six regions, the Northeast had the widest spread in profit margins (9.7) between highly international and low-international companies. Average profit margins in the region for highly international companies were 7.7 over the relevant period, while companies with low levels of internationalisation had negative profit margins of -2.1.

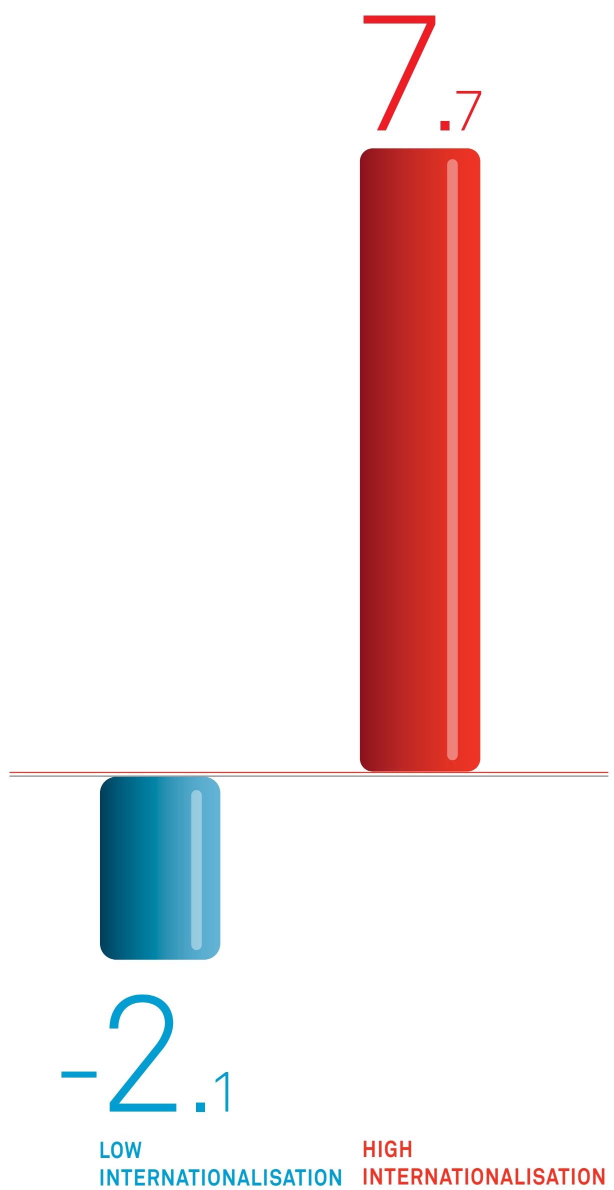
The Northeast was actually one of three regions (along with the Southeast and "Others") where low-international companies had negative average profit margins. Meanwhile, over the entire period, average profit margins for highly international companies in each region were never negative.

These results are not surprising given the heavy presence of healthcare companies in the region, which constitute 42.9% of the sample. On a sectoral basis, the healthcare sector demonstrates a similar pattern of very high average profit margins for highly international companies and negative average profit margins for low-international firms.

Over the six-year period (2007-12), Northeastern companies with high levels of internationalisation enjoyed a general, stable upward trend in their average profit margins. Profits margins grew robustly from 2007 to 2009, before settling around 9.0.

By contrast, profit margins for low-international companies in the Northeast were extremely volatile (standard deviation = 11.5), swinging from a low of -23.6 in 2008 to a high of 6.5 in 2012. Despite such erratic fluctuations, low-international companies in the Northeast never outperformed their more internationally oriented peers.

**PROFIT MARGINS,
BY LEVEL OF INTERNATIONALISATION**
NORTHEAST, 2007-12, %



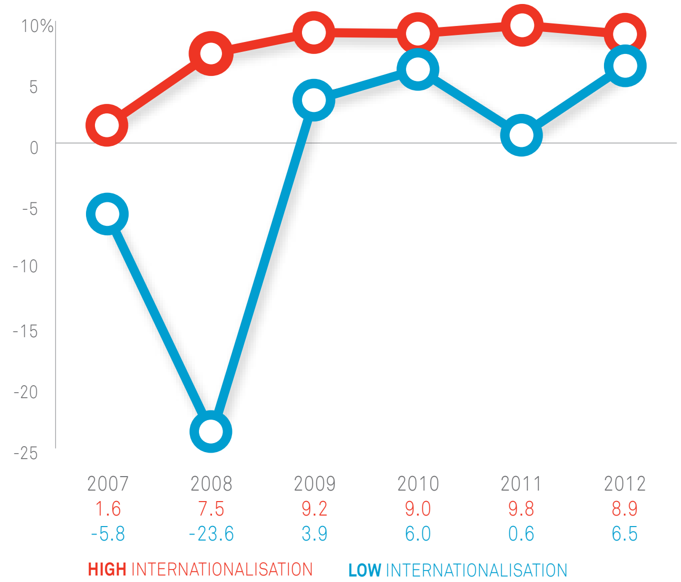
CONCLUSION

Internationalisation could be a source of competitive advantage for Northeast companies.

