Designing a Checklist for Government-Business Partnerships: 
An Asian Profile

JAYANTHA S. WIMALASIRI, University of Western Sydney 
Australia

Introduction

WHAT DO international investors do when their domestic markets are saturated or declining? The answer is: Move to the Far East or Southeast Asia. That is what hundreds of large, medium and even small companies in Europe, North America, Japan and Australia did over the last 20 years. The attractiveness of Asia as an investment destination has been well documented. Among other things, rapid economic development, stable and predictable government in a majority of countries, an emerging middle class, an educated workforce, absence of racial elements, availability of natural resources and incentive packages have often been cited as the most desirable features of the region.

The booming East Asian economies now spread from South Korea in the north to Indonesia in the south and the center of gravity is obviously in East and Southeast Asia. According to Oanh (1995: 1).

... the combined increase of East Asia’s GDP, at a moderate growth rate of 5 to 6 per cent would amount to 13 trillion US dollars (in 1990 price) over the next two decades. This represents an increase that is roughly twice the current size of North America.

In a similar vein, Fortune (1995: 23) asks, ‘has there ever been more surefire bet for longterm investors than the East Asian side of Pacific Rim today?’ The World Bank forecasts that for the next two decades Asia’s economies will keep racing ahead by nearly eight per cent a year, on average. This is equivalent to roughly three times the pace of GDP growth in the US, Europe and Japan.

Thus, for individual and institutional investors, the emergence of East and Southeast Asia as a first-rate industrial power offers enormous opportunities. But they do not come without problems, risks and frustrations. More often than not, the international investor tends to narrowly define his/her involvement in the region in terms of substantial financial gains over a relatively short period of time. On the other hand, the host country defines its role in terms of long-term, broad-based socio-economic development. In the absence of a compromise between the seemingly contradictory goals of the two parties, a smooth relationship between the two will be hard to achieve.

The purpose of this paper is to address some of the problems faced by both the host government and the international investor in meeting each other’s expectations. The paper focuses only on selected issues in a few countries in the region. Case studies are used wherever possible to illustrate the circumstances under which problems could arise and the associated consequences. In the first part of the paper a brief investors’ overview of Asia is given; in the second part, selected entry strategies are discussed with relevant case examples and, finally, the paper concludes with some suggestions to improve the investment environment of the region.
An Overview of Asia

For historical and political reasons Asia has been subdivided into six regions but the
designations are not exact and the boundaries are vague. For example, the term Far East
refers to Eastern Asia, primarily to China, Japan, Korea, Mongolia and Eastern Siberia but
sometimes includes the countries of Indochina and Malay peninsulas (Myanmar, Kampuchea,
Laos, Malaysia, Singapore, Vietnam, Thailand, Indonesia and the Philippines). On the
other hand, Southeast Asia, a term used since World War II, refers to the region south of
China and east of India and includes Thailand, Laos, Vietnam, Kampuchea, Myanmar,
Indonesia, the Philippines and Singapore. Therefore, in this paper the term ‘Southeast
Asia’ is used in a much broader context.

The Asian Businessman comes from this vast continent which is characterized by
enormous cultural, political, economic, social and religious diversity. Each country or
region in Asia has had its own way of influencing the development processes.

Historical Legacies

In order to understand and appreciate the Asian industrial structure one must be exposed to
this diverse and complex continent, its people and social organizations and the context in
which the Asian businessman operates. The continent’s history, geography, culture, religions,
politics, economic and production systems, the environment and the regional cooperation
have had tremendous influence on the emerging Asian entrepreneurs. Therefore it is
important to understand the historical background of the Asian business person before
making any assessment as to his/her role in enterprise management.

The desire for Asian products and for missionary opportunities led the Europeans, first,
to establish contacts with the Southeast Asian countries and later to colonize them. The
Portuguese captured Goa in India in 1510 and Malacca and Sumatra in Malaysia in 1511.
The Portuguese later extended their dominance to coastal areas of India and Ceylon (Sri
Lanka). Attracted by the then profitable spice trade, Spain acquired the territories of the
Philippines. In 1619 the Dutch established their presence in Java and then captured
Malacca in 1641 and Colombo (Sri Lanka) in 1656. In mid-18th century, the Dutch East
India Company concluded treaties and acquired trading posts in Indonesia. The British
East India company founded a number of commercial settlements in Madras (1640), Bombay
(1661), and Calcutta (1690).

By the end of the 18th century, the Europeans firmly established their presence in a
large part of Asia. In the late 1700s and early 1800s the British East India company
managed to bring virtually all India under its control. At the same time the British took
over the Dutch settlements in Ceylon (Sri Lanka) and captured the island in 1815. In 1824,
they moved over to Burma (Myanmar) and captured the entire country in 1886. The British
founded the settlement of Singapore in 1819. After 1874 the British asserted sovereignty
over all the states of the Malay peninsula, establishing protectorates over northern Borneo
as well in 1888. Even the Chinese fell victim to European intrusion. Following the Opium
War of 1839-42, China was forced to cede Hong Kong to the British and to open other
important ports to British trade and residence.
In Southeast Asia, Siam (Thailand) was the only Asian country that managed to keep its independence, although it lost its border territories. France focused its attention on Vietnam and took control of Cambodia (1863) and Laos (1893) which it then consolidated with Vietnam to form the colony of Indochina.

