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Foreword



Alan Keir, Group General Manager, Global Co-Head, HSBC Commercial Banking

A fundamental and unprecedented shift is taking place in the global economy. We are seeing a very clear move from west to east, as Asia and the Middle East assert themselves as the brightest prospects on the global landscape. Certainly, the rise - or in our view the re-emergence - of Asia following its growth through the 16th, 17th and 18th centuries - will be the most important economic driving force in the first half of this century.

So-called 'Emerging Markets' are driving the global recovery and as a result, every business and every national economy will be affected by this shift.

In India, two thirds of exports now go to markets other than the US and Europe. Last year, China became the largest importer of Brazilian goods. China has already become the largest trading partner for Africa. These markets are full of new ideas, refuse to be constrained by traditional business perceptions, and are innovating new business models which are leapfrogging the technology and infrastructure which has served the West so well. This, in my experience, is also being seen within our own continent in the ambitious emerging economies of Eastern Europe.

All this points to a future which will see the decline of the western-centric mindset, and a new way for the world to do business; Europe is at risk if it doesn't keep up.

But despite the countless compelling statistics, in my view two key questions remain:

- ▶ On a practical level, do businesses across Europe truly appreciate not only the vast scale of this change, but more critically, the considerable opportunities it presents?
- ▶ In a time when Europe is in need of an economic and financial boost, are business leaders 'looking East' quickly enough?

While we talk to lots of businesses who are already creating opportunities in and with the East, we know that for many more, the statistics remain just that, statistics. It is for this reason that we commissioned The Futures Company to develop a report which – drawing on eastern economies' political, social, financial and consumer climate - identifies the **seven key considerations** which should influence the strategic decision-making of any European business leader looking east. From the emergence of a new eastern consumer to the impact of oil prices on China's manufacturing model, the state of play is changing – and rapidly. The report outlines practical considerations for European businesses to turn these factors to their advantage and turn opportunities into reality.

The report concludes with a startling reality check and wake up call for companies; over the next decade you can't afford to wait for business. You have to go where the business is.

Foreword

We are no longer looking at when West meets East but at how the East will redefine the West and how European businesses can respond for success.

At HSBC we are committed to using our unrivalled knowledge and global network of experts to ensure that we help our European customers identify and activate the right opportunities internationally. We will be sharing the lessons from this report with our customers to help shape the future of business across Europe and the world.



Executive summary

Introduction

This report looks at the impact of the rise of Asian economies on the world business environment and its implications for European companies, paying particular attention to the re-birth of the Indian and Chinese superpowers.

The term “developing/emerging Asian economy” can also be read as referring to Indonesia, Malaysia, the Philippines, Singapore, Vietnam, Cambodia and Thailand. Though the last country is, following events in Bangkok at the time of writing, currently considered a potential risk for investors, its huge growth during the 1990s, when it was feted as one of the Asian tigers, cannot be ignored.

It is clear that a new order is taking shape – broadly, a return to the position in the 16th, 17th and 18th centuries when the Chinese and Indian economies dominated the world. This creates both huge opportunities and significant threats for the West and businesses domiciled there.

While much has been said on this shift, the question remains; what does it mean for businesses today? To understand this, our research includes interviews with business leaders and stakeholders in nine European markets as well as leading commentators and academics (quotes from which are scattered through the report) to highlight key considerations and implications for European businesses.

The key considerations

The first part of the report looks at the seven key considerations for business, dividing these into micro and macro-economic developments and changes.

At the micro-economic level, we look at the effects on the world’s skills base and the knowledge economy, on models of innovation and on consumer markets.

- ▶ **Increasing skills** in the Asian workforce, the result partly of huge investment in education, means the paradigm where the West did the design and development work and the East took care of production and manufacturing is anachronistic. Lines have been blurred. China and India are now world leaders in the knowledge economy. They’re beating the US, Europe and Japan at their own game.

Chinese and Indian multinationals are reshaping established industries such as energy, steel and car making. Chinese and Indian entrepreneurs are leading the development of newer ones such as clean technology and Information Communication Technology (ICT).

- ▶ Instead of outsourcing production and manufacturing to the developing economies, big name companies are setting up innovation and development centres in Asia’s science and technology heartlands. Others are collaborating in technology and skills and knowledge transfer.
- ▶ Innovation is also being driven by **Asian consumers** – whose “profiles”, for complex socio-economic reasons – are hard to define and target by traditional western standards.

Executive summary

Uncertainties at the operational level must be seen in a wider context, and we identify four key trends in the macro-economic and geopolitical environment that no business should ignore.

- ▶ The first is the pressures placed on the **energy market** by rising consumption in China and India. The industrial and commercial development of these vast nations is creating unsustainable demand for oil. The key question must be whether increased energy efficiency in China and India will be enough to bridge the supply and demand gap. Rising and volatile oil prices threaten to impede world economic growth.
- ▶ The next is the **political risks** associated with widening income disparities. Some commentators see increased signs of social tension and unrest in China and India as resentment among the urban and rural poor grows. Add religious and ethnic differences to the mix and you, arguably, get a picture of political and economic instability. We consider the risks – and how they might be mitigated.
- ▶ Thirdly, we examine the **rise of the state capitalist model** and the rejection of the Washington Consensus principles on which Western European economies have been built.
- ▶ Allied to this is the rise of pan-Asian economic and political co-operation, and this is discussed in a final section on **geopolitical change**.

The implications

Looking at these key considerations we have identified how European businesses can counter the threats and make the most of the opportunities of the new economic order.

The over-arching implication is that directors and business leaders must develop a “global consciousness.” Flowing from this, they must weigh risks and rewards accurately, and understand the opportunities in the balance.

The need for accurate information and good advice has never been greater as business principles are overturned and business practices overtaken.

The rise of Asia demands new marketing strategies; risk-mitigation strategies; HR policies; models of innovation and sustainable business and export models.

The report concludes by outlining these practical implications. Meeting these challenges in turn demands new insight. In today’s environment - the thinking organisation has never been a more important concept.

Western European businesses, which arguably had the most invested in the old order and which are the most culturally and geographically remote from Asia, perhaps have the most to lose. For them, converting threats into opportunities might be particularly demanding. These, in the words of the old Chinese proverb, are interesting times.

The context

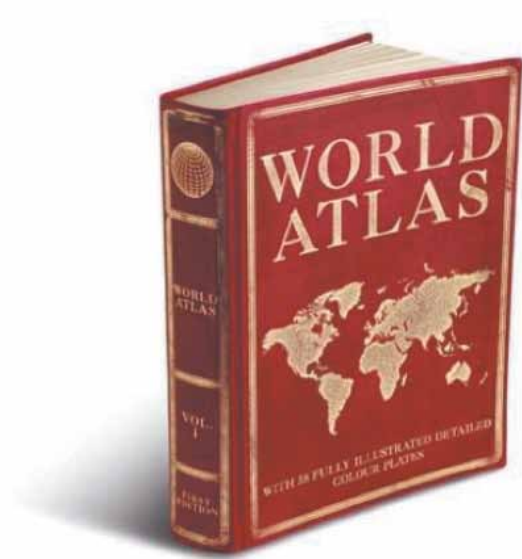
The changing landscape

Much like the post-war period, the end of the 20th century and the beginning of the 21st will be marked as times of dramatic and historic change. Two parallel and related trends are redrawing the economic and geopolitical map. One is the fall of Communism; and the other is the rise of Asia.