BUSINESSES undoubtedly have much to gain from greater internationalisation. A global approach provides access to more markets and lower-cost resources. Companies that have chosen an international business model appear to be reaping the rewards in their bottom lines. In nearly every way the relationship between profit margins and internationalisation was analysed, highly international companies tended to outperform their domestically oriented peers. These results suggest that internationalisation may be a source of competitive advantage for US companies.

PROFIT MARGINS, BY LEVEL OF INTERNATIONALISATION
NORTHEAST, AVERAGE, 2007-12

From 2007-12, highly international Northeastern companies had relatively stable and growing profit margins.



GOING GLOBAL

SPOTLIGHT ON THE NORTHEAST

NORTHEAST EXPORTS: TOP EXPORT SECTORS

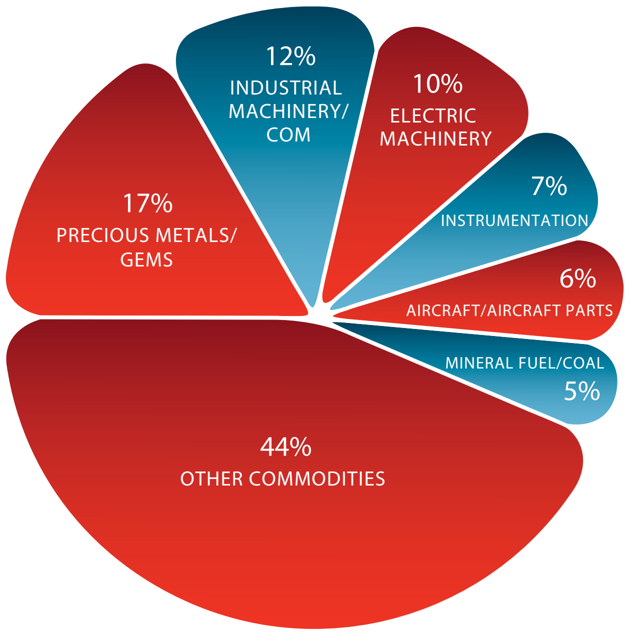
A rich R&D base boosts demand for quality exports.

THE NORTHEAST is a marvel of economic output. The region—including Connecticut, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island and Vermont—exported goods valued at $226.7bn in 2012, of $1.6trn exported nationally.

The largest share of these, at $22.8bn, is in the "miscellaneous manufactured products" bucket, including medical, surgical and dental equipment, jewelry, and sporting goods and toys. Nonferrous metals, except aluminum, and processing ($14.4bn) made up the second-largest export category, followed by aerospace products and parts ($13.5bn).

Today the region generates more than 20% of the country's gross domestic product in a relatively small, densely settled area. Its diverse state economies, from Maryland to Maine, contribute to a thriving export sector, with highly engineered products such as locomotives, jet engines, medical devices and semiconductors seeing steady demand from overseas markets. Its universities, recognised worldwide as engines of innovation, attract large numbers of international students each year and contribute to a highly skilled labor pool.

TOP NORTHEAST EXPORTS, 2012
$ MILLIONS



TOTAL ALL INDUSTRIES	**216,719**
PRECIOUS METALS/GEMS	36,876
INDUSTRIAL MACHINERY/COM	25,542
ELECTRIC MACHINERY	20,739
INSTRUMENTATION	14,948
AIRCRAFT/AIRCRAFT PARTS	12,520
MINERAL FUEL/COAL	11,259
OTHER	94,835

> *"Companies in the US, in the Boston area [have] technology solutions to medical problems that nobody else offers. They can just open up offices around the world and have tremendous sales because they really don't face [much] competition in their domestic markets.*
>
> PETER COHAN, A PROFESSOR AT BABSON COLLEGE AND C0-AUTHOR, *EXPORT NOW: FIVE KEYS TO ENTERING NEW MARKETS*

