

---

# Introduction

Rien T. Segers

---

## Abstract

Asia will soon reshape the global economic landscape. This undoubtedly will result in a change in the global power center—both soft and hard—from the West to the East. In global business, interactions between Asia and the West will most likely intensify. The West will encounter Asian values more than before in a working environment. In this book, we want to emphasize that hundreds of Asian companies will reach out to the world and enter the global market. At this moment, most of these new companies are relatively unknown in the West. The message of this book is that this will rapidly change. By choosing to highlight rather recently-established, multinational, companies, we hope to show what kind of strategies these exemplary companies have developed to become successful not only in their home market, but also in the world market and thus become strong competitors to their Western rivals. We have selected at least one company to analyze from the key countries of China, India, Japan, South Korea and Vietnam, with a focus on its strategies and endeavors to become a global multinational.

---

## 1 The Rise of Asia

After the current financial-economic crisis, the world will have a completely different outlook. Three developments will be decisive in this respect. First of all, the leadership of the United States, the undisputed leader of the second half of the twentieth century, will no longer be self-evident. In addition, the integration process of the European Union and especially that of the Eurozone has come to a standstill,

---

R.T. Segers (✉)

International Business School, Hanze University OAS, Groningen, The Netherlands

Clingendael Netherlands Institute of International Relations, The Hague, The Netherlands

e-mail: [m.t.m.segers@pl.hanze.nl](mailto:m.t.m.segers@pl.hanze.nl)

and maybe worse, is on the brink of destruction. Finally, yet importantly, the global economic center of gravity is shifting more rapidly than expected from the West to the East. All of this means that the twenty-first century may very well be the Asian century.

If that is the case, then Asia will soon reshape the global political-economic landscape. This undoubtedly will result in a change in the global power center—both soft and hard—from the West to the East. In global business, interactions between Asia and the West will most likely intensify. In the West, we will encounter Asian values more than before in our working environment: business cultures and conventions that are so different from ours, based as they are on a completely different philosophy and another outlook on life. Is the West prepared for these encounters that are going to happen on a more frequent basis?

Many members of the Asian elite have given negative answers to this question. For example, the former top diplomat and current dean of the Lee Kuan Yew School of Public Policy at the National University of Singapore, Kishore Mahbubani, recently mentioned that no country has done more than the United States “to spark the rise of Asia. But paradoxically, America is among the countries least prepared to handle the rise of East Asia.”

High growth, rapid industrialization, economic reforms and the gradual opening of domestic markets to foreign competition characterize the economic development path of emerging Asian economies. Asia’s high growth combined with its vast market potential and large diversified labor pool has made it a favored investment location for Western companies. The influx of FDI has generated positive spillover effects in Asian economies. Asian firms were quick to absorb knowledge, technology and best practices from foreign firms to enhance their own operational capacities and build up their domestic market share. In addition, Asian firms have increased their ability to read trends in global markets and make the most of the endowments provided by their domestic environment to climb up the global ranks. Many Asian governments actively require and stimulate outbound activities of companies and are gradually cutting away the red tape that (formerly) impeded cross-border investments.

During the economic downturn in 2008, many Asian economies demonstrated great resilience, quick recovery and stable economic growth. Furthermore, the volume and global share of Asian cross-border investments continued to grow despite the dominant downward trend in global OFDI. Although the overall share of Asia in global OFDI is still relatively small, predictions are that it will increase based on Asia’s current economic growth levels and a possible upcoming recession in Europe and North America.

## **2 Growth in the Asian Hemisphere**

### **2.1 China**

The most eye-catching feature of Asia's economic ascent is the rise of China. Since the gradual opening up of the Chinese economy in 1978, economic growth rates have averaged nearly 10 % per year. According to forecasts, economic growth levels in China will persist, be it at levels significantly less than 10 %, and China could overtake the United States as the world's largest economy (by GDP) by 2020.