For two centuries, the West, first in the form of Europe and then in the form of the US, dominated world politics and world trade. From the beginning of Britain's Industrial Revolution in the late 18th century until the middle of the 20th century, Europe and then the United States shaped world history. But the era of Western hegemony is drawing to a close as China and India re-emerge as world superpowers, and the balance of economic and political power shifts East.

In 1950, America, architect of the post-war recovery under the Marshall Plan, was responsible for 27 per cent of the world's GDP. China, in comparison, accounted for just 4.5 per cent; and India, 4.2 per cent¹. Fast forward 100 years and the picture is very different. According to HSBC predictions, China will be the biggest economy in the world by the end of the decade. Additionally, other commentators predict by 2050 only two European economies will appear in the leading nations' top 10 – Britain and Germany, in 9th and 10th place respectively².

The trends of the past 20 or so years will be accelerated and consolidated in the next. By 2030, Asia's economy could be larger than that of the US and the European Union combined, with the region's share of world GDP swelling



from a little under 30 per cent to more than 40 per cent. According to Anoop Singh, head of the IMF's Asia and Pacific Department: "Twenty years from now, Asia's economy as a whole will be larger than that of the G-7 and half the size of the G-20."

The new economic order

The global financial crisis is not really global at all. Increasingly "de-coupled" from the US, China and India have continued to expand while Japan and several European economies have slipped into near-depression. The former grew at a rate of 11.9 per cent in the first three months of 2010; the latter should make the eight per cent mark in both 2010 and 2011³.

What was unimaginable just 15 or so years ago is now happening: the developed nations are looking to countries such as India and China to pull them out of recession.

The context

As the centre of economic gravity moves East, China will become the dominant power.

Even countries that have traditionally had a close relationship with the US or Europe increasingly put China first. China is the biggest trading partner of Australia and, in 2009, became the biggest export market for Japan.

Many Asian goods don't go to the West, but to other Asian countries. In India, two thirds of exports now go to markets outside the US and Europe. And last year, China became the largest importer of goods from Latin American powerhouse Brazil. We are seeing the emergence of South-South trade: globalisation isn't just a process of goods circulating from developing to developed countries; it crosses and connects emerging markets.

As the Asian economy refocuses around China, now the biggest trading partner of every country in the region, and the influence of pan-European alliances grows (see section seven, P.28), European businesses must fight to secure their place in the new economic order.

The European business response

To many businesses in the distant markets of the West, particularly perhaps those in the SME sector, Asia is unknown and dangerous territory – a perception that the recent crisis in Thailand and high-profile corruption cases in China will have done nothing to reverse.

But the risks of engagement must be seen in the context of the potential rewards. The developing markets of Asia offer a virtuous circle of economic growth, investment and economic growth, and it is crucial that European business people do not close their minds to the possibilities offered by the rise of Asia.

Nowhere is this more clearly seen than in the development of Indian and Chinese infrastructure. Estimates put China's total infrastructure investment between 2008 and 2018 at \$2.66trn; and India's at \$620bn¹. As the largest emerging markets in the world connect to the developed markets of the world, they need better roads, better railways, better airports and better telecommunications. The better their transport and ICT systems, the



The context

higher their rates of growth and the bigger their markets for goods and services.

The opportunities created by Asia cross all sectors. There is a chain reaction between construction companies and engineers – the builders of infrastructure – and their multiple contractors and subcontractors and then between exporters and providers of goods and services and their marketers. The potential rewards lie not just in large-scale projects and joint ventures but also in technology transfer and “softer” partnerships. The Chinese and Indian middle classes are hungry for consumer goods. China has more millionaires than the UK, the average age of whom is an enviable 43; India has around 50 billionaires, on the last count. China has become the second-largest luxury goods market in the world, buying 25 per cent of goods such as Louis Vuitton handbags and Rolls Royce cars.

Although poverty and social inequality and, therefore, the threat of political instability remain serious problems for both countries, they're unlikely to be solved by risk-averse foreign investors.

In the context of the changing macro-economic landscape, the risks of doing nothing – of ignoring Asia because it is too risky – increasingly look like outweighing the risks of action.

1. New skills

Investment in education and R&D is transforming Asia's skills base. The model where the West did the development work and the East took care of low value production is dead. In future, forward looking businesses will take advantage of the growing skills of Asian workers.

Asia's strength in global trade once centred on labour-intensive, low-skilled manufacturing industries. Large working populations, flexible labour markets and cheap labour meant it could mass produce goods at low cost. The developed world, meanwhile, dominated in "value-added" – the highly skilled, knowledge-based sectors on which their economies increasingly depended.

Today, the picture is very different. Put simply, the emerging economies are beating the developed countries at their own game.

According to the European Commission report, 'The World in 2025', if recent trends continue, the US, Europe and Japan will lose their scientific and technological supremacy in the next 15 years: by 2025, China and India will either have caught them up – or be out in front.

Asia and the knowledge economy

Where South Korea - known for its technologically-orientated workforce - led, China will follow. The next ten years or so are likely to see dramatic growth in the Chinese car industry. Geely broke into the global market last March by buying Volvo (see p.12). Around the same time, "obscure" Chinese company BYD, backed by billionaire US investor Warren Buffett, unveiled a four-door electric model at the Detroit auto show: state-of-the-art Chinese technology launched in the West.

Asian economies are a major global source of skilled workers not only in sectors such as engineering, technology, nanotechnology and sciences but also in those such as ICT services and consultancy. The most obvious example is probably India. Its leviathan Tata Group spans steel, cars and information technology. Tata Consultancy Services, a multi-billion dollar enterprise based in Mumbai, employs around 160,000 IT consultants in 42 countries. Wipro Technologies and Infosys, both headquartered in Bangalore, home to India's "Silicon Valley" are also world names in ICT services, together employing more than 220,000. Delhi's HCL, meanwhile, one of India's original "garage" start-ups, is giving all three a run for their money (see case study).



1. New skills

INDIA AND IT SERVICES

Case study: HCL

From humble beginnings in 1976, Hindustan Computers Limited (HCL) has grown into a \$5bn global business, employing 62,000 people around the world. It exemplifies India's march into the knowledge economy – and the opportunities this creates for the West.

Born in a Delhi "barsati" (a small rooftop room or apartment), it developed India's first PC. Founders Shiv Nadar and Ajai Chowdhry subsequently brought Unix technology to the Indian market, launching a Unix micro-processor system in 1988, ahead of Sun and Hewlett Packard.

After moving into software development in the 1990s, Nadar and Chowdhry and the company's other founders formed an IT services spin-off in 1997, offering "transformational" outsourcing to sectors as diverse as financial services and healthcare.

