Asian Firms Increasingly Seek Regional and Global Opportunities

Businesses across the Asia-Pacific and Japan (APJ) region see a new phase of regional and global growth ahead, thanks to generally friendlier trade and investment policies. As companies dream bigger, they need clarity about the new markets, the right business models and the required talent pools, says Michelle Curry, managing partner for APJ at Wipro Consulting Services.

In the last 20 years, businesses in the APJ region focused on “taking out more cost,” says Curry. Now, they realize the limitations of that approach. “There is a real understanding that you can’t save yourself into prosperity.” Companies entering new-high growth markets in the region, and the trend towards regionalizing operations using dynamic business models is the way forward, aided by business process re-engineering and scalable technologies, she notes.

Mauro Guillen, Wharton professor of international management and director of its Lauder Institute, says the APJ region has been steadily liberalizing its trade and investment environment ever since the Asian economic crisis of 1997-98. The International Monetary Fund drove some of those market-opening reforms at the time as preconditions to providing financial support to some Asian countries. “These countries also became aware that they were too closed and that it was not necessarily good for their economies.”

Strong Growth Ahead

According to the World Bank’s latest “East Asia and Pacific Overview,” the region “remains the world’s growth engine despite a challenging external environment, with developing economies.” The region grew 7.2% in 2013 and saw stable economic growth in 2014. “While growth is down from the average rate of 8% from 2009 to 2013, East Asia remains the fastest growing region in the world.”

That forecast for the APJ region could reflect changing attitudes. Until recently, companies there displayed “some risk-
averse behaviors and some reticence in taking full advantage of the opportunities,” notes Curry. That has changed. “We are seeing far more interest in companies to regionalize or globalize operations.” The most solid opportunities are in telecommunications, banking and financial services, and manufacturing.

The APJ-region countries had already started on an economic maturation process by increasing access to education, nutrition and affluence. As they create more wealth, companies are also seeing returns from investment in better trade practices. Curry expects significant investments — boosted by incentives — in regional supply chains, food and energy security, and technology innovation, such as increased mobility in services like banking and retail.

Guillen notes that companies in the APJ region have long been strong regional and global players. Japanese, South Koreans and Taiwanese have invested and operated across the APJ region for more than three decades. In the past decade, South Korean and Taiwanese companies like Samsung, LG and Acer have become formidable globally. Companies from Thailand, Indonesia and Malaysia have had a relatively smaller presence in those markets, but that is changing now as they make way for increased investments, Guillen adds.

Friendlier Economic Environment

The 21-member Asia-Pacific Economic Cooperation (APEC) organization notes that governments in the region are steadily dismantling trade barriers. Between May and November 2013, APEC economies implemented seven trade-easing measures, 89 trade-remedy measures (mainly anti-dumping), and 17 other trade and trade-related measures, the APEC report notes, citing data from the World Trade Organization. Between June 2013 and February 2014, 10 APEC economies adopted 18 new policy measures relating to foreign investment, 14 of which were aimed at liberalizing or promoting investment (while four had the potential to restrict investment).

The trade and investment reforms are wide-ranging across the APJ region. Some recent examples: In July 2013, South Korea amended its Telecommunications Business Act, which allows foreign investors to acquire up to 100% of a company in the country’s telecommunication businesses. In August 2013, Indonesia unveiled an emergency fiscal package to promote foreign investment. Then in January 2014, Malaysia announced a new automotive policy to make the country a regional hub for energy efficient vehicles, and granted an exemption from excise duties and import taxes for hybrids and electronic vehicles for models assembled in Malaysia.

According to the Association of Southeast Asian Nations (ASEAN), its 10 member states received foreign direct investments of $331 billion between 2011 and 2013. The biggest shares came from the European Union ($73.4 billion), Japan ($56.3 billion) and ASEAN member states ($56.1 billion).