Japan’s efforts to maintain its isolation from the outside world were finally overcome when Commodore Matthew Perry forced Japanese acceptance of a commercial treaty in 1853-54. Meanwhile, in 1898, the United States took possession of the Philippines after defeating Spain in the Spanish-American war.

The relation of these historical legacies to the economic development in Southeast Asia has not received much attention probably because these historical antecedents are less tangible than those of South Korea and Taiwan. Yet, it is asserted that in most regards the legacy of colonialism has stunted the development of entrepreneurial spirit among most Asian businessmen.

The Early Stage of Industrialization

For nearly 200 years the Western powers maintained their supremacy in industry and commerce in Southeast Asia. First they destroyed the indigenous system of administration and then developed their own system of administration. The colonialists believed that they were culturally, biologically and technologically superior to the natives. As Young (1989) points out, the destruction of the existing system of management and organization structure was a prerequisite for the complete institutionalization of colonialism. In order to facilitate the administration of the newly acquired colonies, the administrators embarked on developing a cadre of civil servants. The criteria for the selection and employment of local civil servants were based not only on literacy and competency but also on kinship and loyalty to the colonial authority. In most occasions the locals were trained to do low-skilled routine administrative and clerical work.

Policies were determined unilaterally by the colonial administrators and implemented through a network of administrative officials, who were considered to be loyal to the authority. A rigid hierarchy was established without any delegation of power and authority to the lower level officials. Thus, during the colonial period the administrators established organizational structures that were hierarchical, deterministic and rigid. Since major decisions as regards planning, organizing and implementation of administrative policies were made by a few foreigners, the locals had no opportunity to learn the ‘process of management’. In addition to the total control over the administrative mechanisms in the public sector, the private sector enterprises were placed under the foreign management. All major industries such as Tea, Rubber, Cocoa, Tin, Copper, Textiles and Spices were run by foreign managers using cheap local labor. Thus, throughout the colonial period the indigenous people never had an opportunity to gain experience in running a large scale business enterprise.

The Transformation

By the 1970s Asian economies, notably East Asians, were undergoing rapid transformation or late industrialization as Amsden (1989) calls it. The process of economic transformation
began with Japan in the 1950s, Hong Kong in the 1960s, Taiwan, South Korea and Singapore in the 1970s and 1980s and Malaysia and Thailand in the late 1980s and India, Indonesia and China in the 1990s. First, Japan and then the other Asian countries deliberately disassociated themselves with any form of socialist-communist ideology and connected themselves to world markets through an intricate network of relationships (Amsden, 1989).

During the colonial period, indigenous entrepreneurs and managers at the supervisory and lower levels, of course, were denied any form of access to the Western management practices. A few people, however, acquired some skills and knowledge of business management from their colonial masters and ventured into forming their own businesses. From this humble beginning, there emerged in Southeast Asia, a new breed of entrepreneurs who found comfort in such business goals as profit maximization, organizational efficiency and high productivity. It took a long time for the Asian manager to learn the meaning of such Western concepts as ‘ambition’, ‘aggressiveness’, ‘achievement’, ‘profit maximization’, ‘competition’, ‘risk taking’ and ‘forcefulness’. He/she was more comfortable with such values as loyalty, trust, co-operation, compassion, tolerance, morality, and empathy. At the initial stages of economic development in Southeast Asia the enterprise manager faced a difficult task of balancing the ‘hard’ values of the West with the ‘soft’ values of the East (Hamza, Madsen and Thong, 1989).

Socio-political and Economic Structure

The Asian entrepreneur derives his/her cultural heritage from three ethnocentric backgrounds. First, the Chinese communities, who are mostly descendants from the Nanyang Chinese (Southern China); secondly, the Malay community domiciled mostly in Malaysia and Indonesia, and, thirdly, the Indian community (including Sri Lanka, Bangladesh and Pakistan) scattered all over Southeast Asia. These three major ethnic groups in Southeast Asia differ from each other in terms of religion, language and politics. Yet they share some common backgrounds: First, some of them migrated from their respective home bases to settle in other parts of Southeast Asia. Malays and Indonesians remained in their respective communities. Secondly, the forefathers of modern business people were normally petty traders, craftsmen and coolies who had very little resources of their own. Thirdly, the national resources were under the control of Portuguese, Dutch, British, French, and Americans and migrants and indigenous people in each nation confined their main occupation to agriculture-related activities. Fourthly, most business ventures were owned, run and controlled by the foreigners who exploited the national resources solely for their benefit.

It is only in the past two-and-a-half decades that the Asians realized the vast potential of their resources — human and natural. Starting with small, localized, family-owned businesses in the 1960s, in such industries as textiles, clothing, footwear, toys and leather goods, the Southeast Asian entrepreneurs expanded their business ventures across a broad spectrum of industries. As Tan (1992: 52) points out:

... the first generation of patriarchal figures have gradually passed on business to their professionally trained children or outside professionals. All across East Asia [and Southeast Asia] we witnessed this phenomenon, from the Salim and Astra groups in Indonesia to Hong Leong, OCBC group in Singapore, Kuok Brothers in Malaysia, Bangkok Bank in Thailand [to Tata group in India].
Asian Entrepreneur’s Source of Knowledge

In an effort to broaden the base of technical and professional skills, members of the upper class in most Southeast Asian countries began to send their children to various institutions in the United States and Europe. England was the most preferred place mainly due to the economic and political linkages already established by the colonial authorities. Law, engineering and medicine were the most sought after professions during the 1960s and 1970s. Management education gained ground only in recent times with the emergence of a large number of institutions that provided the requisite skills and knowledge in business management. The more affluent went overseas, notably to North America, to obtain prestigious university degrees and the most sought after degree was the MBA.