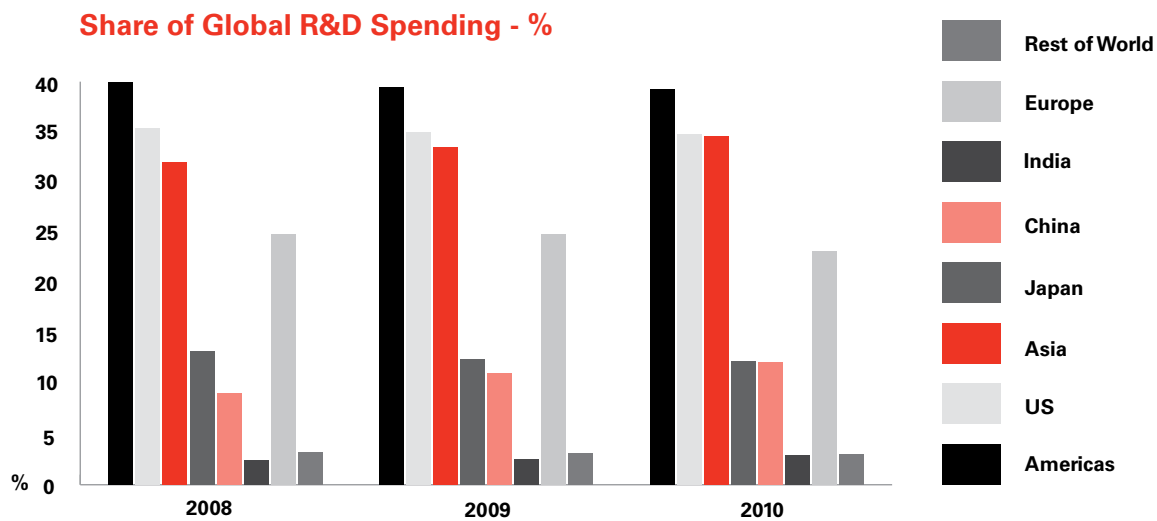
Asian investment in education and R&D

What's driven the transformation of India's and China's knowledge base? The factors are twofold:

1) There's been an aggressive expansion of educational opportunities. Complementing a strong local academic base is investment by foreign universities, which are now allowed to open up in India. The Times Higher Education Supplement list of the world's top 200 universities for 2009 includes six from China, four from Korea and two from India. Significantly, the Indian School of Business in Hyderabad came 12th in the Financial Times list of global MBA rankings in 2010. China turns out 75,000 people with higher degrees in engineering or computer sciences a year; India, 60,000.

2) Developing Asian economies have seen massive growth in investment in research and development (see graph p.10). According to the European Commission report, China and India could account for approximately 20 per cent of the world's R&D, more than twice their current share, by 2025. In 1986 the Chinese government launched the 863 funding programme for *xin jishu geming*, "the new technological revolution". Since then, high-tech start-ups have been able to secure government grants and therefore get more money from the banks.

1. New skills



Considerations for European businesses

China and India are accumulating Western expertise through collaborative projects and “knowledge transfer”. As companies from the emerging economies strengthen their position in European markets and the US, we’re likely to see the joint development of global business standards, covering everything from health and safety to internet security. The future could mean a level playing field – with winners on both “sides”.

As well as joint developments between businesses in West and East, there is also a huge opportunity for European companies to recruit and capitalise on the investment being made by Asia in training and up-skilling. Being aware of, and recruiting, staff beyond domestic borders is likely to become the norm.

Opportunities:

- ▶ Developing better recruitment policies to attract Asian graduates.
- ▶ Developing/cementing relationships with universities and academic institutions in Asia, for example, through joint R&D ventures, or sponsoring employees for Asian MBAs.
- ▶ Developing innovative networks that will provide access to the knowledge bases of Asian countries – restrictive EU immigration policies may be a brake on directly importing skills from China and India.
- ▶ Developing a “global consciousness”: being open to Asia and its workers. This, in turn, may depend on the ability to foster changes in corporate and business culture.

1. New skills

TALKING POINT

Skills transfer in Silicon Valley

America's high-tech heartland has seen a huge influx of science and engineering graduates from India and China. The Public Policy Institute of California estimates that by 1996, 1,786 Silicon Valley technology companies with \$12.5bn in sales and 46,000 employees were run by Indian or Chinese executives.

New wealth and new jobs are created by new skills.

European Business Taking Advantage of this Trend:

Toulouse-based aircraft maker Airbus has launched a joint venture with Aviation Industry Corp (AVIC), leader of China's drive to become an aeronautics superpower.

From a plant in Tianjin, northern China, it hopes to produce 286 A320 passenger jets by 2016, sharing technology with Chinese engineers to produce planes at relatively low cost.

Expert views:

"Asia typically concentrates on lower value added manufacturing at the moment, but over time I expect them to come to occupy the higher end. They're already second only to the US in nanotechnology, and their stimulus package contained considerable resources for Research and Development."

"In architecture, for example, a lot of the new skyscrapers in Shanghai have been designed by Western firms – but part of the deal is that there will be capacity and skill transfer, so in future we'll see more Chinese firms developing these buildings."

2. New models of innovation

The old paradigm, where the West owned the brand, the design and the intellectual property then outsourced the manufacturing and production East, is shifting. Increasingly, innovation will originate from the East, meaning new business models and global thinking applied to everyday challenges.

Critical mass, a huge and rapidly expanding domestic market, gives countries such as China and India an instant competitive edge. Combine this with the huge investment in education and R&D discussed in the previous section and continuing low-production and development costs (leading Chinese engineers work for around \$100,000 a year, according to a recent New Yorker report) and you have a major force in world business.

Entrants from Asia are serious competition for companies long established in the West. There are now 61 Asian companies in the FT Global 500, spread across China, India, Taiwan, Singapore and Indonesia, and Asian multinationals are reshaping some of the world's biggest industries.

In the car business, Ford's recent deals with India and China have further shifted the balance of power East. Britain's Land Rover and Jaguar now belong to India's Tata Group; Sweden's Volvo to China's Geely, after a landmark £1.2bn sale in 2009.

In telecommunications, China's Huawei is the world number two in mobile-infrastructure equipment, behind Ericsson. Its rise helped force a major restructuring of the global market,

which saw Siemens and Nokia merge network infrastructure divisions and France's Alcatel acquire America's Lucent.

In 2008, Huawei was listed as one of the world's top innovators by Thomson Reuters. Network provider China Mobile, meanwhile, is among the world's ten biggest companies by market capitalisation, with more than 508 million consumers.

Asia and alternative energy

One area where Asia is leading the march in innovation is in alternative energy. With the East conscious of the environmental impact of rapid economic growth and sustainability, China has played a leading role in the development of alternative technology and renewables vital for the world's future – from coal "gasifiers" that turn coal dust into gas that can be burned with less waste to large-scale wind farms (see case study, below). In the next ten years, it plans to install wind-power technology capable of generating nearly five times the power of the Three Gorges Dam, the largest electricity generating plant in the world. This makes it and its businesses better placed to counter the threat of an oil crisis (see p.20-21) and, perhaps, world concerns about the environmental impact of rapid economic growth.

The failure of the 2009 Copenhagen climate conference, where China led a revolt over emissions targets, does not mean developing economies are uninterested in a low-carbon future. The Indian government recently launched a campaign to reduce carbon dioxide emissions by 40 million tonnes, providing the

2. New models of innovation

public with energy-efficient light bulbs at low cost, while Samsung of South Korea has committed a massive \$20.6bn to wind and solar power projects, LEDs and energy efficiency.



CHINA AND THE CLEANTECH REVOLUTION

Case study: Goldwind Science and Technology

Goldwind Science and Technology, based in Yizhuang, an outlying district of Beijing known as “e-town”, demonstrates China’s ability to take what the West does – and make it better.

In 1987, its chairman Wu Gang began working with engineers from Denmark, Europe’s leader in wind-power research. Ten years later, the Ministry of Science offered him the project of building a six-hundred-kilowatt turbine, the first of its kind in China.

Wu licensed a design from Jacobs Energie, a German company, and after overcoming early production and manufacturing problems, developed a full range of large and sophisticated turbines.

Sales doubled every year between 2000 and 2008. When Wu floated the company in 2007, he made nearly \$200mn.

Many of Goldwind’s turbines are licensed from abroad but, built in China, they sell for less than a third of their European and American rivals. A key question for the West is clearly, “How can we maximise the long-term potential of technology transfer deals and licensing agreements?”