Although market forces have entered China, the government still exerts great influence on the economy. The initial economic success of China lies primarily in using economies of scale to their advantage. A large and diversified labor pool and considerable inward investment have been important factors for China in becoming a powerful source of low-cost manufacturing and industrial exports in the world. The Chinese government intends to diversify its economy and develop more knowledge- and technology-intensive economic activities. Chinese exports and outward FDI have grown explosively, especially after China joined the WTO in 2001. Government incentives have assisted Chinese companies in establishing a global footprint. Large greenfield investments of State-owned enterprises (SOEs) have sprouted in Central Asia, Latin America and Africa to safeguard resources and energy supplies for China's industries. The number of Chinese companies (mainly SOEs) acquiring European and North American targets in high-tech, manufacturing and raw materials has grown exponentially to secure intangible assets, knowledge and technology.

### **2.2 India**

Although still a poor country with vast socio-economic problems, India has managed to become the ninth largest economy in the world since economic liberalization in 1991. Between 1990 and 2010, the annual average growth rate of the Indian economy was 6.6 %. For an emerging economy, India has well-developed services and ICT industries which have showcased remarkable growth over the years. Indian ICT companies have been quick to embrace overseas clientele and business opportunities and have created a low-cost niche in the global ICT market. They derive the majority of revenues from services and software exports to developed markets.

Although service exports are booming, India has a trade deficit due to large importation of commodities. To improve its trade situation, India is negotiating various free trade agreements. Indian OFDI and M&A have surged since restrictions on outward investment and cross-border acquisitions have been loosened. Indian OFDI is mainly concentrated in the manufacturing sector followed by services and wholesale/retail activities. Favored investment destinations are Singapore, the Netherlands, United Kingdom, United States, various tax havens and the Middle East.

Indian greenfield investment mainly concerns mining, construction and heavy manufacturing activities in developing nations, often resource-rich countries. Indian outbound M&A has skyrocketed. Conglomerates have been especially keen to acquire foreign firms to gain market access and intangible assets. Indian outbound M&A activity is concentrated in developed nations' manufacturing sector and, to a lesser extent, in services.

### **2.3 Japan**

Japan was the first country in Asia to industrialize. In the latter half of the 19<sup>th</sup> century, foreign expertise and technologies were borrowed to create a solid industrial base. The main objective was to catch up with the West. After WWII, Japan's industry evolved quickly from light industrial production to heavy manufacturing. By the 1970s, Japanese industry had upgraded to mass-production of consumer goods. Japanese companies were successful and out-competed Western manufacturing by developing efficient lean production processes and thorough quality control systems. In the 1980s, Japan's industrial catch-up process was finalized when industries started to focus on innovation-driven activities. Since the end of WWII, Japan experienced continuous economic growth.

However, since 1989, when the economic bubble started to go bust, Japan has been in an on-going recession. The Japanese economy has been plagued by deflation, an ageing workforce and a banking crisis for two decades. Furthermore, Japan is still recovering from 3/11, the Fukushima triple disaster (earthquake, tsunami and nuclear meltdown). Japanese firms have seen their labor productivity, export revenues, domestic sales and production volume drop. International competition has increased and, in many industries, Japanese firms have lost market share. Therefore many Japanese multinationals are trying to reinvent themselves.

These factors have re-invigorated Japanese OFDI. In recent years, Japanese outbound investments have increased. Surprisingly, non-manufacturing FDI flows have overtaken manufacturing investment since 2007. Japanese overseas affiliates are mainly active in wholesale trade, transport equipment, various services, machinery and electrical equipment. Japanese companies have established a global footprint and are now strengthening and expanding their overseas production networks through investment. The scale and scope of activities of overseas subsidiaries have increased to build global market share. Many Japanese companies are globalizing their R&D base to enhance firm competence and international competitiveness. Many of these recent expansion efforts have been carried out through cross-border M&A.