Furthermore, during the last two decades, the foreign operations in Southeast Asia were willing to transfer their technological know-how and management practices to the indigenous people. Despite some negative effect of foreign influence on aspects of the socio-political structure of the region, the major contribution to the economic restoration came from Organization for Economic Cooperation and Development (OECD) countries. As Tan (1992) suggests, ‘the USA, which has a major interest in nurturing their [Southeast Asia’s] market economies through generous foreign aid, capital inflow, technology transfer and market access’, played a major role in encouraging free enterprise and capitalist development. Business management as a discipline has no place in the absence of free enterprise systems. As Tan (1992) further comments, ‘gradually with rising income and savings together with higher educational level, the NIEs [in Southeast Asia] were able to invest in and upgrade to more capital, skill and technology intensive industries’. This ‘upgrading’ would not have been possible without the support of a dedicated group of indigenous entrepreneurs, whether civil servants or business managers.

Thus, the economic transformation in Asia took place within the context of the willingness to learn on the part of the Asian entrepreneur and willingness to impart knowledge on the part of the foreign operations. With his/her hard earned knowledge and experience, the Southeast Asian enterprise manager began his/her arduous task of building his/her little empires in the region. The Southeast Asian entrepreneur’s relentless effort has resulted in the emergence of an ‘economic miracle’ in the region.

The Economic Miracle

Petri (1993) notes that among the twelve most rapidly growing economies of the world during the 1965-1990 period, nine were in East and Southeast Asia. Asian Economies 95, a study by the Economic Planning Agency of Japan states that, ‘East Asian economies would continue to thrive for at least the next 10 years and potentially longer ... East Asia has outstripped all other world regions with a per capita income growth rate of 5.9 per cent a year over the last 30 years’ (Straits Times, 1995). While most Asian countries enjoyed a rate of growth of four-to-five per cent range, countries such as Singapore and Malaysia experienced periods of exceptionally fast growth at rates reaching double digits. Empirical studies have shown that much of the growth in Southeast Asia can be attributed to exceptionally high investment in physical and human capital.

The World Bank Report (1993) rationalizes that ‘each Asian miracle economy built a stable macroeconomics environment conducive to investment and enterprise; used powerful
market or non-market incentives to promote investments and provided guidance through efficient leadership and effective bureaucracies’. Among other factors Yogel (1991: 101) emphasizes the contribution of Eastern culture in promoting and sustaining the growth as follows:

Four institutions and cultural practices rooted in the Confucian tradition but adapted to the needs of an industrial society — a meritocratic elite, an entrance examination system, the importance of the group, and the goal of self-improvement—have ... ignited the greatest burst of sustained economic growth the world had not yet seen.

It is argued by the culturists (Vogel, 1991; Redding, 1993; Hofstede, 1988) that Chinese culture and the Confucian tradition have had a great influence in promoting group values over individual values; meritocratic institutions; mutual obligation between governments and the governed; and legitimizing authoritarian rule. These arguments hold true only in those countries where the majority of the population is of Chinese descent (Hamilton, 1991). But the Chinese influence in Thailand, India, Indonesia and, even, in Malaysia is limited. For example, India’s rapid development over the last five years can be attributed to the neutrality and stability of conducive administrative systems; economic liberalization; well-functioning labor and capital markets; and reliance on private (domestic and foreign) capital. In fact, India without the so called ‘Confucian connection’ is ‘...on the threshold of a take-off into high economic growth’ (Asian Business Review, 1995).

The Political Imperatives

Asian economies thrived over the last two decades, not by following the pure Westminster-style democracy, but by installing a sort of democracy that suited each country’s peculiar geo-physical characteristics. Hong Kong and Singapore, the two city-states followed two different styles of democracy. While Hong Kong had the least interventionist government, the Singapore government intervened in every aspect of economic as well as social activities of the nation. Yet, both enjoyed unprecedented economic growth. China, while maintaining its socialist ideology, is extremely receptive to foreign investment. Japan on the other hand, has been hostile to foreign investment, but excellent at listening to market signals and acquiring foreign technology. Taiwan allowed foreign investment only on condition that technology is transferred to local entrepreneurs. India still remains as one of the world’s most closed economies while Singapore pursues a truly ‘open door’ policy.

China remains a one-party government while Singapore, Malaysia and Indonesia have each been ruled by the same political party since achieving independence. South Korea and Taiwan have began to liberalize and Hong Kong will again be a territory of China. In Thailand, generals and civilian politicians take turns in running the country. Bangladesh and Pakistan are experimenting with various forms of democracy but none have been stable. Sri Lanka, the most outstanding democracy, changes its leaders (parties) every five years. Irrespective of the type of democracy prevailing in each country, all of them have embarked on the arduous task of developing their respective economies largely with the help of foreign investors.

Asia is a multi-cultural, multi-ethnic and multi-religious region and a delicate balance is being maintained between various factions, although ethnic and religious strife is not a new phenomenon in some parts of Asia. The antagonism between various factions in each
nation-state is ancient and rooted. Ten years ago, Malays in Malaysia rioted against the Chinese; and hundreds of Chinese were killed in Indonesia. Islamic identity is important in Malaysia and in Indonesia. But Islam in East Asia is a more flexible and tolerable creed than it is in the Middle-Eastern countries. In the first couple of decades after independence, the government in Malaysia deliberately pursued an intolerant economic policy, such as mandatory employment of at least 30 per cent of indigenous Malays in foreign-owned companies, and by keeping out ethnic Chinese and Indians from University positions.