Source: The New Yorker, December 21, 2009

2. New models of innovation

Considerations for European businesses

The main questions for the developed countries must be: how can we tap into the fast-paced thinking in Asia; how can we work with the development of Asian economies?

One answer is to change the model of “home-grown” innovation. Some of the biggest names in Western technology are spreading innovation centres around the world. Cisco has “Cisco East”; a second global HQ in Bangalore; Microsoft’s R&D facility in Beijing is the biggest outside America.

The future could also see contracts between Western manufacturers and Asian companies for engineering and product design. In other words, innovation could be outsourced. “Frugal innovation”, made possible by Asia’s lower costs, is a persuasive model in the current economic climate.

The ideal, however, is probably skills transfer, two-way traffic – a model that increases wealth in both Eastern and Western countries. Silicon Valley has, over recent years, benefitted from an influx of Chinese and Indian science and technology graduates (see p.11). And Asia’s high-tech entrepreneurs have been able to innovate with the help of the West. In 2008, for example, Chinese company Tianjin Lishen, a supplier of lithium-ion batteries to Apple, Samsung and Motorola, teamed up with Miles Electric Vehicles of Santa Monica in the US. Now, with the help of funding from China’s 863 programme, it is producing battery packs for electric cars.

Opportunities:

- ▶ “Globalising” the innovation process; accepting that product development and design can be as global as the supply chain.
- ▶ Being open to collaborative deals with emerging Asian competitors.
- ▶ Forming partnerships that see India and China take state-of-the-art design to the mass market by recognising global strengths and expertise.
- ▶ Capitalising on the 24/7 opportunity that globalisation allows – ensuring that production and innovation are always switched on to deliver better end products, quickly and cost effectively.

2. New models of innovation

TALKING POINT **Innovation and infrastructure**

Chinese innovation is, perhaps, most clearly seen in the way Chinese infrastructure is being developed. Systems long-established in Japan and the West are being leapfrogged with state-of-the-art technology. The six-year-old Shanghai Maglev line, for example, is the fastest, most advanced railroad system in the world.

Crucially, from the perspective of the West, its construction depended on a new, collaborative model. The Chinese worked in partnership with Germany's Transrapid, which had already developed the technology.

What they can't (for economic reasons) do in their home markets, the Europeans are doing in the East.

European Business Taking Advantage of this Trend:

Evidence suggests that one of the first things that low income consumers buy when they have some economic prosperity is a mobile phone. In many emerging markets, these customers are agricultural workers who spend their time outdoors. Observing the needs of these frugal consumers, Nokia released the Nokia 1100. The phone includes a flashlight - popular in areas where blackouts are common - and is designed to resist dust. The phone lacks sophisticated software, meaning that the power draw is small, and is built with non-slip silicon coating on its keypad. The Nokia 1100 is Nokia's best selling phone ever, with more than a billion sold.

Expert views:

"The countries that are going to be winners in future are going to be those with a strong innovation track record."

"There are some impressive examples of innovation in Indian companies, but these are really only the elite. There are huge numbers of less capable companies which form the bulk of the economy in many Asian markets – they're not yet up to speed."

3. New consumers

The booming Eastern population and consumer wealth will create unprecedented market opportunities for European businesses. Adaptability and smart marketing sit at the heart of success.

The United Nations predicts there will be around eight billion people in the world by 2025 – a rise of 20 per cent on today's level – and most of them will be living in Asia and Africa. The EU, will, by then, account for a puny 6.5 per cent of the population, says the European Commission in its 2008 report, 'The World in 2025'.

Given the rapid expansion of developing economies, it's clear the biggest potential markets for European and American exporters by far are outside Europe and the US – from the most prestigious and expensive products to the cheapest. Sales of Rolls-Royce cars in China – where the company has seven dealerships – will for the first time this year exceed those in the UK, making China the second largest market for the luxury vehicles. Meanwhile, half of consumer goods giant Unilever's sales come from developing markets and the company's Indian branch - Hindustan Unilever - is one of India's biggest consumer-goods companies and its biggest advertiser.

Relatively unscathed by the global financial crisis, many people in Asia have a different view of their personal lot. This new audience is hungry for Western products and services but is a very different consumer.

Opportunities for innovation

Much will depend on the ability to innovate – to combine existing technologies and expertise in different ways. The development of market-specific products is one solution. Nokia has launched a smartphone for 100 Euros in emerging markets; after a well-established Western brand failed to do well in 1999, Pepsico launched Kurkure, a snack food for the Indian market, with advertising endorsement from film actresses Juhi Chawla and Kareena Kapoor. Another is use of new advertising media and audience reach. In Asia, the potential of mobile-phone marketing is huge. According to the New-York based Mobile Marketing Association, there are around two billion mobile-phone subscribers in the Asia Pacific region, half the world total (see Cadbury case study).

3. New consumers

'GORILLA' TACTICS: MOBILE MARKETING IN ASIA

Case study: Cadbury

The Gorilla campaign, launched in 2007, for Cadbury's Dairy Milk Chocolate has been truly multi-media. It's run on posters and TV, in newspapers and magazines, in stadiums and cinemas and, if you're in Asia-Pacific, on your mobile phone.

Working with Vodafone, Cadbury advertising agency the Hyperfactory developed 'Be the Gorilla', an interactive drumming game that could be downloaded on a consumer's phone and shared with their social group.

In 2009, 'Be the Gorilla' was named best use of emerging technology for the Asia Pacific region by America's Mobile Marketing Association (MMA). *"With the [mobile-technology] industry growing so fast, it's no surprise that some of the best, most innovative mobile marketing campaigns in the world are coming from the Asia Pacific region,"* says Rohit Dadwal, managing director, Asia Pacific, MMA.

Consumer insight

Given the diversity and complexity of the region, however, market insight is not achieved easily.

In India and China, the largest developing countries, the rise of the middle classes has been accompanied by widening income disparities. The problem, from a marketing perspective, is that, in both countries, the extent of the gap very much depends on where someone lives. The inequalities

are not just between the rural poor and the urban rich: they are between inner and outer city areas; they are inter-rural; and they vary significantly by province. As migrant workers from rural areas flood cities in search of work, the picture is likely to be increasingly dynamic. Think of the regional variations in a country as small as the UK – and then think of the size of India and China.

The differences inside Asia are not just socio-economic: they are cultural, too. The Han community is the biggest ethnic group in China by far, making up more than 90 per cent of the population. But there are another 55 official ethnic groups in the country, all with long-held customs and traditions.

Doing business in Asia means respecting cultural and religious sensitivities, particularly, perhaps, in India, which continues to see outbreaks of sectarian violence (see section five, p.22).

Understanding the consumer also means understanding differences in family life, both between China and India and between them and the West. Questions to ask include, What's the effect of China's one-child policy on people and their "investment" in domestic life? What does the continuing importance of the family, and the extended family, in India, where cousins are often more like brothers and sisters, mean for European and Western brands? What does it say about the role and perception of women, for whom educational opportunities can still be very limited?

3. New consumers

In Asian communities, status is often still conferred not by money and “conspicuous consumption” but by education and profession. For many Indian families, medicine remains the best possible career. Values are different – and the best European companies will understand how and why.

Considerations for European businesses

Understanding the ‘new consumer’ of the East will be a primary challenge but huge opportunity. Smart companies will get ahead by teaming insight with innovation and adapting products and services to market to this audience.

