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The Asian Century

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Current recession is likely to have a more far-reaching effect on the way international business functions than just the immediate effects on specific markets, countries, or badly hit sectors like real estate and banking.

There have been strong initiatives at both the global and country level to resurrect the world economy and pull it out of recession. The question of the moment is whether the worst is still to come or is already behind us.

The excesses of leverage in both domestic households and the financial system and the imbalance this has created are leading to a severe U-shaped recessionary curve which will be deeper and more protracted than anything experienced since the 1920s and will last for at least two years with recovery only beginning to take hold in early 2011.

Logical next question is, will the mantle of economic leadership move and if so, where? Although Latin America with large markets, rich natural resources and growing manufacturing strength epitomised by Brazil, Argentina, Chile and Venezuela, Eastern Europe, especially Russia, with vast oil and gas reserves may see themselves as candidates.

Yet, only Asia with a mix of small, medium and large economies is a serious contender. It alone offers a diversified portfolio and varied mix of economies, size, development and political stability.

Even with its unique complexities, Asia has emerging intrinsic strengths, which may enable it to drive the next wave of economic growth with its increasing concentration of factors of production, growing domestic demand, stronger banking systems, dependence on savings rather than on credit, and continued market growth shown in the last 18 months.

A broad consensus is emerging that Asia will become the focus of the global economy at some point in the next 15-20 years, even though it is acknowledged that as demand contracts in the rich world, the export-oriented economies, especially in east Asia, will be affected.

There will also be other knock-on effects from reduced affluence in the western world such as declining tourism inflows and lower remittances from the Asian Diaspora.

The current crisis looks set to accelerate the shifting of the anchor of the world economy from the US to Asia with the future focus being on the faster growing economies of China, India, Vietnam and Indonesia.

The next decade is likely to see these Asian economies playing a leading role in driving global growth and a shifting inexorably eastwards of the centre of economic power. As an integral part of the global economic system, all of the countries in the region are going to see a slowdown and many companies are already feeling knock on effects.

However, an equal certainty is that these economies will emerge stronger and faster than their western counterparts and are undoubtedly going to be key drivers of global demand over the next decade.

This shift in economic power has far-reaching implications for global corporations who until now were focusing on the developed western markets and used Asian markets as a sourcing or export destination and not yet fully leveraged the Asian opportunity.

Across key sectors including automobiles, banking, aviation, telecommunications, and IT, local or joint venture companies dominate the market and multinationals have to struggle relatively more to manage their presence.

Strong local brands will continue to dominate key Asian markets, giving relatively minor market shares to multinational companies. Asian economies led by China and India will cumulatively spend $6 trillion on infrastructure development over the next three years.

Domestic and global corporations will ramp up their investment in the more attractive growing economies whilst reducing their spending elsewhere. The consumer goods markets in Asian economies will offer much higher potential than in western economies.

Roll out of new vehicles during last two quarters is just one indicator of how companies are betting on these markets.

Consequently, the opportunities in emerging markets make it imperative for global corporations to shift their primary focus to the rapidly developing economies mainly, although not exclusively, in Asia to secure their leadership positions in the next decade.

However, doing business in these economies has not always been easy for large global corporations and often they face stiff competition from local players. Global corporations need to adapt themselves and their strategies to the opportunities and challenges posed by fast growing economies and change their outlook from one of chasing incremental revenue to that of a primary market and driver of demand.

Surely, specific to each industry there would be critical success factors. Few generic enablers could help the companies to win, like — to locate segments of consumers who believe in saving prior to spending and pay in cash rather than incurring debt, as credit is in short supply across many customer groups.

They should develop products and services that are suited to the needs of the local customers rather than stripping down an existing product from abroad to suit a price point. Companies should offer more for same price, rather than reducing price to sell downsized products/ services.

Companies must leverage the low cost benefits of these economies to the fullest by shifting larger parts of their operations to low cost economies like China and India. This would make them become more cost competitive in these price sensitive markets but also enabling them to fulfil the demands of customers in developed markets who are increasingly moving towards lower cost products and services.

This is the right time to find the local best-fit partners in these emerging economies at right valuations, mitigating the overall risks and understanding local markets better in a quicker way. On top of it, it's the right time to recruit the top talent for local as well as global responsibilities.

Last but not the least, companies should plan for the truly long-term thinking where they want to be 10, 15, 25 years from now and not the next quarterly stock market report or how to get over a recessionary period that may only last for two years.

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