NORTHEAST EXPORTS: TOP EXPORT SECTORS (CONT)

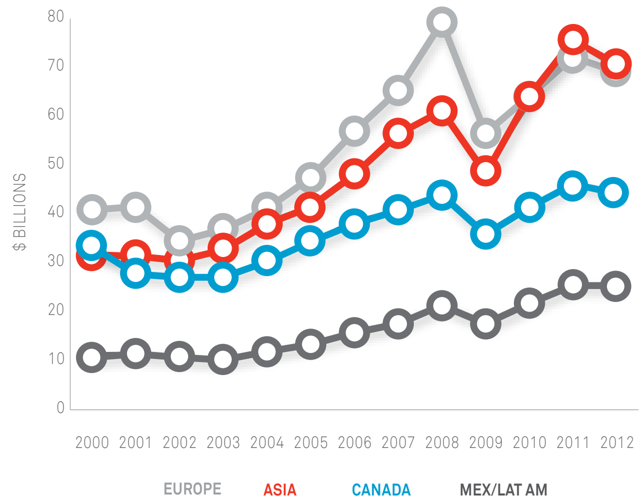
A rich R&D base boosts demand for quality exports.

Increasingly, Northeastern companies look to international markets amid waning domestic demand. The region benefits from its proximity to some of the country's largest trading partners, including Canada and the UK, and trade with Europe could expand further under an expected trade deal with the continent, experts say. Shipping and freight services in the Northeast provide robust distribution channels for exporters, and less-used ports such as Portland, Maine, hope to increase traffic as bottlenecks form at other ports across the country.

Exports from the 11-state region grew nearly 17% between 2007 and 2012, with New York ranking as the largest state exporter, followed by Pennsylvania, New Jersey and Massachusetts, according to figures from the US Commerce Department's International Trade Administration. Trade officials say they have worked to boost regional exports following a 2010 pledge by President Barack Obama to double US exports by 2015.

The region's largest export markets last year were Canada ($44bn), the UK ($15.03bn) and China ($13.52bn).

TOP NORTHEAST EXPORT MARKETS, 2000-12
$ BILLIONS



EXPORT STRENGTH

COASTAL LOCATION, MANY PORTS AND PROXIMITY TO EUROPE DRIVE TRADE

THE NORTHEAST, has proven resilient as a base for international business, though exports as a percentage of the national total dropped slightly in 2012. From 2000 to 2011, the region maintained its share of US merchandise exports, at about 15%, before declining by 1.4% in 2012 due, in part, to weaker trade with recessionary markets in Canada and Europe, according to the Eastern Trade Council (ETC), a trade development group. Regional exports to mainland China decreased for the first time in many years, and those to Germany failed to recover to pre-recession levels.

The Northeast's mix of exporting industries also shifted from 2000 to 2012. Aircraft and aircraft parts, for example, grew to 12% of US exports, up from 8.8%. Precious metals, gems and jewelry slid to 50.8% from 71.6%. Industrial machinery dipped to 11.9% from 13.8%, the group said.

Services have also contributed significantly to exports from the Northeast, among them transportation, warehousing, utilities, information management, financial activities, professional and business consulting, health, education and tourism. Estimates suggest services accounted for $152bn in exports compared with $217bn in goods in 2012, according to the ETC. It defines the region as Connecticut, Delaware, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island and Vermont.

Michael Czinkota, professor of international business and trade at Georgetown University's McDonough School of Business, pointed to the high concentration of services and cluster effects in the region. He said free online courseware recently offered by educational institutions such as Harvard and MIT helps the schools identify and recruit top global talent, enhancing an already robust service sector.

> *"If you look at the East Coast, it's logistics, it's geographic distance, but it's also what I would call psychological distance... the East Coast feels psychologically more closely tied to Europe.*

MICHAEL CZINKOTA, PROFESSOR OF INTERNATIONAL BUSINESS AND TRADE AT GEORGETOWN UNIVERSITY'S McDONOUGH SCHOOL OF BUSINESS

SPECIALISATION SETS NORTHEAST APART

Sophisticated machinery, precision instruments are key exports.

NORTHEASTERN COMPANIES maintain brisk international trade due in part to the nature of their products. "There will always be a market overseas for quality state-of-the-art items. Those are the kinds of things we're manufacturing," said Paula Murphy, director of the Massachusetts Export Center, referring to high-end technology and industrial products. Demand tends to be particularly strong in Europe, she said.