Opportunities:

- ▶ Innovating for the Asian market – either by adapting existing products or by developing new ones.
- ▶ Recognising and understanding regional diversity; thinking globally but acting locally – for example, in product launches and advertising campaigns. ‘Traditional’ campaign roll-outs are unlikely to work.
- ▶ Making use of ICT. Social networks, hugely popular among young, affluent Asian city workers, have the potential to create not only large-scale marketing opportunities but also to unite disparate cultures and lead to cultural exchange and the spread of ideas. They may be the obvious advertising media for companies new to the market.

TALKING POINT

Insight means opportunity

In India, 36 per cent of the people earning less than Rs 5,000 a month (about £75) do not have a bank account. But they own a mobile phone. This creates huge potential for mobile banking. Know the consumer and you begin to see the market.

4. New pressures on energy markets

Asia's demand for oil outstrips supply, creating uncertainties for the global economy – a macro-economic consideration for European businesses.

For countries all over the world, future economic growth and stability is increasingly linked to the development of alternatives to fossil fuels. The rapid economic expansion of Asia means there just isn't enough oil to go round.

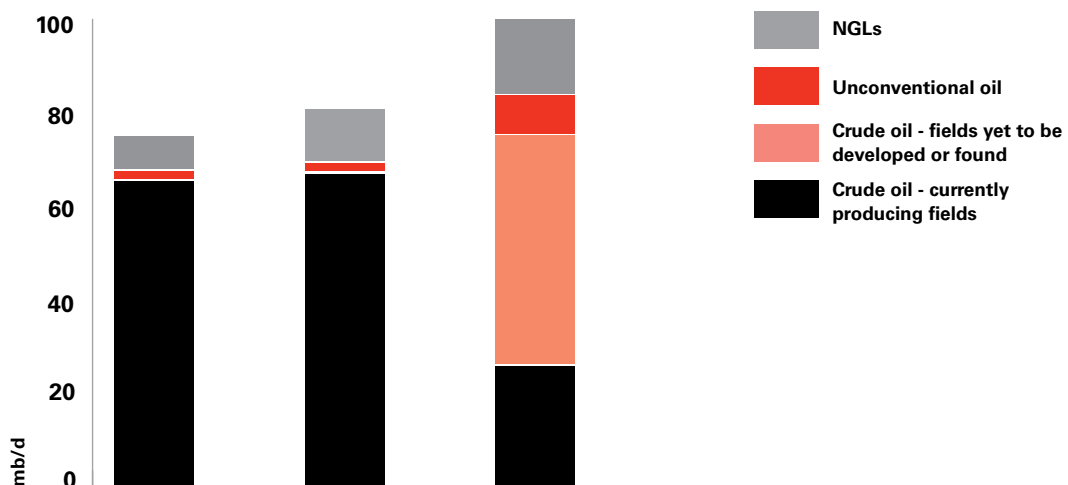
Falls in the consumption of oil among OECD members – the result of the recent financial crisis as well as greener government – are being offset by dramatic rises in countries such as China and India.

China's demand for oil jumped by an "astonishing" 28 per cent between January 2009 and 2010, according to the International Energy Agency (IEA). Saudi Arabia, the world's largest oil exporter, now sends more oil to China than to the US; half the growth in demand in 2010 is coming from Asia, says the IEA.

Oil price spikes

The risk for the global economy is increased and more volatile energy prices. Businesses could see significant increases in production and distribution costs – and commensurate drops in profits.

Oil production in the Reference Scenario



Sustained investment is needed mainly to combat the decline in output at existing fields, which will drop by almost two-thirds by 2030

4. New pressures on energy markets

To understand the seriousness of the potential problem, you have first to understand the size of the demand-and-supply gap.

The IEA predicts that by 2030 the bulk of world oil production will come from currently undeveloped (or not yet discovered) oilfields and “unconventionals” such as oil or tar sands (see chart). Given that it typically takes 30 years to move from discovery to peak production and that oil sands have proved controversial for environmental reasons, this, to say the least is worrying news.

Nor is the IEA the gloomiest of forecasters. ‘The Oil Crunch’ report, published in 2009 and produced by a cross-section of British businesses, including transport companies Virgin, Stagecoach and FirstGroup, engineers Arup, architects Foster and Partners and energy giant Scottish Southern, concluded that the problem of declining supply could hit Britain as early as 2011.

Even the US Department of Energy, historically sceptical about the “theory” of peak oil, recently warned that production might reach an all-time high between 2011 and 2015, followed by an “undulating plateau” of unspecified length and then an irreversible decline.

Threats to Asian development

The countries most at risk, arguably, are those with the greatest need. An energy crisis could stall the economic development of Asia. In China, export-led growth has relied on undercutting European and US manufacturers through a combination of cheap labour and cheap energy. It is hard to see how

this model would be sustainable in a climate of increased oil price volatility and dwindling oil supply.

As shown in section two, ‘New models of innovation’, the Chinese have anticipated the problems by huge investment in wind and solar power over the past 15 or so years. It is also protecting its interests by agreeing innovative deals in Africa (see ‘talking point’).

Whether China – or any other power for that matter – is doing enough to counter the threat of an energy crisis remains to be seen.

China and India remain inefficient users of energy – a problem that means they will be particularly vulnerable when oil prices rise. Helping them improve efficiency must be one of the priorities for the developed world.

Considerations for European businesses

For European companies, consideration of energy consumption and potential investment in renewables and sustainable energy will become increasingly important in future. As Asia suffers from energy shortages, distribution and export models may need to change. Being aware of this within future scenario planning and considering risks versus the opportunities to capitalise on Asian investment in new energy sources will be key.

4. New pressures on energy markets

Opportunities:

- ▶ Finding new distribution and marketing models – for example, exporting the design of a product rather than the product itself.
- ▶ “Futureproofing” the company by investing in alternative technologies and alternative energy and cutting energy costs.
- ▶ Collaborating with China and India in technology transfer arrangements and partnership deals.

TALKING POINT

Out of Africa: China’s Nigerian oil deal

In May 2010, China signed a memorandum of understanding on a deal that could see it secure six billion barrels of crude oil reserves. Under the agreement, it will spend up to \$23bn on oil refineries and the other infrastructure Nigeria needs to end its dependence on fuel imports.

The “infrastructure-for-resources” agreement is one of several China has signed in Africa over the past ten years. It shows two things: the country’s growth depends on energy; it’s doing smart deals to get it.

CURRENCY FLUCTUATIONS

Along with fluctuations in energy prices, foreign exchange fluctuations can also drastically impact the bottom line of businesses with international exposure, for better or worse. Volatility in currency markets is by no means new, but the recent financial crisis has created a whole new set of uncertainties. In particular, the rescue of the banking sector in Europe and the United States by governments has effectively transferred debt from the banks to national balance sheets. This means that markets are increasingly concerned about sovereign risk – the danger that a national government will default on their obligations. European businesses need to be aware of such risks, and need to protect themselves with a flexible approach to foreign exchange.

5. Social unrest and political risk

The rapid economic expansion of Asia has created the conditions for social tension and political instability. The sensible business, however, will weigh the risks of investment against the potential rewards and diversify risk.

Recent events in Thailand, where Red Shirt anti-government protesters occupied the commercial district of Bangkok and clashed violently with the army, have highlighted one of the problems of doing business in Asia: political risk. The protesters are said to have cost the country billions of baht in trade.

With rapid and aggressive economic expansion can come increased inequality and social unrest. Supported by the country's urban and rural poor, the Red Shirts say the prime minister is in thrall to the country's wealthy elite.

