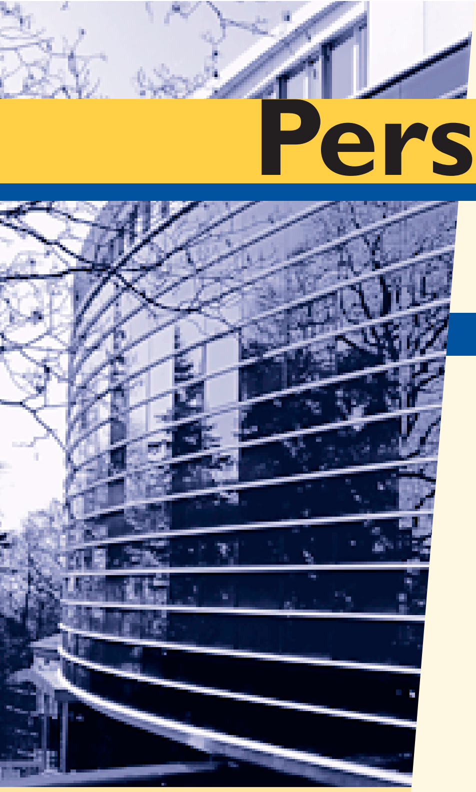

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Asia is Surging. Managers Wake Up!


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The Global Economic Revolution

There is a general misconception that a "revolution" is something that happens quickly, involves the loss of much blood, and is therefore clearly visible. In fact, "real" revolutions consist of forces, events, developments and trends that unfold generally over a forty or fifty year period before their full effect is felt. The industrial revolution is an obvious example. But so are, in their different ways, the French, Mexican, Russian and Chinese revolutions. The guillotining of Louis XVI was a culminating event in a revolutionary social and ideological upheaval that had been under way for a good half-century before the beheading occurred. It is precisely because revolutions tend to occur, especially at their early stages, in an evolutionary and often only marginally perceptible manner that contemporaries are often blind – consciously or unconsciously – to what is taking place.

This is true of the current global economic revolution that is signaling a tectonic shift of industrial and financial gravity to the Pacific. Asia's rapid trajectory through global economic space was never going to be linear. The euphoria in the early/mid 1990s about the coming "Asian century" rapidly turned to derision in the wake of the 1997 financial crisis – as the investment herds rushed out of the Asian bubble into the dot-com bubble! As the 21st century world economy continues to unfold, however, it is clearer than ever that the Asian economic powerhouses will be the growth drivers; even though, for many reasons – political, social, as well as economic – Asia's growth will not occur at a steady throttle, but through continued fits, starts and more upheavals. Assessing Asian economic trends and capitalizing on the opportunities require quite specific analytical and entrepreneurial skills that do not sufficiently feature in the Western mental landscape or educational curriculum. As East Asian societies need to adjust to their own profound economic transformations, Western business leaders must adjust their global strategies, and above all the cultural frameworks and assumptions that underlie their strategies. Those companies that fail to do so will be facing – metaphorically speaking – the guillotine and will disappear. Revolutions are not necessarily bloody, but they invariably include winners and losers.

Demographics – the Driving Revolutionary Force

Though nothing is irreversible, let alone inevitable, there can be no doubt that one of the most powerful forces driving the global economic revolution are demographics. As the table on "regional populations from 1750 to 2050" shows, during the first half of this century Europe's population is due to decrease by about 100 million. Asia's population on the other hand will increase by about 1,700 million. Europe's population decline will be reflected in its global economic weight. A study undertaken by IFRI (the French Institute for International Relations)[1] estimates that on the basis of current trends the EU's share of world GDP, which currently corresponds to 22%, will have declined to 18% in 2020 and 12% by 2050. The EU's enlargement accentuates the "old" continent's demographic picture, as all of the new member states have aging and declining populations, as do the other countries of Europe (Russia, Ukraine, etc),

1 Le commerce mondial au XXIe siècle, Institut Français des Relations Internationales, Paris 2002.

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Year	Population per region (x1000)						
	Africa	Asia	Europe	Latin Am. & Caribbean	Northern America	Oceania	World
1750	106'000	502'000	163'000	16'000	2'000	2'000	**791'000**
1800	107'000	635'000	203'000	24'000	7'000	2'000	**978'000**
1850	111'000	809'000	276'000	38'000	26'000	2'000	**1'262'000**
1900	133'000	947'000	408'000	74'000	82'000	6'000	**1'650'000**
1950	221'000	1'402'000	547'000	167'000	172'000	13'000	**2'521'000**
2000	749'000	3'585'000	729'000	504'000	305'000	30'000	**5'901'000**
2050	1'766'000	5'268'000	628'000	809'000	392'000	46'000	**8'909'000**

Regional Populations from 1750 to 2050 Source: UN

with the single exception of Albania! What would be needed for Europe to reverse these trends would be either a sudden and quite massive increase in its birth rate or a massive influx of immigrants. Neither seems likely.