Peter Cohan, a professor at Babson College and Co-author (with Frank Lavin)of the book "*Export Now: Five Keys to Entering New Markets*", said companies in the Northeast have an advantage in markets where competitors are less sophisticated and may not have state-of-the-art technology. He cited information technology and biotechnology products in particular. "Companies in the US, in the Boston area [have] technology solutions to medical problems that nobody else offers," he said. "They can just open up offices around the world and have tremendous sales because they really don't face competition in their domestic markets."

Boston's centers of higher education—Harvard University and Massachusetts Institute of Technology, among others—are a critical cog in the state-of-the-art technology wheel, said James Cox, Northeast regional director at the US Commerce Department's Commercial Service. "These are people that are coming up with fantastic new products and processes every day," he said.

In Massachusetts, most companies that make exportable products have been selling them abroad for years, though perhaps not to their fullest potential. More companies have been exporting to China, which can be "a tricky market," with even small regional companies establishing offices there rather than working with local distributors, Murphy , of the Massachusetts Export Center, said. "You're starting to see companies take on a little more risk to get into some of these [overseas] markets."

Looking ahead, regional trade performance should benefit from greater access to overseas markets through several planned free-trade pacts. They include a US-European trade and investment agreement, and the Trans-Pacific Partnership Agreement. The latter deal is being negotiated by nine countries: the US, Australia,

Brunei, Chile, Malaysia, New Zealand, Peru, Singapore and Vietnam, according to the Eastern Trade Council. Stronger enforcement of trade rules and redress of currency manipulation in some markets will also help exporters, it said.

Northeast companies stand to gain from stronger economic ties with Europe under the Transatlantic Trade and Investment Partnership, an agreement announced earlier this year that would bolster US-Europe trade and offset rising global trade with China, said Georgetown University's Czinkota.

That's because the Northeast is much more "Europe-oriented" than other parts of the country, he said. "If you look at the East Coast, it's logistics, it's geographic distance, but it's also what I would call psychological distance ... the East Coast feels psychologically more closely tied to Europe than it would feel tied to China," he said. US companies have obvious counterparts in Europe, he added, such as General Electric and Germany's Siemens, or regional aerospace companies and France's Airbus.

INSIDE PERSPECTIVE

BOSTON SCIENTIFIC EXPANDS BEYOND EUROPE TO ASIA

BOSTON SCIENTIFIC'S legacy is rooted in the Northeast. As its name suggests, the Massachusetts-based maker of medical devices such as pacemakers and heart stents was founded in the Boston area and maintains research-and-development operations there. That affords the company access to "a lot of very good technical talent," said Michael Phalen, the company's executive vice president and president of its medical surgery business.

Historically, Boston Scientific focused on markets in the United States, Europe and Japan, which have similar governance rules and demand for medical devices. But the company in recent years has expanded further overseas, focusing on emerging markets, particularly those in Eastern Europe.

"Over the years we've [tried] ... to be a more globalised company," said Phalen, referring to target markets such as Southeast Asia, China, India and Brazil. "We intend to be a more formidable player in many emerging markets."

Boston Scientific has invested heavily in China and now has a sizeable operation there. It is staffed almost entirely by Chinese nationals—the result of a corporate decision to hire locally rather than deploy expatriates to launch overseas operations, said Phalen, who handles growth strategies for several business lines and supervises operations in Canada and Latin America. The same is true of the company's business in Latin America, where Brazil's and Mexico's medical device markets have been heating up, he said.

As a medical device maker, Boston Scientific also has to deal with governance and regulatory issues. Local insights may sometimes suggest that a globalizing company needs to walk away from a promising opportunity, he said.

"We've recognised that the way we'd like to conduct business in certain markets feels good to us but may not translate locally," Phalen said. "We've had starts and stops in areas in which we thought we could operate the way we typically operate in the United States, only to find out that that's not the standard. So we've gotten in and we've pulled out of selective markets based on business practices and ethics," among other things, he said.

Boston Scientific made several forays into India, for example, before recognizing the difficulties of the market. "I think we didn't fully understand how that business model operated, and then we pulled out, meaning that we took a direct effort and energy out of the equation and left it through a distributorship," he said.

Today the company operates as a sort of hybrid in India, Phalen said, "but we're gaining a lot of traction because we've identified the right strategic partners to collaborate with."