In India, Hindu-Muslim conflict is a long-standing problem. The Bhartiya Janata Party (BJP) which defeated the 50-year old Gandhi dynasty in 1996, has a national wing that expresses anti-corruption, anti-sectarian and anti-foreign views. But the BJP’s policy appears to be pro-business so long as it is Indian rather than foreign. Although racially charged issues dominate the political agenda in democratic India, eventually economic pragmatism dominates, just as it happened in Malaysia.

In Sri Lanka, there is a never ending civil war between the majority Sinhalese (77 per cent) and the minority Tamils (10 per cent). As long as the Tamil Tigers, as they are popularly known, remain stubborn over separatism, a political solution to the problem cannot be achieved. Despite these ethnic conflicts, over the last decade Sri Lanka has achieved a remarkable rate of growth averaging 5 per cent. Similarly, Vietnam, Cambodia and Laos are still struggling to get on their feet after decades of destructive wars. The political structure of these pro-socialist countries is changing, following the lead given by China.

Geographical Position

Other than the historical legacies and socio-political elements, geographical location seems to have had considerable impact on the making of the Asian entrepreneur. In some instances, geographical and political isolation as exemplified by Tibet, Mongolia, Myanmar and Afghanistan precluded the constant contact with the rest of the world needed to gain access to technology and markets. Most of the time these economies (as well as entrepreneurs) became parochial, inward-looking and clannish. During the colonial period, the Asians were more interested in regaining their political freedom rather than engaging in business activities. The little experience that they gained by working as minor employees for their foreign masters did not equip themselves with sufficient knowledge to start their own businesses. But one positive influence of colonialism was that much of Asia was exposed to the West, thereby opening ways and means of acquiring management and technology. Due to the prevailing social structure of each nation, the opportunities, however, were limited to a few elitist groups. In recent times, the region’s elite have reinforced the old connections with outward-looking developmental strategies.

As Petri (1992) points out, during the last two decades the economic activities of the East and Southeast Asian countries may have been partly induced by regional contacts, which he calls ‘the contagion factor’. Establishment of regional contacts resulted in the flow of goods, investments, technologies, aspirations and ideas about good management. Thus, the geographical proximity not only affected the socio-political and economic structure of the neighboring countries positively (or even negatively), but also:
• Encouraged the emulation of each other’s policies;
• Promoted the adaptation of management technologies and other business strategies;
• Expedited international trade;
• Facilitated direct investments; and
• Promoted talent exchange programs.

The Problem of Localization

Given the Asian situation, one could easily argue that economic and entrepreneurial practices should be designed and carried out in accordance with each nation’s own ideological imperatives. However, complete isolation from the Western influence is unwise and impractical for several reasons. First, the Western economies flourished over the last hundred years with the backing of their legal systems and politico-economic institutions; secondly, harmonious laws and regulatory apparatus have to be introduced if one wants to establish alliances with the Western industrial giants; thirdly, adoption of Western models to a limited extent will facilitate the smooth operations of international trade; fourthly, the home-base of modern technology is in the West and not in the East; and, finally, almost all the developing countries in Africa, Asia as well as Eastern Europe depend heavily on the West for financial and technical support. It is in this context that most, if not all, developing countries have overwhelmingly approved foreign participation in its economic development.

Opportunities and Problems

Most Southeast Asian nations have realized that ethnocentrism and parochialism have stunted the economic growth of their respective countries. Having learned from each other, they have embarked on massive development projects and have extended invitations to prospective international investors. There is no question about the availability of numerous opportunities in such industries as telecommunications, infrastructure, information technology, natural resources and food processing. Additionally, most countries now offer lucrative incentives, tax holidays and various forms of technical support.

However, along with the opportunities, a number of problems have been identified by the international investor. Among them, the most widely cited ones are as follows:

• Political instability;
• Inadequate domestic infrastructure;
• Unfavorable attitude towards foreign investment;
• Inefficient administrative agencies;
• Trade barriers of various forms;
• Controls in export and import of technologies;
• Inadequate banking and financing facilities;
• Underdeveloped local capital market;
• Foreign exchange controls;
• Unavailability of skilled labor;
• Government bureaucracy;
• Government influence in business transactions;
• Absence of an indigenous technological culture; and
• Corruption.

Some of these problems are not unique to Asia and others are exaggerated by the media. Still others need to be addressed by the respective regimes in each country. On the whole, strengths and opportunities in the region outweigh problems and risk. McDonald (1990: 2) summarizes the situation of Southeast Asia as follows:

But steady progress has made ASEAN a success [and] success has come in spite of robber barons and carpetbaggers, corporate collapses and corruption, in spite of indifference to workers and the environment, tropical forests and soils and in spite of politically sanctioned monopolies.

### Entry Strategies into Asian Markets

International investors use various forms of entry strategies to get into lucrative Asian markets. In the following section of the paper, most widely used entry strategies and their consequences are discussed. Also, experiences of past investors are highlighted through relevant case studies.

The international investor uses one or more of the following strategies to enter the global market:

- Licensing or transfer of technology;
- Franchising;
- Strategic alliances; and
- Joint ventures.