So will what is happening in Bangkok be repeated elsewhere in Asia? While it is facile to see Thailand (or any other country for that matter) as representative of the region and risks undoubtedly exist elsewhere, that is a reasonable question to ask. Instability in Asia, so important in the global economy, could mean economic instability for everyone: higher commodity prices, lower investment inflows and outflows. But for European businesses this shouldn't be a reason not to interact with the East. Being aware of the political tensions and mitigating risk is sensible, but with the right partners on the ground 'thinking businesses' can overcome this potential issue.

Dangers of widening income disparities in India and China - both vast and complex countries and both expected to grow by around eight per cent this year - are the obvious ones to watch. The Indian prime minister Manmohan Singh has already warned of the dangers of widening income disparities. In a speech in 2007, he urged moderation in executive pay and said that, in a country of extreme poverty, "vulgar display of wealth" would lead to resentment and increased social tension.

The same year, Indian businesses – including high-tech outsourcing companies with clients in the West – were disrupted by a general strike over water resources.

The figures show that the rich are getting richer in India – the number of billionaires rose from 27 in 2008 to 52 in 2009 – but 800 million people live on just 20 rupees (30p) a day. A tiny minority of the population (0.00001 per cent) account for a quarter of GDP.

Tensions between religious groups can add to the troubles: also in 2007, thousands of Sikhs in the relatively affluent northern state of Punjab took to the streets in protest against the Dera Sacha Sauda sect, whose leader had appeared in advertising dressed as the revered Guru Gobind Singh. Businesses and schools were forced to close for the day, and the military was on alert.

China also raises concerns. A huge country of 56 ethnic groups, all of whom maintain their

5. Social unrest and political risk

own traditions and customs, it is, in some ways, a remarkably cohesive society. But Chinese think tank the Chinese Academy of Social Sciences says that social unrest is on the increase, citing six large-scale popular protests – from taxi strikes to problems in central China – in 2009. The same year, the north-western region of Xinjiang saw clashes between ethnic Uighurs and members of the dominant Han group, in which nearly 200 people were killed.

Economic growth in China has created jobs, but mostly in the prosperous eastern cities, where there's been an influx of migrant, rural workers. The income disparity between urban and rural China is one of the biggest in the world.

Social discontent manifests itself in protests by farmers and workers. Tens of thousands of people travel to Beijing each year to petition the authorities over alleged corruption, land reclamation and evictions.

Just like the industrial revolution in Victorian Britain, the economic expansion of Asia has its price.

Considerations for European businesses

The perceived dangers of Asia can be overestimated. It is critical that while European businesses are aware of the potential risks of political uncertainty, that they weigh up risk versus reward when considering entry into the East. Central to this will be the recognition that while Asia offers a wealth of opportunities, companies don't need to bet the whole business on Asia.

Opportunities:

- ▶ Understanding not only the broader economic data on Asia but also the political risks of individual Asian markets.
- ▶ Diversifying risk across a number of countries and regions - R&D, production and supply chains should not be concentrated in any one area.
- ▶ Keeping up with social, cultural and political developments across Asia and tuning into the relevant political and economic debates - this may require outside/expert help.
- ▶ Weighing the risks accurately against the potential rewards - cultural arrogance might lead the West to overplay them and business critical opportunities might be lost.

5. Social unrest and political risk

TALKING POINT

Bridging the digital divide

Inequalities in Asia are illustrated by the digital divide, which despite huge investment from governments and multinationals such as Microsoft, remains a yawning gap.

Indian prime minister Manmahan Singh highlighted the problem in a speech in 2009. Tele-density in rural areas, where most Indians live, is, he said, just 20 per cent: large numbers of Indians have never made a phone call. In the province of Guizhou in China, meanwhile, internet density is just 3.8 per cent (a national low).

Both India and China are committed to improving telecoms infrastructure. In such vast markets, however, broadband “roll-out” still seems a long way off.

For foreign ICT multinationals and their subcontractors the questions must be: what are the opportunities; how can we help?

Expert views:

“The question is whether a political system which developed in China when per capita incomes were \$500 can survive when they’re \$5000 or \$50,000 per year.”

[on the future of the Chinese political system] “With luck, in future China will develop a system like Singapore – a sort of ‘illiberal’ or ‘limited’ democracy’ which isn’t as open as in the West, but which provides more freedoms and rights than exist at the moment. Whether they can get there peacefully is another question.”

[the alternative view] “There’s a long history of assuming that things in China will go wrong, but I’m much more optimistic. The Chinese political system is much stronger – and more consensual – than most Western observers realise – the problem is that we tend to judge it through our value systems.”

6. New models of capitalism

The free-market, liberal principles on which the West was built are often in direct contrast with methods of rule in the East. New economic models are emerging to challenge the old business rules and European businesses need to be aware that the competitive playing field is not necessarily level.

The idea that the developing economies of Asia are becoming more “like us” is simplistic. The capitalist model of the West is being rejected by governments in Asia and elsewhere. And the recent global financial crisis, which exposed cracks in the neoliberal, free-market system endorsed by the Washington Consensus of 1989, means the trend is unlikely, in the short term at least, to be reversed. The fact that Asia’s banks, subject to tighter regulation since 1997/98, have emerged relatively unscathed from the 2008/09 global financial crisis has strengthened the case for a different economic model.

Even the International Monetary Fund, a pillar of the post-war recovery, is losing credibility, seen as being too closely aligned with economic liberalisation.

The rejection of Washington Consensus principles is, perhaps, most obvious in key strategic industries such as energy – the “commanding heights” of the Communist era. Governments now control the 13 largest oil companies, putting a staggering 75 per cent of crude oil reserves in state hands.

In telecoms and transport too, state-controlled companies are dominant. China Mobile, the world’s biggest telecommunications company, is listed on the NYSE and the Hong Kong Stock Exchange, but controlled by a holding company owned by the government. Two of the world’s biggest shipping companies, COSCO and CSCL, are wholly owned by the Chinese state.

Today, it seems the business of government very much includes the government of business. The Indian central government, for example, owns 246 enterprises in industries as diverse as nuclear energy and prosthetics. Together, they employ 1.6 million people and account for 8.3 per cent of GDP.

Rise of state capitalism

In countries such as China, the world is seeing the rise of a new economic hybrid – what might be termed “state capitalism”.

Under this model, companies are encouraged to exploit global capital markets and seek new opportunities abroad but essentially remain instruments of the state, used to control the economy at home. Politicians direct resources to favoured industries, make decisions about production and, behind the scenes at least, help negotiate deals on the supply of raw materials. Crucially, from the companies’ point of view, they also own the banks. The Industrial and Commercial Bank of China (ICBC), which has traditionally supplied the manufacturing sector, is one of four big commercial banks in state hands.

6. New models of capitalism

Although it invites foreign investment, China will step in to protect its own businesses if it needs to. In 2008, it blocked a bid by Coca-Cola to take over its biggest juice maker, Huiyuan Juice – despite having freely opened the soft drinks market to foreign competition in the early 1990s.

Sovereign wealth funds

Central to the state capitalist model, in Russia and the Middle East as well as Asia, is the sovereign wealth fund, a state-owned fund that invests globally for the benefit of the people. Founded in 2007, the China Investment Corporation (CIC) is one of the largest sovereign wealth funds in the world, controlling \$2trn in foreign currency reserves.

Sovereign wealth funds are a growing force in global finance, taking stakes in American private equity firms and investment banks and buying Western debt. In many ways, they epitomise the shift in economic power from West to East.