### **2.4 South Korea**

In South Korea, we witness that industrialization with close state monitoring, development of industrial conglomerates (chaebol), domestic market protection

and export promotion has fueled high economic growth. Growth levels were high until the Asian Crisis in 1997 hit South Korea hard. Drastic reforms in the labor market and in the corporate and financial sectors were undertaken to avert total economic collapse. The chaebol, the main pillars of the South Korean economy, were forced to downsize and switch course from labor intensive production to capital- and technology-intensive production.

The South Korean economy quickly recovered and chaebol have become world-wide household names in handsets, LCD devices and automobiles. Chaebol dominate South Korea's outbound economic activity, accounting for a large share of manufacturing exports and 80 % of outbound investment. South Korea's prominent outward economic activity is rooted in export. It is the seventh biggest exporter and eighth largest importer in the world in terms of value. Many South Korean industrial companies choose to maintain production facilities in the home market, hence the large volumes of commodities flowing into South Korea.

Numerous FTAs are being negotiated to facilitate intensified trade flows. South Korean OFDI has grown substantially over the years. The majority of investments is concentrated in China, South East Asia, North America and Europe, in that order. Electronic equipment, shipbuilding, motor vehicles and petrochemicals are the main industries in which South Korean companies hold foreign assets. Greenfield investments are preferred over M&A deals, but the number of cross-border acquisitions is on the rise. Even though foreign assets of South Korean companies have grown, export will not be substituted for outward investment anytime soon.

---

### **3 Building Globally-Competitive Firms Which Will Conquer the World**

Asian companies are gaining competence and becoming competitive in the global economy. Cost advantages have been essential for them to break into international markets. Factors such as government support, internalization of best practice in manufacturing, and economies of scale have also been instrumental to the growth of Asian firms. Some firms have adapted to tough business conditions at home and created new opportunities in other emerging economies with similar market conditions. Although the growing success of Asian corporate internationalization is evident, capability constraints, such as the lack of international experience, brand names, innovation, management competence and quality products, can hinder international competitiveness of Asian firms (with the exception of South Korean and Japanese firms).<sup>1</sup>

In this book, we want to emphasize that hundreds of Asian companies will reach out to the world and enter the global market. At this moment these new companies are relatively unknown in the West. The message of this book is that this will

---

<sup>1</sup>The previous pages of this chapter are taken and adapted from Segers and Stam (2013), pp. 29–33.

rapidly change. After they have firmly established themselves in their vast own Chinese, Indian, Japanese, South Korean and other Asian markets, they will be knocking at many Western doors. In China, the government has given orders to a large number of companies to also become a brand outside China itself; this became known under the term *go out strategy*.

By choosing to highlight rather recently-established, multinational, companies in this book, we hope to show what kind of strategies these exemplary companies have developed to become successful not only in their home market, but also in the world market and thus become strong competitors to their Western rivals. We have selected companies from Asian countries that are promising as future economic giants. Right now, Japan and South Korea are already among the most sophisticated and competitive nations in East Asia, followed by China (among others) and at a bit larger distance, by India and Vietnam. From all these countries, we have chosen at least one company to analyze with a focus on its strategies and endeavors to become a global multinational.<sup>2</sup>

### 3.1 China

In China, we have selected six companies, large and powerful in their home market, while relatively unknown in the West, but definitely on their way to become a world brand.

*Alibaba* is a giant e-commerce company, established only in 1999 by Jack Ma; in September 2014 its market value was 25 billion US\$. Alibaba became known in the West by its spectacular IPO.

*Geeley* is another Chinese company this book focuses upon; it is an automotive manufacturing company. The company became somewhat known in the West by buying up the Swedish car maker Volvo in August 2010.

We further concentrate on *Haier*, a multinational consumer electronics and home appliances company; its products include air conditioners, mobile phones, computers, microwaves ovens, washing machines, refrigerators and TV sets; its revenues were 2.45 billion US\$ in 2014, earned with 70,000 employees.

