

“Building the Third Trading System – The Role of Asian Companies”

Speech by Dr. Michael Yeoh, Chief Executive Officer,
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In less than a month after today's CEO Summit, Trade Ministers will be meeting just across the border in Hong Kong for the World Trade Organization Ministerial Conference. Will Hong Kong succeed where Doha failed? Whatever the outcomes may be in Hong Kong, it is inevitable that international trade will continue to grow. Businessmen and companies will continue to engage in cross-border trade, just as governments continue to forge a web of bilateral and multilateral economic partnerships in the form of regional and bilateral FTA's such as the Asean-China FTA, the US Trade and Investment Framework Agreement (TIFA) with individual countries of Asean and Japan's closer Economic Partnership Agreements (CEPA).

Asia has certainly emerged to become the world's third largest trading system after USA and Europe. Intra-Asia trade has increased by leaps and bounds over the past five years. For example, Malaysia's trade with China has grown by 726 percent over the past 10 years. China's robust growth and growing prosperity has enabled China to import more from the ASEAN countries. The growth of bilateral trade with China has enabled many Southeast Asian countries to diversify their export markets and to become less reliant on exports to USA. Similarly, the economic recovery in Japan appears to be picking up steam and could result in Japan importing more from Southeast Asia besides investing more in the Asean region.

The holding of the inaugural East Asia Summit in Kuala Lumpur in December will provide a new regional political architecture for East Asia. Regional economic cooperation will intensify. At the same time, faster economic integration in ASEAN with the coming into being of the ASEAN Free Trade Area (AFTA) will create a market of 550 million people, about half the size of China. The momentum towards economic cooperation and integration

will accelerate. Regional economic cooperation will drive the economic prosperity of East Asia, opening up abundant business opportunities for the business community.

Therefore, there is a vital need to build stronger Asian multinational corporations (MNC's), to play a more important and effective role in the economic transformation of Asia. American and European multinational corporations have long been dominant globally. Many familiar brand names belong to US and European MNC's. The time has come for Asian MNC's to come to the fore to drive economic growth and prosperity in Asia. Yet, apart from such large Japanese trading houses and conglomerates like Mitsubishi, Toshiba, Mitsui, and more recently Chinese corporations such as Lenovo, Haier and Huawei, with another handful of Korean Chaebols like Samsung, LG and Hyundai, there are not many Asian MNC's. There is thus a greater need for Asian MNC's to forge strategic alliances and partnerships with each other. We should encourage more cross-border mergers and acquisitions to build up scales for Asian MNC's so that they can have the size and the strength to compete more effectively with American and European MNC's. Asian companies must embrace globalization and gear up for global competitiveness.

I would also like to suggest that Asian MNC's play a more catalytic role in developing and partnering with Asian SME's. Asian MNC's can partner with SME's to help the growth and development of small businesses by getting SME's to either be their vendors or suppliers within their supply chain. Asian MNC's can become role-models for small and medium enterprises. By adopting and nurturing SME's, Asian MNC's can help bring up smaller companies. At the same time, Asian SME's must start to upgrade their management, production methods and modernize their technologies to become more efficient and productive. Asian SME's should develop linkages with the Global Supply Chain. They must be able to withstand trade liberalization, and the opening up of domestic markets as well as penetrate new foreign markets.

If we were to examine Asian companies, we can basically divide such companies to belong to four broad categories. Firstly, we have the Japanese Zaibatsus or conglomerates that have been longest on the scene and that have been rather successful since the Second World War. Secondly, we have Korean Chaebols that developed strengths in electronics and automobiles. Then we have the Overseas Chinese owned corporations, many of which grew out of Hong Kong and Southeast Asia – family businesses that have grown and thrived such as Thailand’s Bangkok Bank and CP Group, Malaysia’s Kuok Group, Hong Leong and Genting, Indonesia’s Salim Group, Singapore’s OCBC and UOB Banks to name a few examples.

To become more globally competitive, these four different categories of Asian corporations need to upgrade their management systems by benchmarking world best practices and rethinking their business strategy. There is also a vital need to enhance corporate governance and adopt sound business ethics on the conduct of business, so that Asian companies can compete with the world’s best in the global arena. We can combine the best of our traditional Asian values with the best of Western management practices. Asian companies must invest more in human capital development. They need to upgrade management competencies, add depth and build experience in international management and cross-cultural management to trade and invest globally. Knowledge management should be adopted for database marketing and datamining will open up new business opportunities. They need to focus on creativity and innovation and to developing global brands. These are some of the leadership challenges facing the management of Asian companies. Asian business leaders need to be agile and flexible and be able to adapt quickly to respond to new and changing trends. They need to build resilience into the organization and be also more adept at risk management in a globalised world.

I believe that with the peaceful rise of China, the emergence of India, the economic recovery in Japan and the renewed confidence in ASEAN, companies from Asia can play a meaningful role in promoting faster intra-Asian trade. Our entrepreneurs can bridge China

and Japan, China and Asean, Japan and Asean, India-China-Asean and so on, in forming an intricate web of bilateral and multilateral alliances and partnerships. We can also forge partnerships with European and American multinational corporations seeking to invest in a vibrant and dynamic Asia.

In forging alliances and partnerships several key success factors must be borne in mind. Firstly, there must be clear objectives and clear understanding of those common or agreed objectives. Second, there must be advance or prior agreement on how the alliance or partnership must be run. Third, there needs to be careful clear thinking about who will manage the alliance or partnership. Finally, there must be prior agreement on how to resolve problems or disagreements.

For Asian companies to compete and thrive in the global economy, governments must continue to play a facilitating role. Asian governments must continue to embrace reforms and seek to create better business environment for enterprises to compete and thrive. Asian governments need to improve governance, facilitate trade and investments and pursue policies which are market-oriented and pro-business. Asian governments and companies must work closely together in partnership in a form of Asian Incorporated just like Japan Inc or Malaysia Inc which have worked successfully for these two countries. Deregulation and economic liberalization should be accelerated. Public-private partnership should be encouraged.

Having said all that, in a nutshell, what are the potential for Asian companies? Where are the opportunities? I believe that Asian born and Asian bred companies can have an advantage in undertaking the massive infrastructure development that Asia needs over the next 5 to 10 years. It has been estimated that in ASEAN alone, between 2006 and 2010, USD200-300 billion would be needed to build infrastructure and develop linkages in Energy, ICT and Transport. Asian companies can form cross-border consortiums to undertake these huge infrastructure development projects.

Asian companies can also focus on the Halal Food Market to the Muslim population worldwide. Not only is 40% of Asean's population Muslim, Asia is well-placed to meet the Halal Food needs of Muslim customers in the Middle-East. Islamic Banking & Finance is another growth area with an enormous potential. Biofuel and Biodiesel will open up new possibilities for Asian companies. Cooperation in Tourism, Education and Human Resource Development as well as Healthcare are other growth areas with good prospects. Asian companies can also look into the Global Supply Chain and fit into growth opportunities in the Supply Chain.

In conclusion, I believe China's rise is an important economic locomotive for the rest of Asia. As China becomes the factory of the world, Asian companies in Southeast Asia and in India can become suppliers to the factory of the world. Therefore China's long-term economic growth and resilience is an important key to the success of Southeast Asia. China can import more from the region. China can also export more FDI's to the region. China can also send more tourists and students to study in Southeast Asia. We should therefore more proactively embrace partnership with China for our common economic prosperity.

I thank you