### Licensing or Transfer of Technology

This is one of the easiest and most commonly used mode of entry into a new market, because of low entry cost; ease of access to difficult markets such as China and India; low risk involved; inadequate knowledge of market conditions; quick return on investment; and availability of experienced partners. However, there are some disadvantages associated with this mode of entry. Among other things, low return on investment; poor performance by the licensee in terms of quality and service; potential for licensee to turn competitor; damages to licensor’s reputation; and risk of losing intellectual property rights are considered to be the major disadvantages.

In order to overcome these difficulties, the international investor can follow such strategies as retaining key strengths with the parent company; supplying custom-made components/expertise; and registration of all patents and trade marks with the host country. In the case of high value-added components/equipment, the international investor can prevent reverse engineering by adding high-tech components (micro chips) that do nothing. The last resort is to request the licensee to post a performance bond.

In order to contain the aforementioned problems, experienced investors in Asia offer the following advice to those who are planning licensing agreements.
• Prior to the start of negotiations, seek plenty of advice from lawyers, consultants and experienced companies.

• Pick a partner who can be trusted and who will be on the investor’s side when negotiating with the government bureaucracy.

• Look for a licensee with experience in the same field, adequate finances, manpower and track record.

• Weigh carefully the choice between public sector and private sector parties. Each has its own merits and demerits.

• Have a clear understanding of marketing issues, market potential and strategies.

• Consider making contacts with central government officials in the approval process. Do not ignore the influence of state-level officials, especially in China, India and Vietnam.

• Do not count on getting renewals. Make a realistic assessment of the compensation and try to achieve it during the term of the contract.

• Be persistent about a contract provision that is important to you. The government will bend if the technology is highly desired and if the proposal is sweetened with export prospects.

Franchising

There is no clear definition of franchising and the term is quite often used interchangeably with licensing. Indeed, franchising is similar to licensing in that a company transfers know-how, goods, services and trade markets to another party for a down payment fee, royalties and compliance with corporate and legal regulations. The franchisee is usually a company, but sometimes an individual. Franchising has been successfully employed in a number of fields, including hotels, fast-food outlets, convenience stores, cleaning services, pharmacies, automotive services, speciality services, such as accounting, and real-estate brokerages all over the world.

Franchising has become a popular mode of entry, because of the low capital outlay; personal involvement of the franchisee; the investors’ inadequate knowledge of the market; socio-cultural and legal restrictions, and the need to respond quickly to customer needs.

However, there are some disadvantages associated with franchises:

• A franchiser may be unfamiliar with foreign laws and markets, especially in countries such as China, India, Vietnam, Myanmar and Cambodia. A prime reason for franchise failure is inadequate market research. McDonalds gets around this problem by employing local managers.
• Copying of ideas and infringement of franchiser trade marks is a major problem in Asia Pacific. Patent and trademark laws vary across the region and even if there are agreements, it is hard to implement them.

• A franchisee may ‘defect’ from the franchise network once the business is established, requiring less from the franchiser’s expertise. This can be reduced if the franchiser provides on-going technical and marketing expertise.

CASE STUDY: MARKS AND SPENCER’S EXPERIENCE IN INDONESIA

In Indonesia foreigners are not allowed to engage in retailing business. But, franchising and licensing are allowed. Among others, Benetton of Italy; Giordano of Hong Kong; Guardian Pharmacy and Times Book Shop of Singapore; and Marks and Spencer of the United Kingdom (UK) have entered this lucrative market and are doing business extremely well.

Colin Buchanan, the Director of Asia Pacific Operations at Marks and Spencer (M & S) started up a new boutique in Jakarta in 1992. M & S’s strategy was to gain a foothold now so that when the market moves up, as it usually does, it would be in a better position to establish itself on a larger scale. The company’s policy was to open up fairly small units of 4,000 to 6,000 square feet to test the market.

M & S was extremely careful in selecting its partners. After investigating a number of firms, a less-known property and hotel developer Maikelindo Anekachipta was chosen because he demonstrated his commitment to the venture and was eager to fulfill the franchiser’s requirements rather than gain control. The big players in the retailing sector were turned down because they were selling the company’s merchandise illegally through a quite sophisticated smuggling network in Indonesia. To combat this threat, Marks and Spencer set their new prices 30 per cent lower than those of smuggled goods. That was the only way to deal with smugglers since enforcement of a legal agreement in Indonesia was perceived to be a time consuming, long process.

M & S believes that there could be a significant market in Indonesia in four to six years. Right now there are import restrictions, but in time inter-ASEAN trade will be freer and M & S will be in a firm position to take advantage of such opportunities.

Strategic Alliances

Corporate leaders being much like politicians, in a complex, uncertain business world filled with dangerous opponents, it is best not to go alone. An alliance is a mutually beneficial partnership between two parties and the auto industry is a fine example of the success of strategic alliances in the West. Japanese are in the forefront of this mode of entry. An alliance is a cooperative relationship between companies to achieve an agreed purpose. A joint venture is a classic example of an alliance, but all joint ventures are not strategic. Many partnerships with Malaysian businesses, for example, are joint ventures and not strategic alliances. There are many types of alliances: function-specific alliances are agreements to market a product or to do specific R&D projects; an equity investment alliance is aimed at sharing investment expenditure, such as the Fuji-Xerox alliance; a
competitive alliance is a form of agreement to develop a specific product or technology for the benefit of both the parties. Apple Computer and IBM and IBM and Microsoft entered into competitive alliances. Most MNCs have chosen strategic alliances to penetrate Asia Pacific firms for a mix of reasons including those cited below:

- **To reduce the cost of entering a new market.** For example Korea’s Chaebols chose this strategy to enter the automobile manufacturing industry.