As Boston Scientific continues to expand, it is keeping intellectual property (IP) and protectionism issues top of mind. IP is "a big deal," particularly in countries like China, but perhaps more problematic are governments that favor local firms over multinationals, Phalen said. "We try to make sure that markets are open so we can compete fairly and not be technically disadvantaged because we're a multinational," he said.

> *"We intend to be a more formidable player in many emerging markets.*

MICHAEL PHALEN, EXECUTIVE VICE PRESIDENT AND PRESIDENT OF THE MEDICAL SURGERY BUSINESS, BOSTON SCIENTIFIC

KNOWING RULES AND REGULATIONS IS PARAMOUNT

A huge issue for medical-device and high-technology companies are regulations and standards, according to Cox of the US Commerce Department's Commercial Service. Firms that previously simply sold their products in overseas markets now have to consider the ramifications of those products, such as recycling and safety standards. Protecting IP rights also remains a concern, he said.

RESPONDING TO OVERSEAS MARKETS

Many IP-intensive industries are present in New York City, where trade officials work closely with manufacturers and a large number of services clients, including those in the architecture, engineering, financial-services and computer software industries. Among the top manufacturers are textile and apparel makers, and a growing number have ramped up sales abroad, said Carmela Mammas, director of the city's US Export Assistance Center. Other export sectors include jewelry, processed foods and renewable energy. "New York has always been a center for trade," she said.

As a base for international business, the Northeast offers numerous advantages. Its universities attract international students, turn out groundbreaking technology and contribute to a highly skilled work force. Its companies make sophisticated, sought after products that may be unavailable elsewhere. The region also has a high concentration of support and transportation services. Regional trade appears likely to improve with the expected signing of free-trade agreements and other government efforts to boost international commerce, and its proximity to Europe and Canada facilitates business with major US trading partners.

INSIDE PERSPECTIVE

ALEXION PHARMACEUTICALS

A local lens helps boost business abroad

ALEXION PHARMACEUTICALS, a Connecticut-based producer of drugs for ultra-rare blood diseases, began expanding globally in 2006. Its Connecticut headquarters serves as a convenient meeting point for members of its global staff due to its proximity to JFK International Airport in New York. Executives can reach most of the company's overseas operations on a single flight, said David Hallal, the company's executive vice president and chief commercial officer. But as a global company, "we are always open for business, and this puts an enormous amount of ongoing pressure on your organisation."

Overseas, things are far more complicated—and local employees can be an invaluable lens on the regional market opportunity. But it is not always easy to recruit local talent. "Recruiting top talent into the organisation to help establish our footprint in each of the countries was not a small feat," he said. "No matter what you know in the US, attracting top talent locally is required. We were in constant startup mode in terms of recruiting talent, opening up offices, training staff and launching in those new countries—literally a chronic launch stage for many years."

It is also important to understand the international market opportunity versus the domestic one, the level of complexity and competition in overseas markets, and the level of investment needed to achieve a return on investment, said Hallal. "We felt we had something that nobody else had globally, and we could bring that to patients."

Forging ties with local officials can also be a critical success factor. Alexion Pharmaceuticals must perform clinical trials and seek approval from regulators before entering new markets, and much of this depends on local government funding. In some countries, particularly the Commonwealth countries, that process can be protracted. "We had to learn and develop an approach to work with governments around the world to educate them on the disease," Hallal said.

> *"We had to learn and develop an approach to work with governments around the world to educate them on the disease.*
>
> DAVID HALLAL, EXECUTIVE VICE PRESIDENT AND CHIEF COMMERCIAL OFFICER, ALEXION PHARMACEUTICALS

But sometimes carrying one's blueprint abroad and implementing it locally works best, he added. Unlike larger drug companies, Alexion Pharmaceuticals has focused on serving a very small population of patients, spending a substantial amount of time raising awareness about the two ultra rare diseases it seeks to treat with its products. It chose to develop its own footprint overseas rather than work with local partners to avoid relinquishing control. "We had a very patient-centric approach that we felt we could do better than anybody else," Hallal said.

METHODOLOGY

1. A sample of companies was constructed by screening the full set of publicly listed US companies by relevant sectors, regions and data availability (n=259).

2. Companies were classified by their level of international sales.

a. Annual thresholds were derived using the average percentages of international revenues. These thresholds were then aggregated to calculate a period cut-off level for 2007 to 2012.

b. Each company was classified as having low or high international sales, depending on its performance relative to the period cut-off level.

