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Conducting Business in Southeast Asia

Many economists expect the Southeast Asian economic region to recover first from the global recession

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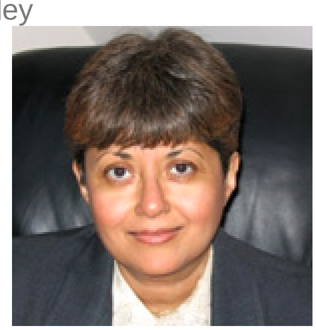

India's history of trade with the Association of Southeast Asian Nations (Asean) goes back at least 2,000 years. Indeed, the great bulk of goods that flowed down the legendary Silk Road moved via the southern maritime route through Southeast Asia and around or across India, not the West Asian deserts that more often come to mind. From India, the goods continued through Persia or the Red Sea to Europe. For 2007-2008, Asean trade comprised about 10 per cent of India's GDP. In the current global economic crisis, India and Asean are planning to rejuvenate these ancient trade ties through signing a long-delayed free trade agreement in August. Plunging exports in the last eight months have prompted India to expand other markets to replace declining demand from the US, the EU and Japan. India is aiming for Asean bilateral trade to grow 35 per cent annually and reach $50 billion in 2010, from the current annual base of $38 billion.

On the surface, these plans seem sound. Many economists expect the Southeast Asian economic region, and the countries that comprise them, to recover first from the global recession. Asean has a population of 560 million, and its combined GDP of $1.3 trillion exceeds India's. Its major economies — Indonesia, Thailand, Malaysia, the Philippines, Vietnam, and Singapore — account for about 95 per cent of the region's economy and in 2008 attracted nearly $50 billion in foreign direct investment vs. China's $92 billion and India's $46.5 billion. Yet, the region poses significant challenges for India's companies. Problems include a paucity of what managers in the West would consider high-quality information for strategic decisions.

About 40 families, most of Overseas Chinese descent, dominate Southeast Asia's economies. They have proven formidable competitors, although most of their larger companies would qualify as medium-sized in the West. For strategic success, India's managers must understand the competitive implications arising from this economic dominance of the region by the Overseas Chinese, and how their relations with each other and their governments have shaped and are shaping business environments and markets for strategic information in the region.

During the 1997-98 Asian financial crisis, we labelled Southeast Asia as a black hole for strategic information. After the crisis, much scrutiny ensued of Southeast Asian governance and information used for investment and business decisions. Many argued for Western notions of transparency and governance. However, when we updated and extended our research late last year, we found that almost nothing had changed in Asia's markets for strategic information! The information-poor environment in which they find themselves, and which they help to bolster, has shaped the strengths and weaknesses of the Overseas Chinese.

We interviewed over 20 major Overseas Chinese CEOs operating in East and Southeast Asia including Li Ka-shing (Hutchison Whampoa) , Stephen Riady (Lippo), Sukanto Tanoto (RGMI), Stan Shih (Acer), and Victor Fung (Li & Fung). Based on this research, we found that:

- The Overseas Chinese companies appear highly diversified; they often undertake unrelated diversification, contravening Western notions of good management
- The companies have excellent relationships with the often enormous public sectors in these countries
- The companies have very strong informal and familial networks
- Managers tend to use subjective inputs, rather than hard data, as key drivers for their decision-making

However, some similarities emerge among the local reactions to Indian and Chinese diaspora. Like the Indian merchants of East Africa in the 19th and 20th centuries, the Overseas Chinese constitute highly visible and economically influential minority communities in Southeast Asia. Like their Indian counterparts in Africa, with few exceptions such as in Singapore, local populations have portrayed the Overseas Chinese as outsiders and scapegoats for problems that arose. For instance, during the 1997-98 financial crisis, Indonesian political groups and native populations blamed the Overseas Chinese for the debacle. Several Overseas Chinese families had to flee their homes and businesses in response to attacks.

These environmental and historical circumstances have influenced Overseas Chinese values and behaviors. The Overseas Chinese have always maintained dispersed assets so that if they needed to flee a region, they would not lose their entire fortune. They have tended to maintain a greater proportion of their holdings in relatively liquid form so that they can maximize what they carry with them as they flee. Yet, dispersed investments and more liquid asset classes yield lower financial returns. Consequently, the Overseas Chinese often fail to obtain economies of scale or to maximise returns on their investments. Similarly, the Overseas Chinese have owed their greatest ethical duty and trust only to established associates and extended family members, owing lesser duty and trust to those with whom they have shorter, more functional and focused relationships. These cultural characteristics affect their contractual relations and should affect expectations of returns with potential and existing business partners.

Usha C. V. Haley & George T. Haley have co-written New Asian Emperors: The Business Strategies of the Overseas Chinese (John Wiley & Sons, 2009)