- **To gain access to new markets or resources.** Mitsubishi Group of Japan and Daimler Benz of Germany formed an alliance in 1984. For Mitsubishi the alliance gave access to a single European market. For Daimler Benz the alliance helped to increase its advantage because of Mitsubishi’s extensive regional presence.

- **To share costs of R&D and pool resources.** Mitsubishi and Benz exchange technological know-how at the research stage.

- **To benefit from technological acquisition.** Computer firms and auto companies cannot survive in the competitive markets without going into partnerships.

- **To eliminate competition by collaboration.** Airlines cooperate on maintenance, scheduling and reservation and banks in computer services.

**Joint Ventures**

Based on shared ownership, management and control, rather than exchange of technology or resources, a joint venture is legally separate from the two parent companies. This mode of entry has become increasingly attractive to the international investor. When considering joint ventures, the structure of the joint venture should be based on the ownership equation best suited to the planned strategy; the expected competitive advantages; and the bargaining power the tie-up gives vis-a-vis the tie-up with the government agency.

Joint ventures have become popular strategies for a number of reasons:

- To meet the host government’s local ownership requirements;
- To facilitate partnership with a government-run enterprise, as in China;
- To spread investment risk;
- To speed up entry into a market;
- To increase market share in a particular country; and
- To create stronger business ties with a local company that has complementary strengths.

In attempting to find a good partner, the experienced investor advises the prospective investor to keep the following points in mind:

- Examine the existing partnership (if any) in terms of personal ties, compatibility and each other’s capabilities.
• Examine the compatibility in terms of operating style; corporate philosophies; policies on safety, environment and health; marketing and distribution capabilities; labor relations; and the share of ownership.

• Assess the strengths and resources that the partner could bring to the partnership.

• Examine the partner’s relationship with influential people in the host country.

• Examine his/her track record.

CASE STUDY: CHAMPION’S SUCCESS

The automotive industry is a highly competitive industry and the component manufacturers are equally threatened by competitors. Champion, the world’s largest sparks plugs manufacturer, decided to expand its product mix while penetrating new markets for its sparks plugs. Champion pursued the following strategies.

• Joint venturing. Champion chose joint venturing as its strategy in moving into fast-growing markets in the region and strengthened its distribution arrangements in other key countries—bolstering both revenues and market share.

• Involvement of key personnel. Daniel Philipion, Champion’s Vice President, Asia Pacific, Kjell Karlson, Regional Operations Manager, and Ian Noakes, Director, Marketing and Business Development were actively involved in the joint venture.

• Early entry. Champion established its presence in Asia Pacific long before most MNCs came to the region. Champion had been in Australia for 30 years, 20 years in New Zealand, 5 years in Taiwan, 18 years in Japan, 10 years in Singapore and 6 years in Indonesia.

• Establishing RHQs. Champion became more aggressive in Asia in 1984 by establishing its Regional Headquarters in Singapore. This move was aimed at giving Champion’s regional managers the required resources and authority to set their own priorities.

• Closer to customer. By establishing its Asian RHQ, Champion was able to address such problems as: (a) lack of knowledge of the local market; (b) delays in decision-making processes; and (c) responding to market changes.

In addition to setting up Champion’s RHQ in Singapore, the company set up a regional trading firm in Singapore to distribute Champion products such as wipers, contact sets, ignition wires and chemicals as well as European and Australian auto parts.

Champion’s next move was to expand its core business into Southeast Asian countries. In India it established a joint venture with the Modi Group; in Korea, Champion formed a US$2 million 50-50 joint venture with Danyangsa; in Malaysia it entered into licensing
agreement with Ototeck. In Thailand, Champion appointed six non-exclusive dealers and a manufacturer’s representative to act as a liason with them; in the Philippines, Champion appointed a manufacturer’s representative. Also, in Australia and in New Zealand, Champion fortified its presence with the appointment of a Managing Director to oversee manufacturing and marketing.

Champion’s market share and profit margin improved substantially over the years and its basic strategy was to ‘penetrate the emerging Asian markets’. This strategy was modified and adjusted to suit each country’s specific environments.

In the case of India, although it was a huge market, tariff barriers (now removed) caused a problem. The company formed a joint venture to manufacture the products for the local market. After a careful study Champion chose Modi as its partner because Modi had professional managers who had experience with foreign joint ventures. Although the US company insisted on a majority stake, finally it settled on a 40-40-20 split.

In Korea, Champion forged a joint venture with Danyangsa on a 50-50 basis. Dayangsa did not have prior experience in the auto parts business but it had close personal ties with Hyundai, with which Champion had a long relationship. Supported by Hyundai, Champion formed a second 50-50 joint venture with Kyung Chong, a local business, to manufacture wiper blades. For these projects the Seoul Government offered tax incentives for five years.

In Malaysia, Champion cancelled a licensing agreement with Amalgamated Parts Manufacturers (APM) and officially replaced it in another licensing agreement with Ototeck, but let APM be a silent partner because it was a politically influential firm that was reluctant to let go of its licensing rights.