3. Companies were classified by their level of international operations.

a. Companies were grouped into quartiles by the percentage of international sales.

b. Companies were grouped into quartiles by the percentage of international sites.

c. Using equal weights for the percentages of international sites and international sales, a score was calculated for each company.

d. Each company was classified as having either low or high international operations based on its score.

4. Companies were classified by level of internationalisation.

a. A macro-score, which equally weighted international sales and international operations, was calculated for each company.

b. Each company was classified as either low- or high-internationalisation based on its macro-score.

5. Average profit margins (net income/net sales) for all companies in the relevant group were calculated on annual and period bases, by level of international sales, international operations and internationalisation.

6. This process was repeated for both the regional and sectoral analyses. Unique thresholds, cut-off levels and quartiles were calculated for each region (eg Northeast) and sector (eg ICT) to ensure that companies in a given region or sector were only compared with their relevant peers.

Note: Each company received a total of nine scores: a national, regional and sectoral score for each of international sales, international operations and internationalisation.

REGIONAL DEFINITIONS

REGION	TERRITORIES
CALIFORNIA	CALIFORNIA
MIDWEST	ILLINOIS, INDIANA, IOWA, KANSAS, MICHIGAN, MINNESOTA, MISSOURI, NEBRASKA, NORTH DAKOTA, OHIO, SOUTH DAKOTA, WISCONSIN
NORTHEAST	CONNECTICUT, DELAWARE, MAINE, MARYLAND, MASSACHUSETTS, NEW HAMPSHIRE, NEW JERSEY, NEW YORK, PENNSYLVANIA, RHODE ISLAND, VERMONT, WASHINGTON DC
OTHERS	ALABAMA, ALASKA, ARIZONA, ARKANSAS, COLORADO, HAWAII, IDAHO, KENTUCKY, LOUISIANA, MISSISSIPPI, MONTANA, NEW MEXICO, NEVADA, OKLAHOMA, OREGON, TENNESSEE, UTAH, VIRGINIA, WASHINGTON, WEST VIRGINIA, WYOMING
SOUTHEAST	FLORIDA, GEORGIA, NORTH CAROLINA, SOUTH CAROLINA
TEXAS	TEXAS

LEVEL OF INTERNATIONALISATION NATIONAL LEVEL

CATEGORY	COUNT	PM 2007	PM 2008	PM 2009	PM 2010	PM 2011	PM 2012	AVERAGE 2007-12
HIGH	129	7.50	4.70	5.80	9.12	10.16	8.70	7.67
LOW	130	1.97	-4.14	2.48	5.89	4.33	4.81	2.56
GRAND TOTAL	**259**	**4.72**	**0.26**	**4.13**	**7.50**	**7.24**	**6.75**	**5.10**

LEVEL OF INTERNATIONALISATION REGIONAL LEVEL, NORTHEAST

CATEGORY	COUNT	PM 2007	PM 2008	PM 2009	PM 2010	PM 2011	PM 2012	AVERAGE 2007-12
NORTHEAST	**42**	**-2.45**	**-9.55**	**6.26**	**7.35**	**4.76**	**7.59**	**2.33**
HIGH	19	1.61	7.48	9.18	8.96	9.75	8.91	7.65
LOW	23	-5.81	-23.62	3.85	6.03	0.64	6.50	-2.07
GRAND TOTAL	**259**	**4.72**	**0.26**	**4.13**	**7.50**	**7.24**	**6.75**	**5.10**

LEVEL OF INTERNATIONALISATION SECTORAL LEVEL

CATEGORY	COUNT	PM 2007	PM 2008	PM 2009	PM 2010	PM 2011	PM 2012	AVERAGE 2007-12
CONSUMER GOODS	**71**	**6.97**	**2.41**	**4.00**	**7.34**	**6.93**	**6.22**	**5.65**
HIGH	36	8.18	5.80	6.47	8.66	8.44	8.15	7.62
LOW	35	5.72	-1.08	1.46	5.98	5.39	4.23	3.62
HEALTHCARE	**49**	**2.41**	**-5.43**	**9.05**	**8.81**	**7.37**	**8.76**	**5.16**
HIGH	27	5.24	11.28	10.94	10.84	11.07	10.50	9.98
LOW	22	-1.06	-25.95	6.73	6.32	2.84	6.61	-0.75
INDUSTRIALS	**63**	**4.78**	**1.97**	**0.67**	**5.60**	**5.57**	**5.50**	**4.02**
HIGH	26	6.38	1.72	3.34	7.29	7.35	7.09	5.53
LOW	37	3.65	2.14	-1.20	4.41	4.33	4.38	2.95
ICT	**76**	**4.08**	**0.52**	**3.95**	**8.38**	**8.81**	**6.98**	**5.45**
HIGH	41	9.01	1.27	7.29	12.39	13.64	9.32	8.82
LOW	35	-1.70	-0.37	0.04	3.68	3.15	4.24	1.51
GRAND TOTAL	**259**	**4.72**	**0.26**	**4.13**	**7.50**	**7.24**	**6.75**	**5.10**