More generally, we're likely to see an increase in levels of investment in European businesses from Asia-based companies. This will likely include investment in strong Western brands with a wide geographical reach, as well as investing in advanced European manufacturing facilities – especially in Eastern Europe.

Considerations for European businesses

The key consideration for European business is 'what does the competitive landscape look like for me?'. 'Thinking businesses' will be aware that new markets may not operate to the same rules – having on-the-ground partners could be a

cost effective way of understanding and mitigating this potential risk. Equally, this 'new' model of operating offers great opportunities to form new collaborations and partnerships.

Opportunities:

- ▶ Understanding the ownership structure of Asian businesses and the markets they operate in: the competition might not be playing by the same rules.
- ▶ Considering the political implications of certain types of investments: the direction of some Asian companies will increasingly be influenced by politicians.

6. New models of capitalism

TALKING POINT

New ownership models: India and the business dynasty

Dealing with Asian businesses often means dealing with Asian families – as well as Asian politicians. In India, the concept of the business dynasty, which dominated many British industries in the nineteenth and early 20th centuries, is alive and well. The Tata Group, now an unstoppable force in world business, remains a family firm.

Founder Jamsetji Tata was succeeded by his son, and, for five generations, Tatas have dominated the board. The original Tata Sons, set up in 1868, is a major shareholder in the Tata Group companies, which span steel, car-making, IT and leisure and hotels.

The continued dominance and influence of family members is another factor to consider when trying to understand the culture – and ownership structures – of Asian business.

Expert views:

“In some ways the global financial crisis is just a sideshow and shouldn't be confused with the more fundamental shifts happening in the shape of the global economy.”

“The global financial crisis isn't global at all. China and India continue to grow – the US caught a cold but the world didn't come down with the ‘flu.’”

7. Geopolitical change

A series of pan-Asian alliances is re-shaping the geopolitical map. As the influence of the West declines, the importance of business relationships in Asia will grow. European companies must not find themselves sidelined in the new economic and political order.

With new economic strength and new confidence comes new influence in global politics. As European economies and the US look to Asia to lift the world out of recession, and the western model of capitalism loses credibility (see previous section), the balance of global political power is shifting.

The countries of Asia increasingly exert their influence through economic and political co-operation.

Pan-Asian pacts

The principal regional pact is **ASEAN + 3** or **APT**. Made up of the Association of South East Asian Nations, a trade bloc of ten countries, plus China, Japan and South Korea, and formed in 1997, APT is one of the most effective vehicles for economic co-operation between the countries of Asia. Through it, leaders developed a successful response to the 1997/98 Asian financial crisis. Additionally, it's seen as a way for China, Japan and Korea to secure national interests by expanding their influence over their south eastern neighbours.

The members of APT have a currency swap arrangement, the Chiang Mai Initiative (CMI). Formed after the difficulties of 1997, CMI aims to manage liquidity problems in times of crisis and maintain regional financial stability.

Crucially, some see it as an attempt to free Asia of dependency on the IMF, which imposed strict lending conditions on countries bailed out in 1997/98, forcing governments to cut spending, raise interest rates and sell state-owned companies.

In the wake of the global financial crisis, in 2009 APT signed the CMI Materialisation Agreement to protect Asia against the increased risks in the global economy. Through currency swap transactions, the \$120bn CMIM would provide financial support to members facing balance-of-payment and short-term liquidity problems.

APT members further protect their interests through membership of APEC, the 21-strong alliance of countries with a border on the Pacific coast, including, of course, the US. India has applied to join APEC and, despite not having a Pacific border, won significant support, notably from the Australian prime minister.

'Soft power' diplomacy

The rise of Asia is not just seen in formal agreements and strategic alliances. China increasingly promotes itself through cultural exchange programmes and so-called "soft power" diplomacy, sending doctors and teachers to work abroad, welcoming foreign students into its universities and paying for Chinese language courses abroad. Beijing University recently launched a visiting scholars fund to encourage foreign PhD students to study in China.

Its efforts are, perhaps, most striking in Africa, where it has cancelled \$1bn in debt. More than 900 Chinese doctors have been sent to African

7. Geopolitical change

countries and more than 100,000 Africans have been trained in Chinese universities and military institutes.

China has won many admirers in the developing world. The Pew Global Attitudes Survey reports 85 per cent of Nigerians, 84 per cent of Pakistanis, 73 per cent of Kenyans and 59 per cent of Indonesians have a favourable opinion of the country.

In many ways, of course, such “smile diplomacy” is enlightened self-interest. China’s increased popularity may be being used to persuade other emerging economies of the virtue of its development model. In other words, more countries may be turned against the old capitalist principles and the values of the West.

Opportunities:

- ▶ The growing importance of partnerships outside Europe as the influence of the EU and the West and their trade agreements declines.
- ▶ Changes to the business environment as Asia’s political power grows and the old rules – Western business practices, etc – are questioned or overturned. The key questions will be, “Where can we find synergies with Asian boards; what are the new ‘cultural norms’; how do we engage?”

TALKING POINT

The Asian Development Bank – too like the West?

Founded in 1966, the Asian Development Bank (ADB) exists to promote the economic and social development of Asia-Pacific countries. It was conceived with the vision of being “Asian in character”, but, like the World Bank and the IMF, it has been criticised for demanding structural economic reforms in return for funds.

Although by definition a lender to governments and public bodies, ADB also provides capital to private enterprises. A good way of helping poorer countries to grow – or a misuse of its members’ money? The jury is out.

Expert views:

“The global financial crisis isn’t global. China has shown considerable agility in dealing with the challenges that the crisis has produced, and it has strengthened China’s position relative to the rest of the world.”

“We’re seeing the reconstruction of the Asian economy to become more China-centric, China is going to become the key trading partner for every country in the region. Even Japan has seen China replace the US as its biggest export destination.”

Conclusion

The key considerations discussed on pp.8-29 show that for many European companies, the rebalancing of economic power towards Asia presents a more challenging, more competitive, more threatening business environment. But they also suggest a huge range of opportunities: the new economic confidence of Asia means new markets, new global wealth and new business.

The successful company will be one that asks how relationships with Asian countries, developed partly through the outsourcing boom of recent decades, can be built on, and how value can be unlocked. It will be forward-looking and imaginative in its approach to the East; it will develop a “global consciousness” that includes an understanding of socio-economic and cultural differences and an accurate appreciation of political risks. It will be flexible and culturally open-minded, prepared to learn to do business in other languages – literally and metaphorically.

Above all else, though, the successful company will be responsive to change. It will not only react: it will anticipate. And it will learn. Business development models in Asia offer lessons in innovation, technology transfer and leadership and entrepreneurialism. In China, for example, Goldwind Science and Technology (see case study, p.13) is revolutionising the energy sector after working alongside Danish engineers and licensing a design from Germany. Successfully leapfrogging Western innovation, its founder has beaten the West on price.



We believe the rise of Asia means European businesses must now include a different set of questions in their strategy discussions. Broadly, these fall under the categories of human resources, innovation, marketing, flexibility, risk assessment, sustainable development, continuous professional development and advice.

Unless European boards confront the implications of the rebalancing of economic power and the growth of Asia, business opportunities will be lost and business threats will increase.

The global village demands a global consciousness.

Conclusion

Maximise Human Capital

Companies in the relatively small countries of Western and Eastern Europe will have to take a much broader view of “human capital” and, importantly, how it can be sourced.

Restrictions on immigration inside the EU arguably place its members at a competitive disadvantage. How can they tap into the talent of Asia and transfer knowledge and skills? Joint venture deals and partnerships are one answer; setting up facilities near China’s e-town or Bangalore’s silicon valley is another. “Softer” solutions might include cultural exchange programmes and links with Asian universities and academic institutes.