“The region is starting to work together more effectively. It is leveraging opportunities across the value chain and providing both goods and services under new and more collaborative trade agreements within the region and also globally,” Curry says. That should translate into revenue growth and eventually into more regional wealth.
To succeed, Curry notes, growing companies in the region should be following the usual list of best-practices: rethinking the value they provide, identifying core activities, and considering possibilities for acquisitions and divestitures. They also need to use talent as a differentiator, and manage risks better.

But it is increasingly important to realize that speed is critical. The idea of transformation being a three-year journey is over, Curry says. It has become a much shorter horizon of six to nine months, or even three months, focused on waves of continuous change and improvement. Companies can no longer make such significant investments in enterprise-wide change — it has become far more dynamic.

Curry cites one example of a midsized bank in Asia that changed strategies to meet new market demands. The bank had a 20-year reign of success at home, but new competition forced it to rethink its product offerings and the way those products were accessed by an increasingly diverse customer base with differing needs and expectations. For years, it offered low-income customers quick access to funds, promising to process loan applications within minutes. “It was able to do that for a long time and was seen as a reliable bank,” says Curry.

In recent years, however, the bank began losing customers to larger, global banks entering its home markets with similar products and services, which were delivered more dynamically and with improved customer experience. Realizing it would never win in a head-to-head battle with its bigger competitors by operating in the home market alone, it began expanding to other countries in the region, opening some new banks and acquiring others. The bank’s next challenge will be to: keep pace with fast-changing consumer needs and intensifying competition from nimble competitors; embed the ability to make market adaptations; introduce systems to support increasing digitalization; and to keep ahead in product innovation.

The Japan Experience
While companies from most countries in the region could certainly grow across borders, Japan faces hurdles around leadership incentives, openness to immigrants and a shortfall in English language skills, says Franklin Allen, a Wharton finance professor.

In addition to auto firms, of course, many Japanese companies nevertheless are pushing to grow overseas. Maruha Nichiro Corp, the world’s largest seafood company, is one of them. Last year, it bought a 52.5% share in Seafood Connection, a Dutch distribution firm, and a 50% share in Austral Fisheries of Australia. Maruha’s management said in April that it would do more M&A deals to tap into increasing overseas demand. The company expects a sharp rise in revenues thanks to the acquisition.

Suntory Holdings, a Japanese distiller and brewer, recently paid $16 billion for U.S. distiller Beam Inc., the maker of Jim Beam and Knob Creek bourbon brands. Suntory has said it would look for other M&A opportunities as it plays catch-up with rivals like Diageo of the U.K. and Pernod Ricard of France.

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— Mauro Guillen
Yet, while some Japanese companies are picking up more on the global theme, overall the new push looks spotty, despite Japan’s status as the largest economy in the APJ region with a GDP of $6 trillion – and the third- or fourth-largest economy in the world, depending on the measure.

Japan had a lot of regional and global success for decades, notably in well-known consumer areas like autos and consumer electronics. But while autos continue strong around the world, brands like Sony and Panasonic have lost much ground to companies like Apple and Samsung. There has been no strong showing of Japanese companies globally taking the place of the old, iconic Japanese brands.

The Road Ahead

Allen identifies some obstacles to Japanese companies going global, especially in banking and financial services. “A lot of it has to do with Japan being a very flat country in terms of income distribution. The financial services industry seems to thrive in places where high-powered financial incentives are in place. And they aren’t in Japan to a very large extent.” And what’s more, “The way Japanese culture works, it is quite difficult for them to absorb people from different cultures into their management structures at the highest levels.”

Elsewhere in the APJ region, as companies expand their global footprint, they face their biggest threat from Chinese firms, says Guillen. “[The Chinese firms] don’t have sophisticated technology like the South Korean or Taiwanese firms, but they are catching up very quickly.” Access to managerial talent is another big obstacle they have to worry about, although they have plenty of capital available for growth, he adds.

Guillen is convinced that the APJ region’s economies will continue their strong pace of growth. “Their role is absolutely getting bigger and bigger in the world economy, and their rate of growth has been phenomenal,” he says.
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