LEVEL OF INTERNATIONAL SALES NATIONAL LEVEL

CATEGORY	COUNT	PM 2007	PM 2008	PM 2009	PM 2010	PM 2011	PM 2012	AVERAGE 2007-12
HIGH	119	7.98	4.49	7.25	10.07	10.57	9.25	8.27
LOW	140	1.96	-3.33	1.49	5.32	4.41	4.62	2.41
GRAND TOTAL	**259**	**4.72**	**0.26**	**4.13**	**7.50**	**7.24**	**6.75**	**5.10**

LEVEL OF INTERNATIONAL SALES REGIONAL LEVEL, NORTHEAST

CATEGORY	COUNT	PM 2007	PM 2008	PM 2009	PM 2010	PM 2011	PM 2012	AVERAGE 2007-12
NORTHEAST	**42**	**-2.45**	**-9.55**	**6.26**	**7.35**	**4.76**	**7.59**	**2.33**
HIGH	20	2.30	8.14	9.90	9.96	10.88	10.02	8.53
LOW	22	-6.78	-25.64	2.95	4.99	-0.81	5.38	-3.32
GRAND TOTAL	**259**	**4.72**	**0.26**	**4.13**	**7.50**	**7.24**	**6.75**	**5.10**

LEVEL OF INTERNATIONAL SALES SECTORAL LEVEL

CATEGORY	COUNT	PM 2007	PM 2008	PM 2009	PM 2010	PM 2011	PM 2012	AVERAGE 2007-12
CONSUMER GOODS	**71**	**6.97**	**2.41**	**4.00**	**7.34**	**6.93**	**6.22**	**5.65**
HIGH	33	9.58	6.16	7.81	10.12	9.40	9.46	8.76
LOW	38	4.70	-0.85	0.69	4.93	4.79	3.41	2.94
HEALTHCARE	**49**	**2.41**	**-5.43**	**9.05**	**8.81**	**7.37**	**8.76**	**5.16**
HIGH	24	4.43	11.73	11.40	10.32	11.62	11.39	10.15
LOW	25	0.48	-21.91	6.80	7.37	3.30	6.23	0.38
INDUSTRIALS	**63**	**4.78**	**1.97**	**0.67**	**5.60**	**5.57**	**5.50**	**4.02**
HIGH	29	6.53	1.34	4.92	6.96	7.89	7.40	5.84
LOW	34	3.28	2.51	-2.95	4.44	3.60	3.88	2.46
ICT	**76**	**4.08**	**0.52**	**3.95**	**8.38**	**8.81**	**6.98**	**5.45**
HIGH	37	8.85	0.23	5.58	11.61	12.43	8.95	7.94
LOW	39	-0.45	0.79	2.40	5.32	5.38	5.12	3.09
GRAND TOTAL	**259**	**4.72**	**0.26**	**4.13**	**7.50**	**7.24**	**6.75**	**5.10**

LEVEL OF INTERNATIONAL OPERATIONS NATIONAL LEVEL

CATEGORY	COUNT	PM 2007	PM 2008	PM 2009	PM 2010	PM 2011	PM 2012	AVERAGE 2007-12
HIGH	121	5.44	2.92	5.95	9.16	9.39	8.07	6.82
LOW	138	4.10	-2.07	2.54	6.05	5.35	5.59	3.59
GRAND TOTAL	**259**	**4.72**	**0.26**	**4.13**	**7.50**	**7.24**	**6.75**	**5.10**