Another multinational company producing networking and telecommunications equipment and services is *Huawei*, headquartered in Shenzhen, Guangdong province. Founded in 1987 by Ren Zhengfei, it now has over 140,000 employees.

*Lenovo* is a computer technology company with headquarters in Beijing. It designs and manufactures tablets, computers, smartphones, work stations and servers. Together with Huawei, Lenovo is undoubtedly China's most well-known company in the West with many branches and products sold in the world. The company was founded in 1984 and has now more than 54,000 employees.

---

<sup>2</sup>The description of the following 13 companies is selectively taken from Wikipedia (>*Wikipedia.org*), in combination with facts taken from the 13 analyses in this book.

*Tencent* is the sixth Chinese company in this book. It is an investment holding company whose subsidiaries provide mass media, entertainment, internet, and mobile phone value-added services. Those services include social networks, web portals, e-commerce and multi-player online games. It is the fifth-largest internet company in the world after Google, Amazon, Alibaba and Ebay (figures as of October 2014). Its market value is now about 150 billion US\$.

### 3.2 India

We focus on two promising Indian companies: Dr. Reddy's and Infosys.

*Dr. Reddy's Laboratories* is a pharmaceutical company based in Hyderabad. Dr. Reddy's has developed 190 medications and started exporting them to non- or less-regulated markets. The profitability from these unregulated markets enabled the company to get approval from drug regulators in more developed economies in Europe and the US. In 2012, the company had revenues of 2.1 billion US\$ and 16,300 employees.

*Infosys* provides business consulting, information technology, software engineering and outsourcing services. Its headquarters can be found in Bangalore. The company was founded in 1981 and has over 165,000 employees. It already has a clear global presence with 72 offices and 94 development centers in India, the US, China, Australia, Japan, the Middle East and in Europe.

### 3.3 Japan

Japan has a large number of companies which have enjoyed world brand status for a long time, including Canon, Honda, Mazda, Mitsubishi, NEC, Panasonic, Sony, Suzuki, Toyota, Yamaha, etc. These are all large and prestigious companies, well-established for a long time at home as well as on the global market. Often these companies are threatened by the new emerging Asian multinationals and many of them see their revenues dropping. Most of these well-established and brand companies are trying to reinvent themselves to stop the downturn. In this sense, they will also become 'new' companies entering the world market with a new strategy. From these companies we selected one example: the famous company Panasonic.

*Panasonic*, formerly known as Matsushita Electric Industrial Co., was founded in 1918 and has grown to become one of the largest Japanese electronics producers together with Sony. Its total revenues in 2014 were 64 billion US\$ and it has over 300,000 employees and some 580 subsidiaries. Panasonic is now trying to get its own house in order. Consumer electronics were once the basis for Panasonic's and Japan's economic miracle after World War II. But in recent years South Korea (e.g. Samsung) and Silicon Valley (e.g. Apple) have moved to the fore in technological innovation. That means it was necessary for Panasonic and other established Japanese companies to reinvent themselves. In Panasonic's case, it meant providing

less visible but more profitable industrial technologies (International New York Times 2013). Panasonic focuses now on two areas: homes and cars. In homes, it no longer sells only individual products (refrigerators, TV-sets, etc.) but sells systems which integrate all home products. In the automotive market, it supplies battery cells to makers of electric cars, like Tesla motors.

But in Japan there also exists a large number of rather recent and globally unknown companies which are going to enter the global market rather soon or have done so recently. From those companies, we selected Rakuten and Uniqlo, respectively.

*Rakuten* is a relatively unknown e-commerce and internet company, established in 1997 and based in Tokyo, providing online shopping. In 2013, Rakuten's revenues were over five billion US\$, providing work for over 11,000 employees. In 2005, Rakuten started expanding outside Japan, mainly through acquisitions and joint ventures.