Asia's GDP currently corresponds to 35% of world GDP, 16% of which is accounted for by Greater China; the IFRI study estimates that by 2020 it will have increased to 43% (23% for Greater China) and by 2050 to 45% (24% for Greater China). NAFTA's[2] share of world GDP, according to the same study, will hardly change, from 25% in 2000 to 24% in 2020 and 23% in 2050. Although North America's relative share of population will decrease, in absolute terms it will continue to grow. North America's population dynamics are very different from Europe's; the increase is accounted for not only by the immigrant population, but also by a much stronger birth rate among American citizens[3]. Many other factors also converge in positioning the United States as a major global hub of industrial and technological innovation and as the magnet of the global brain drain. Thus economic power seems destined to be concentrated on the two rims of the Pacific, but with the main growth occurring on its western (Asian) shores.

"Asia's surge in relative share of GDP is in good part driven by much improved governance, but also by the weakness of "the competition."

Governance – the Key to Economic Growth

Demographic growth is per se not sufficient, obviously, to generate economic growth. The contrasting history of Europe and China in the period 1750-1850 is instructive. During those 100 years, the population of both doubled – respectively from 120 to 265 million, and from 215 to 420 million[4]. Whereas, however, economically – as well as politically, socially and militarily – Europe surged, China entered a period of decline that was only arrested in the second half of the 20th century. Europe, especially North-western Europe, faced its demographic challenge by undertaking thorough reforms, by applying new scientific techniques to both agricultural and industrial production, and by developing an administrative infrastructure – especially the rule of law – that served as a framework for its development; China did none of these things, as its imperial regime and elites sought above all to conserve established interests and ideologies. China needed several political revolutions and more recently an economic revolution (under Deng Xiaoping) to begin bringing its population greater prosperity, rather than greater misery. Asia's surge in relative share of GDP is in good part driven by much improved governance, but also by the weakness of "the competition". Thus, though the African continent's population will more than double over this half-century, so far it seems incapable of extricating itself from a downward spiral of increasing poverty caused by abysmal governance. The Middle East/North Africa has the world's highest demographic growth rate – 40% of the population of the 22 countries of the Arab League, comprising a total population of not quite 300 million, is less than 14 years of age. It also has the world's worst GDP per capita performance with an average of –2.3% over the last 20 years. Essentially, as the UNDP's Arab Human Development reports[5] demonstrate, this is due to the region's three deficits – the deficits of freedom, learning and female empowerment – but also because its population comprises not one market, but 22 markets, with some of the world's highest tariff barriers. Russia and the CIS have, so far, not succeeded in transitioning either to viable democracies or to market economies. Latin America's tremendous potential remains, with some exceptions, hampered by poor economic governance and bad social indicators, especially in the chasm between rich and poor. In Brazil, the should-be dynamo of the region, the population's great entrepreneurial drive is hindered by a bureaucratic maze that on average requires 152 days to open a new business – the same figure for China is 46 days[6]! Thus Asia's surge is in part accounted for by the generally lacklustre performance of would-be competitors.

Towards an Asian Economic Space and Global Basis of Competition

Asia's rise in the global economy has been taking place for some time, arguably since at least the mid/late '70s. This more recent surge, however, is different. In the earlier stages, the Asian advance was led by Japan, followed by relatively small Asian economies, the so-called four dragons – South Korea, Taiwan, Hong Kong and Singapore – using the larger South-east Asian countries – Thailand, Indonesia, Malaysia, Philippines, Vietnam – as production bases and sources of raw materials. The really "big guys", China and India, were out of the picture, the former because it was in the throes of Maoism, the latter because it had embarked upon an autarkic road of import-substitution.

2 North American Free Trade Area, including Canada, US and Mexico.

3 "A Tale of Two Bellies: The remarkable demographic difference between America and Europe", The Economist, 22 April 2002.

4 William Lavely and R. Bin Wong, "Revising the Malthusian Narrative: the Comparative Study of Population Dynamics in Late Imperial China", Center for Studies in Demography and Ecology Working Paper no 98-05, University of Washington, 1998.

5 "The Arab Human Development Report", 2002 and 2003, United Nations Development Program, Geneva and New York.

6 "Doing Business in 2004", World Bank, Washington, 2003.