LEVEL OF INTERNATIONAL OPERATIONS REGIONAL LEVEL, NORTHEAST

CATEGORY	COUNT	PM 2007	PM 2008	PM 2009	PM 2010	PM 2011	PM 2012	AVERAGE 2007-12
NORTHEAST	**42**	**-2.45**	**-9.55**	**6.26**	**7.35**	**4.76**	**7.59**	**2.33**
HIGH	20	2.52	9.39	12.24	10.88	10.79	11.97	9.63
LOW	22	-6.97	-26.78	0.82	4.15	-0.72	3.61	-4.32
GRAND TOTAL	**259**	**4.72**	**0.26**	**4.13**	**7.50**	**7.24**	**6.75**	**5.10**

LEVEL OF INTERNATIONAL OPERATIONS SECTORAL LEVEL

CATEGORY	COUNT	PM 2007	PM 2008	PM 2009	PM 2010	PM 2011	PM 2012	AVERAGE 2007-12
CONSUMER GOODS	**71**	**6.97**	**2.41**	**4.00**	**7.34**	**6.93**	**6.22**	**5.65**
HIGH	29	6.33	1.35	5.52	7.79	7.25	7.19	5.90
LOW	42	7.40	3.14	2.96	7.03	6.72	5.55	5.47
HEALTHCARE	**49**	**2.41**	**-5.43**	**9.05**	**8.81**	**7.37**	**8.76**	**5.16**
HIGH	25	0.87	10.66	13.32	12.42	12.27	10.50	10.01
LOW	24	4.03	-22.19	4.61	5.05	2.27	6.94	0.12
INDUSTRIALS	**63**	**4.78**	**1.97**	**0.67**	**5.60**	**5.57**	**5.50**	**4.02**
HIGH	19	5.71	-1.15	3.19	6.28	7.28	6.50	4.63
LOW	44	4.37	3.32	-0.41	5.30	4.84	5.07	3.75
ICT	**76**	**4.08**	**0.52**	**3.95**	**8.38**	**8.81**	**6.98**	**5.45**
HIGH	42	5.61	-1.82	2.27	8.07	10.52	8.01	5.44
LOW	34	2.18	3.41	6.02	8.76	6.70	5.71	5.46
GRAND TOTAL	**259**	**4.72**	**0.26**	**4.13**	**7.50**	**7.24**	**6.75**	**5.10**

SOURCES

- Bloomberg
- Dun & Bradstreet (D&B)
- Osiris
- Selected corporate SEC filings and annual reports
- Selected corporate websites
- US Census Bureau

THE HSBC PERSPECTIVE: CONSIDERATIONS FOR COMPANIES IN NORTHEAST

Today's economic landscape is constantly shifting, and old paradigms of stability and growth no longer hold true. Emerging populations and fresh demands have buoyed companies partnering with international markets, as evidenced by higher growth rates and increased revenue.

The research shows that companies that have expanded internationally frequently are more successful in finding new revenue streams, capturing loyal new customers and becoming inspired by ideas in other markets.

In looking towards the future of Northeast business, consider what participating in the global economy can do to unlock the growth potential that emerging markets offer businesses. Research prospective countries and tap the right strategic partners, including tax, legal and financial services, to make sure you get the best advice and hands-on experience in determining the opportunities that will strengthen and build your business.

ABOUT HSBC COMMERCIAL BANKING Commercial Banking, a division of HSBC Bank USA, N.A, together with the other members of the HSBC Group, serve more than 3.5 million customers worldwide, from small enterprises to large multinationals, in over 60 developed and emerging markets around the world. Whether it is working capital, trade finance or payments and cash management solutions, the Commercial Banking team provides the tools and expertise that businesses need to thrive. With a heritage stretching back nearly 150 years, and a global network covering three quarters of global commerce, it makes HSBC the world's leading international trade and business bank.

HSBC HOLDINGS PLC, the parent company of the HSBC Group, is headquartered in London. The Group serves customers worldwide from around 6,600 offices in over 80 countries and territories in Europe, Hong Kong, Rest of Asia-Pacific, North and Latin America, and the Middle East and North Africa. With assets of US$2,681bn at 31 March 2013, the HSBC Group is one of the world's largest banking and financial services organizations.

Interested in growing your trade business? HSBC provides financial services to majority of the companies that trade internationally in The Northeast.

CONTACT: **Paul B. Cronin**, Executive Vice President -Commercial Banking, HSBC Bank USA, N.A.
TEL: 212.525.7271 EMAIL: paul.b.cronin@us.hsbc.com

Elizabeth Peck, Senior Vice President, HSBC Bank USA, N.A.
TEL: 212.525.8846 EMAIL: elizabeth.r.peck@us.hsbc.com