*Uniqlo* (a contraction of "unique clothing") is a casual-wear designer, manufacturer and retailer, founded in 1949. Only at the end of the 1990s did Uniqlo become a successful brand in Japan. At that time, Uniqlo opened its first urban stores in Tokyo, offering good and cheap clothing which was a hit in recession-stricken Japan. After 500 stores were in operation in Japan, Uniqlo decided to establish itself abroad, first of all in China in 2002. After that year, many stores in many countries were opened, including one flagship store in the SOHO fashion district of Manhattan in 2006.

### 3.4 South Korea

In South Korea we focused on the Lotte conglomerate.

*Lotte* is a multinational food and shopping company with headquarters in South Korea and Japan, established in Japan in 1948. The Lotte Group consists of over 60 business units employing 60,000 people in very diverse industries such as candy manufacturing, beverages, hotels, fast food, financial services, entertainment, etc. The Lotte Group is relatively old, which means it has to reinvent itself constantly to survive the attacks from newly-emerging multinationals in East and West. So far, Lotte's strategy to affect all parts of its customers' lives (not only in South Korea but also in the rest of Asia) has proven to be very successful. Lotte is now a conglomerate company that is broadly engaged in food, retail, tourism, petrochemicals/construction/manufacturing, service/study and finally also finance. That means the company is able to compensate any losses in one particular domain by its gains in another.

### 3.5 Vietnam

In Vietnam, our research has dealt with Vinamilk.

*Vinamilk* was founded in 1976 and is the biggest dairy company in Vietnam. The major activities of the company are to produce and distribute condensed milk, powdered milk, fresh milk, soya milk, yoghurts, ice cream, cheese and other products derived from milk. Revenues are 1.3 billion US\$ and headquarters are located in Ho Chi Minh City.

### **3.6 Underlying Strategies and Success Factors of Emerging Asian Multinationals**

The above 13 companies are analyzed in detail in this study. From these analyses, an intriguing question arises: how is it possible that these newly emerged Asian multinationals (as well as the ‘old’ companies reinventing themselves now) are set to become so successful in the world market that they will become strong competitors to existing prestigious Western companies? In part VI “Underlying Strategies and Success Factors of Emerging Asian Multinationals”, we describe a number of underlying strategies and success factors of these multinationals. It concerns factors such as Asian corporate entrepreneurship and the strong phenomenon of the so-called Triple Helix system: the close collaboration between governmental and educational institutions with the business community. In addition, there are success factors such as Asian human resource management, intercultural competence and branding.

The overall message of this book is that we in the West should prepare ourselves for a business world which is going to be increasingly dominated by Asian companies. These companies have enjoyed great successes in their home market, but are relatively unknown so far in the West, except for many Japanese and, to a lesser extent, South Korean companies. Our research reported in this book makes it evident that many of those companies will become household brands in the West in the near future. This might seem unbelievable to many, but recent history has shown us a similar development of other companies.

Some fifty years ago, the Japanese Sony’s and Toyota’s were completely unknown in the West, but 15 years later—around 1980—they became well-known and well-respected companies in the world, and moreover, also strong competitors for Western companies. Most of the Japanese multinationals became very successful in the West. We call this phenomenon the first wave of Asianization, mostly coming from Japan during the years 1970–1990.

The second wave of Asianization gradually became visible since the turn of the century. This second wave has a much broader and stronger character. The current second Asianization process concerns more Asian countries and thus much more companies than in the first wave which was only Japan-based. But the tempo and scale in which the new Asian companies will conquer the world is much faster and larger than in the case of the first wave.

That means that this book implicitly contains an incitement to prepare ourselves in the West for the coming Asian era. These preparations should consist of serious attempts to understand the cultural identity of the several Asian countries and the

corporate culture and business strategies of the Asian companies which will appear in the Western market rather soon. In this book, we have selected the most important companies in this respect.

---

## **References**

Segers, R. T., & Stam, T. (2013). *Asia reshaping the global economic landscape*. Maastricht: Shaker Media.

International New York Times. (2013, December 28–29). Business Asia. *International New York Times*.