This case study clearly demonstrates the international investor’s ability and desire to change and adapt his strategies to suit the local socio-political environment. With reference to its experience in Korea, Champion offers the following advice to the prospective investors eyeing Korea.

- **Insist on at least 50 per cent stake in the venture but, let your Korean partner play the leading role in dealing with the government.**
- **Recognize and respect the high status of government officials in Korea.** They are not mere civil servants but public directors.
- **Be aware of the varying attitudes towards foreign business (MNCs) in key government ministries.** The Economic Planning Board (EPB) and the Ministry of Finance are quite receptive. But Communications, Agriculture, Health and Social Affairs Ministries are very conservative.
- **Before submitting an investment application, find out which ministry (or ministers) will make the decision.** Try to sound out these officials’ views on your position.
- **Be patient.** It takes up to 2 years before the first product rolls out of the factory.
- **Learn the difference between higher and lower-level officials and understand each one’s impact on policy implementation.**
Do not expect laws to be implemented ‘by the book’ exactly as they are written.

Do not surprise officials with new positions or demands during formal meetings.

Do not assume that your potential joint venture partner will fully support your position in private discussions with officials. They may even delete one or two clauses from the original agreements.

Do not expect bureaucrats to treat the information you give them as confidential. Be aware of the danger and keep the time period to a minimum.

Do not submit applications or documents, then sit back and wait for results. Instead follow-up.

CASE STUDY: GILLETTE’S EXPERIENCE IN INDIA

Gillette entered India by setting up a joint venture, the Indian Shaving Products Ltd. (ISP) with the House of Podder Enterprises (HOPE). Gillette owns 24 per cent, HOPE 24.6 per cent and the remaining 51.6 per cent is publicly held. Under the terms of approval 25 per cent of its production must be exported. Furthermore, Gillette agreed to supply a modern plant (from UK), maintain the factory, assist in procuring raw materials, ensure quality control and introduce manufacturing improvements. Gillette is entitled to 3 per cent royalty on ex-factory net sales.

Usually US firms do not settle for less than 50 per cent of equity rights and full management control. In India, foreign equity was limited to 50 per cent. However, 1995 reforms allow 51 per cent equity ownership. Gillette made an exception probably because of the nature of its products and the size of the market. ISP was incorporated in 1984 and launched its seven o’clock brand of blades in 1987. In early 1987 ISP acquired Sharpedge Pvt. Ltd., the second largest local blade manufacturer, to boost its output and achieve nationwide distribution. Gillette planned to introduce its entire range of personal and dental care products within five years and to take over other local companies, broaden its product line, and, if necessary market items made by others. The compelling reason for its take-over of Sharpedge was to acquire additional capacity at a low cost. ISP licensed capacity was 300 million blades. By acquiring Sharpedge the licensed capacity was raised to 750 million blades. The total demand for blades in India is estimated to be 3 billion blades per annum.

Gillette identified two prominent characteristics of the Indian entrepreneur:

- High level of technical capability. Within 6 months Gillette achieved the highest quality rating of Gillette plants anywhere in the world; spoilage rate was 9 per cent the lowest in the world; and within a year the entire plant was turned over to Indians.

- Strong professionalism in management. Gillette usually retains its expatriate managers up to 5 years. In the case of India, the entire management was turned
over to Indian nationals in just 12 to 18 months. Gillette found that India’s pool of management talent was excellent. Gillette found no interference (unlike in China) in ISP’s day-to-day management. It operated according to US headquarters practices. Approval for Sharpedge acquisition took just 60 days. In China it would have taken years.

**Lessons from Gillette.** With reference to Gillette’s experience, G. S. Gill, ISP’s CEO offers the following advice:

- **Get in somehow.** Entry is what’s difficult; once in you will find a host of opportunities.

- **Do not insist on majority share holdings.** Gillette owned only 24 per cent stake in ISP but it was run like a full-fledged Gillette subsidiary. (N.B. From May 1995, it became possible to acquire 51 per cent stake of a company in India).

- **Be flexible on other issues, too.** Adapt to Indian regulations and the situation. If local rules reserve production of certain items to the small-scale sector, consider marketing those items.

- **Select your Indian partners carefully.** Team up with others besides the large, established business houses.

- **Make a total commitment.** You must be fully committed to equity, technology, marketing, manufacturing and management. Gillette supplied a tailor-made plant from the United Kingdom, trained key personnel and deployed its marketing capabilities.

- **Take a long-term approach.** Gillette budgeted for losses in the first two years.

**CASE STUDY: PEPSI CO’S EXPERIENCE IN INDIA**

Pepsi Co’s first try at entering the Indian market ran into a closed door but the second time it tried, the MNC submitted a revised proposal that fitted India’s strategic needs. In 1985, Pepsi Co, in partnership with the R. P. Goenka Group and the Punjab Agro Industries Corporation, proposed to export fruit juice concentrate from the state of Punjab in exchange for permission to import cola concentrate needed to produce Pepsicola in India. Despite the fact that the Pepsi Co was prepared to guarantee exports worth three times more than its cola concentrate imports, the federal government’s Project Approval Board rejected the proposal outright.

Pepsi Co proposed to form a new joint venture with PAIG and the Tata Group. The initial investment, totalling Rs. 215 million would include these four components:

- **Agro-research center (Rs. 6.5 million).** The center would develop improved varieties of seeds and promote rapid seed multiplication of potato, tomato and oilseeds.
• Potato and grain-processing unit (Rs. 80 million). Using 25,000 tons of potatoes and 50,000 tons of grain per annum, this unit would produce ready-to-serve food products for the Indian market.

