

From the Desk of...

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Writer and Commentator on Asia

Issue No.18 - September 2007



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Managing Asia: The Insight Bureau's Managing Director, Andrew Vine, talks to Graeme Maxton about what keeps Asia regional chief executives awake at night. Formerly a regional director of the Economist Intelligence Unit (EIU) in Hong Kong, he now writes regularly for *The Economist* on Asia.

TIB Doing interviews as well as chairing so many meetings in Asia must give you a rare opportunity to find out what is going on in the minds of business leaders. Do you find that there are common issues that keep cropping up?

GM Oddly enough, very similar thoughts and experiences keep coming up, no matter how long people have been in the region and no matter which business sector we are talking about. From banking to soap powder and watches to healthcare, many of the most important topics that CEOs want to talk about are the same.

TIB What would you say is the top issue that CEOs are thinking about in Asia?

The talent challenge

GM That's easy, the shortage of people, or the 'talent challenge'. I think people issues have always been high on CEOs' list but the problem has become more urgent than ever. It is ironic really -- here we are in the world's most populous region and the biggest problem facing CEOs is a shortage of skilled staff! Across almost every industry and in all functions the picture is the same. The consequences are obvious; higher staff turnover and rising wage costs. Unless CEOs think creatively about this, it will unravel the hopes many companies have for Asia. It will limit their growth. Some companies I speak to are clearly tackling this problem much better than others. They offer career planning, think about how to support the families of their staff or are creative about bonus payments, for example. They have realised that keeping the right staff has already become more important than finding them.

Innovation

TIB Does this shortage of staff limit the ability of companies to innovate in Asia?

GM Yes. Innovation is one of the other top CEO topics today – and not just because of the shortage of skilled staff. Research in Asia has become essential

for many companies but it is also very tricky. Inward investors need to tailor their marketing and products to regional tastes. Asian companies want to develop their own technologies. The difficulty is how to do this effectively, especially in a region where R&D capabilities are less developed and intellectual property protection is harder. The discussions I have had point to particular problems in IT and other sectors these days. But there are also more general concerns about where and how to establish regional centres of excellence, the role of private research institutions in Asia and the best way to integrate Asian R&D facilities with those in the rest of the world. Asian innovation often involves doing things differently.

TIB Doing things differently in Asia is easier if Head Office understands and supports the regional CEO. Do you think global CEOs do understand Asia?

Managing Head Office

GM Well, managing the expectations of Head Office is vital. All eyes are on Asia now, especially since the US economy has started to slow. Asian CEOs are under enormous pressure to grow even faster. Yet most business heads in the region tend to urge caution because of the risks involved. Fast, yes, but not too fast. It can get extremely difficult. Should the global CEO be willing to accept a slower pace of growth than he would like? Or should he be looking for a new head for his business in Asia? The struggle between regional heads and their bosses is a matter of different perspectives, of Head Office not really understanding the issues properly. I spend a lot of my time giving talks in the US and Europe on what it is really like to work in Asia. In almost every case, I discover that there could be much better communication and understanding.

TIB There is so much pressure from Head Office because the economic growth in Asia has been strong for so many years. Do you think it will continue? With the US slowing, as you say, is there any cause for concern now?

Economics

GM I am concerned, yes. Many business heads, both here and in the US and Europe, seem to think that the growth in Asia will continue unabated. I am not so sure. The outlook is getting much fuzzier. I certainly don't think that there is enough local demand to make up for a slow down in exports to the US. Increased exports to Europe will help make up the shortfall. Local demand will not. I also worry about rising trade barriers and I am concerned about currencies, especially the US dollar – which I still think is over-valued. And I think it is a mistake to forget about how volatile the politics can be in Asia.

Demographics

TIB One of the other main attractions of Asia is the population – the numbers are mind-boggling. Surely so many people will guarantee high long term growth rates even if there are economic ups and downs?

GM Actually, no. I have found that companies frequently misunderstand the demographics in Asia. They are too keen to look at the number of people and the growth rate and then conclude that there must be a big market in the future. That is not the case. You need to look at the numbers more closely. China has one of the fastest ageing populations in the world. It will get old before it gets rich. Southeast Asia has lots of people but many are still worse off than they were a decade ago. And, while India is younger, it is poorer still. Despite these facts, television makers, car producers and fancy handbag designers seem to believe the market potential is almost limitless in Asia! Is it possible that demand in Asia will just hit a wall one day? I think it is. Yet few business heads have gone into the details of the region's demographics enough. When they do, they often get a fright.

TIB Corruption is often a daunting issue in emerging markets. Is this still a major topic of concern?

Corruption

GM One of my favourite sayings in China is “the man with the key is not here” It means, if you pay me something, I can open the door for you. The mentality of graft is deeply engrained in Asia. That will not change any time soon. Many CEOs I meet are almost overwhelmed by the problem. Most are struggling with low-level corruption in their purchasing, HR or finance departments, where staff are given kickbacks in return for favours. But many also face blackmail or worse. Some business heads have found ways around these swamps better than others. I think it helps not to impose ideas too rigidly though. CEOs need to strike a balance between forcing their own ethical codes on others and understanding the local culture.

TIB What about the disregard of intellectual property rights in Asia? It must be frustrating for a CEO to see

the company's technology or designs leaking into the hands of rivals. Is the situation improving?

Intellectual Property

GM Not much, and I don't see this changing. “We can copy everything except your mother”, is a saying in Shanghai; soy sauce with fizzy water passed off as Pepsi, fake Cisco network routers and even complete cars which copy the front end of one international design with the back end of another. The quality of the copying is often very high, even if the reliability and safety are not. One CEO told me that the packaging on the fakes was better than on his own products! This is a very tricky problem especially when the rule of law is so malleable.

The Environment

TIB With so much talk about the environment, is this a big topic for business heads too?

GM The environmental challenge is obviously growing and is a particularly complex issue given the politics and the speed of environmental degradation. In China, 300 million people do not have access to clean drinking water and 18% of the country has become desert. In Southeast Asia, logging and mining have been destroying the rainforests at an alarming rate. For businesses operating in Asia, these problems bring new challenges. At a very basic level they present new business opportunities. But they bring additional risks too. They have implications for government policy, taxation, worker healthcare and access to energy and water. Businesses can also be demonised – sometimes wrongly. Many CEOs across the region are thinking very deeply about this topic today.

TIB With so many concerns, do you feel optimistic about the future in Asia?

GM It's an exciting time in Asia because the region has some of the most attractive opportunities. But I think it is all too easy for people to lose sight of the consequent risks. Opportunities and risks are always evenly balanced. I often feel it is my duty to remind people of that. We face a very challenging time harnessing Asia's rise. But it is also the place to be. And I thoroughly enjoy the part I play in creating better bridges of understanding, through writing and speaking, between corporate Head Offices and the region. Understanding these issues is an essential success factor for anyone who thinks they can run a business in the region.

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