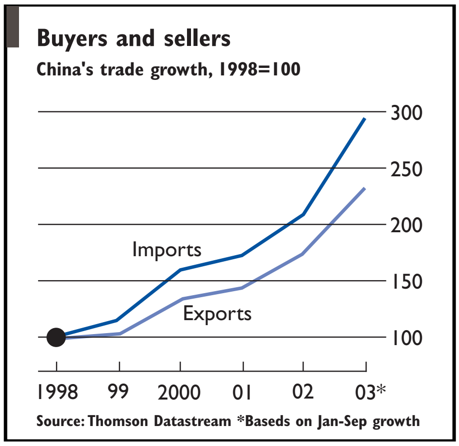
In the course of the '90s, however, the Asian scene underwent a quite profound transformation. As a result of radical policy reforms undertaken by China and India, it is now the big guys who are driving the growth, driving the region and driving the new global paradigm of competitiveness. Most of the focus has been, understandably, on China, as China's performance has been much more spectacular and it has proved far more attractive – in fact about ten times more attractive – to foreign investors than India. Furthermore, though China is still a communist state and remains lumbered with anti-diluvian state owned enterprises (SOEs), it has been more successful in making a break with the past, in policy terms, than India. Policy and rhetoric to the contrary notwithstanding, both Indian and foreign investors complain that the fabled bureaucratic labyrinth, known as the "license Raj", is still alive and kicking [7]. Focus on China should not, however, be at the expense of India. Because India is a democracy, and a very unwieldy one, things happen much more slowly. This is not to say, however, that in the longer term India might not surpass China[8]. Recently, India expressed the will to reinforce its economic relations with its Asian neighbors, and concluded a free trade agreement with Singapore and one with Thailand, as well as a framework agreement with ASEAN. Whatever these initiatives lead to, they give a clear signal that India will not stand being left aside while the rest of Asia integrates.

For the foreseeable future – at least till the end of this decade – in all likelihood it will be China calling the regional economic tune. China has become, as is well known, the global workshop, being today the world's dominant producer and exporter of goods ranging from shoes to microwave ovens to consumer electronics. This is having a major impact worldwide; as, for example, Mexico, to cite only one example, is said to have seen 300 factories shut down and 2000 jobs lost in favor of China. While much of the FDI flowing into China is production oriented, more and more companies are also locating R&D in China. China is also a destination for the growing offshore jobs in services.

A China-centered Asian regional economy is qualitatively different from the region's past in three other major respects. As regional leader, a very key element is that China's market is open. Though this may come as a shock to all those foreign business executives breaking their teeth on Chinese barriers, it remains the case that China is a totally different economic kettle of fish from Japan. In a decade, China has accumulated much more FDI than Japan has in over half-a-century. More tellingly, as The Economist recently noted[9] and as the chart on Chinese imports and exports shows, China may be a great exporter, but it is also a huge importer, something Japan never was.

Second, China is in the process of "organising" the region economically again in a manner in which Japan never succeeded, indeed never tried. The Japanese regional paradigm was one based on a vertical division of labour. As Japanese wage rates and other costs went up, production was moved offshore to cheaper Asian locations, mainly to serve foreign (especially the US) markets. The emerging Chinese paradigm is much more one of horizontal market integration, as has been proposed in its regional initiative to create a free trade area with the 10 countries of ASEAN*, known as ASEAN + 1+. The idea of a single Asian market, though still not much more than a dot on a distant horizon, has nevertheless taken on greater credibility with the emergence of China as key regional actor. As China flexes its regional economic and political muscle, however, it is also probable that this will cause greater friction with the US, as is currently seen through Washington's insistence that Beijing should re-value the yuan.

A third major change in the current paradigm, which again may appear paradoxical, is that it is much more entrepreneurially driven, than state driven. Though subject to a lot of heated controversy, there seems little doubt that the "Japan, Inc" model by and large corresponded to reality, namely an economy based on a very close nexus between big business and state bureaucracy. When foreigners complained in the '80s that it was very difficult to enter the Japanese market, they often failed to note that it was difficult not simply for foreigners, but also for Japanese start ups. The Japanese economy is one reserved for the establishment, one of the reasons why it is currently proving so difficult to get rid of the dinosaurs. Greater China, on the other hand, while still lumbered with the relics of its Stalinist/Maoist past, is much more enterprise driven, illustrated by the leading role and model adopted by the so-called "Overseas Chinese" business entrepreneurs [10].



Finally, it should be noted that while the dynamism of the region should see it maintain its momentum, there are fragilities, notably in respect to domestic institutions and regional

> *"As a result of radical policy reforms undertaken by China and India, it is now the big guys who are driving the growth, driving the region and driving the new global paradigm of competitiveness."*

7 See, for example, Edward Luce and Khozem Merchant, "Reliance tests India's regulators", Financial Times, 20 October 2003.