• Fruit and vegetable-processing unit (Rs. 78 million). This unit would process 80,000 tons of pears, mangoes and apples per annum to produce juice concentrate and tomato paste for export.

• Soft drink concentrate division (Rs. 55 million). This unit will supply independent bottlers with soft drink and fruit juice concentrates.

Pepsi Co’s second proposal was carefully designed with the Indian interest in mind and aimed at conforming to India’s foreign investment policy guidelines without seeking special concessions.

PEPSI Co’S ADVISE

• Focus on priority industries. Food processing is a national priority and soft drink is a low priority area in India.

• Be willing to transfer technology. The US company’s expressed willingness to share technology and transfer the complete seed development, cultivation, processing, concentrate manufacturing, packaging and marketing technology attracted the attention of the policy-makers.

• Offer reasonable collaboration terms. The new proposal did not specify any royalties, instead it asked for two lump-sum payments, Rs. 10 million for technology transfer and Rs. 4 million for technical expertise. These terms were acceptable to the Indian authorities.

• Invest a significant amount. The initial plan included a mere Rs. 20 million investment. The second plan involved a substantial investment.

• Recognize the importance of exports. Pepsi Co was committed to generate Rs. 550 million in exports during the first 5 years. These exports covers three times as much as the foreign exchange needed to cover Pepsi Co’s imports.

• Include an R&D component. The proposed agro-research center will help develop high yield seed varieties, from the current low 10 and 19.6 tons of tomatoes and potatoes respectively to the US standard of 40 and 32 tons per hectare respectively.

• Pick your local partner carefully. Pepsi Co’s two local partners, the Tata Group and PAIC were prudent choices: Tata is Indian’s MNC and PIAC is state government’s pride.
• **Ensure the support of local opinion leaders.** Pepsi Co had the Punjab state government’s full support. The Indian partners (Tata) managed to gain support from opinion leaders such as members of parliament, editors of national newspapers, business magazines and agricultural exports.

• **Do not expect special concessions.**

• **Master the art of bidding and negotiation.** Bids must confirm to specifications. Usually the decision-making process is very slow.

**Conclusion**

In the first part of the paper the reader was provided with an investor’s executive briefing on Asia’s historical legacies in order to help him/her understand and appreciate the complex nature of the region’s socio-economic and political structure. Anyone who has a long-term interest in the region cannot afford to ignore the historical legacies that shaped the current state of affairs.

In the second part, some first-hand experiences of past and present investors were highlighted to show that the most reliable information on Asian business practices come not from the government bureaucracies but from the people who are directly involved in business. The candid accounts of each investor’s experience serve two purposes. First, the case studies suggest that government agencies should take a serious look at each investor’s observation and make a concerted effort to address them in a more constructive fashion. Second, the accounts alert prospective investors that they should ‘learn’ from the experience of their counterparts and make necessary modifications on their business practices, behavior and norms.

**The Problem of Market Orientation**

Countries with centrally planned economics and/or with a large number of state-owned enterprises encounter major hurdles when attempting transition to market-oriented economies. Although some have succeeded in following an incremental approach, that is, by gradual privatization, followed by competitive polity (Langenteld and Yao, 1995), yet they face some or all of the following problems:

• **Shortage of qualified, trained and experienced personnel.** Most of the socialist/communist countries in Eastern Europe and in Asia may have socialist-trained or Soviet-trained technical personnel and economists, but not those who are trained in business enterprises and international commercial law.

• **Lack of pre-existing regulatory agencies to deal with domestic and international regulations pertaining to market economies.** Those who hold top positions in such agencies may not have the required knowledge or experience in market economies and therefore can resort to interventionist activities.
• **Lack of market-orientation.** Managers and consumers in the transition economies may not be able to understand the concept of competition (Fornakzyk, 1992) and, thus, non-market behaviors can lead to problems such as price-fixing, monopolistic practices and buyer-seller collusion (Cohen, March and Olsen, 1972).

• **Lack of reliable information.** Effective market-oriented competitive policies can be devised only if the relevant agencies are able to obtain reliable information and interpret them in the context of the market-competition-oriented environment. Most developing economies tend to rely heavily on documents of intent of the political hierarchy and rough industry statistics (Easterbrook, 1984).

• **Directionlessness.** Most developing countries do not understand the complex nature of market-driven policies because of their insulation from Western competitive practices. In this context politics, rather than economic principles play a major role.

There are no short-cut answers to these problems but some plausible suggestions can be made:

• The governments in developing countries should take measures to reduce the dependency of its citizenry on government agencies. Political elites may find it hard to see withdrawal of various subsidies to the nation because this measure results in decentralization of authority and control (McMillan, 1981; Pugh, 1981). Countries such as Singapore, Taiwan and Malaysia have followed this somewhat harsh approach and today they are the most successful economies in the region.

• Learning of new technology, whether it is marketing information technology or management, must be done at higher levels because knowledge transfer requires it. Higher-level learning means shifting one’s thinking towards marketing and strategic orientation.

• The traditional hierarchy must be replaced by flexible structures and procedures. Bureaucratic structures, *per se*, are not necessarily bad. What is required is experienced, knowledgeable and market-oriented people to manage them.

**NOTE**

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