Non-executives with experience of Asian markets could make a vital contribution to the boardroom.

Investment in human capital can be “indirect”. A trade delegation from or to China, say, might create opportunities for knowledge and skills transfer.

The favourite phrase “our people are our greatest asset” will be adapted to include the words “and so are theirs”.

Innovation Supply Chain

Deciding the model of innovation will be critical as Asia takes an increasing share of global R&D spend. Do we continue to combine Western innovation with Asian production and manufacturing? Do we collaborate on new technologies and new product development? Do we take the more radical route of outsourcing innovation and R&D to Asia? How

do we protect our Intellectual Property rights?

Increasingly, innovation, just like the supply chain, will be globalised: companies will find the best the world has to offer. **Businesses will be global tourists – in both the real and virtual worlds.**

For the company entering Asian markets, the key questions may be about innovating for a new set of consumers – adapting existing technologies and the existing product base.

Consumer Insight and Reach

Understanding the consumer and the factors that affect him and her – at both the wider political and the more local and personal level – is essential for any European company in Asia. It will decide product launches, sales and marketing campaigns and the use of sales and marketing media.

Mobile marketing and social networking sites are the new tools of engagement.

A Global Consciousness

Companies might stand or fall on their ability to engage with Asia. For some, fostering a culture of openness might be the biggest challenge.

Directors may need to overturn their own and others’ prejudices if they’re to engage with Asia effectively. Internal lines of communications must be robust: strategic changes must be understood by those implementing them.

For businesses in Western Europe, used to doing business in their own languages, the challenge might be particularly hard. Language

Conclusion

training in the UK has tended to focus on Western Europe. In the global village of business, this is no longer enough.

Companies will need to be prepared to adapt to new “rules.” The ownership structures of Indian and Chinese businesses in which family members - or of course government - might be dominant creates a new frame of reference.

Mitigating Risk

The board has a responsibility – both to shareholders and stakeholders – and companies will need to measure the potential risks of investing in Asian markets and the potential rewards carefully.

Social and political unrest has the potential to derail economic growth in Asia and threaten foreign investments. But it must be seen in perspective. Think of what the current economic crisis in Greece has meant for the EU and investors there.

The dangers of Asia can be over-estimated: the risk-reward trade off must be seen clearly and rationally. Risks to intellectual property rights, for example, must be balanced against the risks of missing opportunities in a market the size of India or China.

Diversification of investments and of partnership arrangements might be a good mitigation strategy.

“Graded” exposure to Asia might be another: companies do not need to take an “all or nothing” approach. They can trial one product in one part of one market. They can do one pilot

project with one partner. They don’t have to bet the whole business on Asia.

Consumption and Distribution

The economic growth of Asia places unsupportable demands on the oil industry. Companies will need to think carefully about their own energy consumption and consider investment in renewables and alternative technologies.

Distribution methods and export models will need to change. Businesses might need to sell the design rather than the product. Again, issues of IPR will need to be raised – and addressed.

China represents a major source of affordable clean technology; deals and partnerships with Asia will be necessary for the sustainable company.

Understanding Asia

Directors, under corporate governance codes, now standardised in the EU, have a duty to refresh their knowledge and skills and this, in today’s environment, means understanding developments in Asia – and what they mean for the world. New pan-Asian prosperity and new pan-Asian co-operation have redrawn the geopolitical map.

Board papers should include information on and discussion of some of the issues and uncertainties associated with Asia – and, of course, the strategic implications.

The concept of the “learning organisation” must move from business book to business reality.

Conclusion

Advisory Networks

The complexity of Asia means that companies may need to review their list of advisers. Access to people who operate in and understand Asian countries will be essential; so will board-level understanding of the wider political and economic implications of Asia's rise.

For the smaller business, this does not have to mean increased costs. Government-run organisations such as UK Trade and Investment in Britain offer help and advice - and networking opportunities - to internationalise business.



Key questions for European business people

Have we considered the strategic implications of the rise of Asia?

Have we:

- ▶ accurately measured the risks against the potential rewards?
- ▶ understood the relative strengths and weaknesses of our home market in the new economic landscape?
- ▶ investigated the potential for partnership and collaboration?
- ▶ discussed graded entry into Asia as a risk-mitigation method?
- ▶ broadened our view of human capital and adapted our HR policy?
- ▶ reviewed sustainable business models?
- ▶ developed true market insight?

- ▶ understood the opportunities of new marketing and advertising media?

Are we:

- ▶ open to the possibilities and opportunities?
- ▶ responsive enough?

Do we:

- ▶ have a global consciousness?

Methodology

This report presents the findings of a research project conducted by The Futures Company on behalf of HSBC.

The project took a 'futures mapping' approach to understanding a range of emerging issues in Asia and their potential impact on Europe. The research process involved three distinct stages: initial identification and analysis of core uncertainties around future Asian development; clustering of these uncertainties to identify the key factors, and consideration of potential strategies for European businesses.

Stage 1: Horizon scanning for drivers of change

The first stage of the project involved a horizon scan of the most significant 'drivers of change' within the Asian financial and political system over the next five-10 years⁵. The drivers were identified through a combination of desk research and interviews with experts on the economics and politics of Asia, (a list of the experts interviewed for this project is available on the next page) and included macro trends across social, political, technologies, economic, political and organisational drivers.

Stage 2: Clustering key uncertainties

The relationships between the drivers were identified through use of an 'impact matrix'. This allowed the development of an understanding of the relationships between the drivers, and identification of 'core' drivers of change. This analysis provided a robust framework to understand what the future might hold, as well as to identify some of the most significant uncertainties (and stories) likely to emerge over the next five years. This analysis allowed

identification of the seven key considerations covered in the report.

Stage 3: Testing the uncertainties with European businesspeople

The key considerations were then qualitatively tested via 34 in-depth interviews with European businesspeople across nine core markets. Interviewees were asked questions around their perceptions of the rise of Asia, its impact on their particular business, as well as how confident they felt about the future.

Experts interviewed for the report

Martin Jacques, author of *When China Rules the World: the Rise of the Middle Kingdom and the End of the Western World* and visiting research fellow at the LSE's Asia Research Centre

Alan Keir, Group General Manager, Global Co-Head, HSBC Commercial Banking

Professor Laixiang Sun, Member, Centre of Chinese Studies, School of Oriental and African Studies, University of London

Dr James Lewis, University Lecturer in Korean History; Fellow of Wolfson College, University of Oxford

Dr Lawrence Sáez, Senior Lecturer in Comparative and International Politics & Chair of South Asian Studies, School of Oriental and African Studies, University of London

Jonathan Todd, Consultant at Europe Economics, is currently managing a pan-EU impact assessment for the European Commission (DG MOVE) and has previously advised the London Chamber of Commerce on long-term competitive threats to London.

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- 1 The Marshall plan was the primary post-war reconstruction plan for Western Europe. The plan was financed by the United States and ran from 1947 – 1951.
- 2 Goldman Sachs
- 3 Morgan Stanley
- 4 Goldman Sachs
- 5 'Drivers of change' are forces (which can be social, technological, economic, environmental, or political) which are likely to influence the outcome for the overall system or subject defined by the project question over the specified time period. They may influence it positively or negatively. In addition, a driver of change can be characterised by the way it impedes the rate of change. The processes of first scanning for drivers, and then analysing them for importance and degrees of uncertainty, are the platforms on which futures work is based.

Further information

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