8 See, Yasheng Huang and Tarun Khanna, "Can India Overtake China?", Foreign Policy, July/August 2003.

9 "China and the world economy: Tilting at dragons", The Economist, 25 October 2003.

* The members of ASEAN include: Indonesia, Malaysia, Philippines, Singapore and Thailand (the founders), along with Brunei, Vietnam, Laos, Cambodia and Myanmar.

\+ There is also a proposal to establish ASEAN + 3, which would include Japan and Korea, as well as China, but this is unlikely to materialise in the short term at least, because of the strong agricultural protectionism in both countries.

10 Though a bit outdated, nevertheless one of the best sources for how Overseas Chinese business operates is Overseas Chinese Business Networks in Asia, compiled by the East Asia Analytical Unit of the Australian Department of Foreign Affairs and Trade, Canberra, 1995.

“While increasing domestic consumption is a necessity for Asia to sustain its economic growth, it will also have a broader global impact.”

security. Asia could still blow up, as Europe did at a comparable level of development a century ago. In the meantime, however, managers should note that there are currently 1.2 billion Asians between the ages of 30 and 59, that will rise to 1.7 billion by 2020. By that date, some 1.4 billion among them may be earning at least $5000, as opposed to 306 million now[11]. Moreover, as the new generation is getting richer, consumption is increasing, resulting in a drop in savings. While increasing domestic consumption is a necessity for Asia to sustain its economic growth, it will also have a broader global impact: in particular calling into question continued Asian financing of US debt [12].

Implications for Managers

“While, however, it may not be an imperative to be physically present, it is an imperative in the 21st century to be mentally aware – and prepared – for the challenges and opportunities Asia provides worldwide.”

There is a story that on an occasion when Arturo Toscanini was scheduled to conduct the New York Philharmonic Orchestra at Carnegie Hall he decided to walk from his hotel. At one point he seemed lost and seeing a little Jewish boy coming down the street carrying a violin, he asked him “How do I get to Carnegie Hall?”. Whereupon the little boy looked at him straight in the eye and with his finger pointing said, “Practice, practice, practice!”. Greater China and the Asian region more widely is the Carnegie Hall of the 21st century world economy. This is a region with a highly complex and long history, which is only beginning to emerge from the Western economic yoke, which has a plethora of both fascinating and quite daunting cultures, which has a variety of business models that do not necessarily replicate those in the West. It is not possible to be a serious player in the region by “winging it”. There is no “instant Asia formula for the busy manager”. Reading voraciously, visiting the region repeatedly – while avoiding getting stuck in foreign ghettos – and especially building Asian/Greater Chinese networks and relationships are essential steps.

The 21st century corporation must have strategies, structures, cultures and resources that solidly incorporate the Asian dimension. This must be especially true at the top, though it must also filter down effectively. The state of denial and the condition of myopia must be rapidly and effectively cured. The environment is a very tough one, requiring persistence and determination, but well balanced and enriched by curiosity, humility, sensitivity and respect. Corporations must also be wary, however, of mindlessly jumping on band-wagons. The fact that Asia and especially Greater China may be the growth engines of the decades ahead does not mean that all companies must be present in the region. Many companies may not have the resources that are required to succeed and failure is never an option. While, however, it may not be an imperative to be physically present, it is an imperative in the 21st century to be mentally aware – and prepared – for the challenges and opportunities Asia provides worldwide.

Asia and Economic Order in the Global Era

China’s entry into the WTO – followed by that of Taiwan – in 2001 was rightly hailed as a landmark in global economic governance. It is all the more tragic, therefore, that the WTO should be in such a parlous state, as most recently manifested by the collapse of the ministerial talks in Cancún, Mexico. With the multilateral trade system in crisis, a proliferation of bilateral trade deals have been concluded or planned, most of which involve East Asian countries. These deals are very likely to make the situation extremely complicated for companies and investors[13]. More seriously, as China’s rise in the global economic arena is bound, by the sheer size and force of things, to cause some major seismic shocks, it is all the more essential that the rules-making edifice should be solid. That is currently most definitely not the case. Managers should instruct their governments to restore momentum and clout to the WTO, otherwise we may all suffer the consequences arising from a possible lawless, anarchic environment of global governance.

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11 “A billion boomers”, The Economist, 11 October 2003.

12 See, Francesco Guerrera, Amy Kazmin, Angela Mackay, Bayan Rahman and Andrew Ward, “These days, who wants to save? Asia’s consumers lift the region’s growth prospects”, Financial Times, 8 October 2003.

13 Jean-Pierre Lehmann and Valérie Engammare, “Conférence ministérielle de Cancún – conséquences et leçons d’un échec”, Le Temps, 29 September, 2003.