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PERSPECTIVES

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FLYING WITH THE DRAGON

RIDING THE NEXT WAVE OF GLOBAL GROWTH



The dragon holds an important position in history, folklore and symbolism across many parts of the Asian region. In China, the dragon is the highest-ranking animal in the animal hierarchy, strongly associated at one time with the Emperor and hence with significant power and majesty. In Vietnam, ancient folklore suggests that the Vietnamese people were descended from the dragon, and the symbol of the dragon represents, among other things, universe, life, existence and growth. Nearly every country in the region has its own particular twist on this mythology.

Over the last year, the allure of Asia has been overwhelming. Companies around the world have refocused on the opportunities for profitable growth that might exist in the region. Just as mythology varies country by country, however, so too do economic conditions, market structures, social preferences and business opportunities. We think that an “Asian growth strategy” is nothing more than a corporate placebo, easy to swallow but likely to have minimal impact. The only way to unlock real value will be to drill down, market by market, and segment by segment, to understand very clearly what local customers really want and to identify whether you have the capabilities to serve them well. Even if you do, you will need to ensure that you generate a sufficient return on investment over the medium to longer term to justify the effort and risk.

History is littered with the bodies of companies that sought offshore diversification into unfamiliar markets and failed to make the numbers stack up. In Australia's case, a number of those local subsidiaries of British parents were sold off and went on to become enormously valuable in their own right, driven by a more motivated management team and a better strategy. With this in mind, we explore below new ways of thinking about the opportunities that Asia presents, and how they can be unlocked by embracing the region's incredible diversity of cultures, economies and histories.

Asia is already the most populous region in the world. By 2030, it will be home to about two thirds of the world's middle class. As a result, the Asian region will be not only the world's largest producer of goods and services, but also the world's largest consumer of them – a consumer market of several billion relatively affluent people who are well-educated, socially engaged and internationally connected.

Meanwhile, the business environment in countries such as China has transformed dramatically over the last decade, with the doors for business and profitable investment thrown open in a way that has not been seen before. Whilst companies such as HSBC and Citi have operated in China for over a century, companies like Apple have created enormously profitable businesses in the space of just a few years, highlighting the potential for dramatic value creation if

the right investments are made. Meanwhile companies from China, Malaysia and Indonesia are some of the world's fastest growing, with Baidu (the Chinese equivalent of Google), reaching the top five of Fortune's fastest growing companies list in 2012. In short, it is now possible to build profitable and worthwhile businesses in the Asian region much faster than ever before.

This has significant implications for companies around the world. For once distant lands such as Australia, historic weaknesses are reversed and become strengths compared to the Americas and Europe:

• **The opportunity of distance:**

Australia's geographic position and its historic “tyranny of distance” is no longer an achilles' heel. Most major Asian centres lie in more or less the same time zone and are only an overnight flight away.

Nearly all of these journeys are convenient overnight flights, avoiding the significant working day time sink of East/West travel, which eats the business day in the same way as East/West travel across North America or Australia;

- **Home away from home:** Australia is one of the most culturally diverse countries in the world. The 2011 census showed that Australians come from more than 200 countries, speak over 300 languages at home and belong to more than 100 different religious groups. In further education, the significant influx of Asian students represents a huge opportunity for the country's domestic graduates to embrace a much wider regional identity. Of course Asian cultures remain much less familiar to Australians than their own, but the reality is that

there are much closer and more natural connections within the region than there are between Asia and many of the old world economies. These perspectives apply as much to Asian attitudes to Australia as they do in reverse, which is reflected by the strong increases in inbound tourism, not to mention Australia's recently elevated relationship with China;

- **The five key elements:** The five phases of the wū xíng (五行) in Chinese culture are wood, fire, earth, metal and water. These provide a perfect analogy to the critical resources that Australia offers in abundance – exceptional education, coal

and gas to produce energy, extensive open spaces, the ore to produce the iron and copper needed to build new cities, and the water required to grow food. Australia is one of the largest exporters globally in each of these categories, reinforcing the strong long term outlook of its domestic economy, as well as its importance to every growing nation in the region.

So Australia is a critical part of a region that offers an abundance of opportunity, partially obscured by the complexity of local markets and local mores. Whether you approach these opportunities from the South, East or West, unsurprisingly many companies have

found it hard to enunciate clearly where their best opportunities lie, let alone how they can best build businesses that are better leveraged to Asian growth.

With these challenges in mind, we believe there are three key perspectives that any organisation must combine if it is to stand a real chance of building meaningful businesses country by country. These are especially important if your senior management team and their direct reports have not spent a significant amount of time living and working in the region.

1. KNOW THY NEIGHBOUR

One part of the answer is simply very thorough homework, focussed on building

China: The awakening giant

With its 23 provinces, five autonomous regions and four municipalities (the largest cities), China is as great in complexity as it is in size. To put China's scale into context, if you add together the populations of the United States, South America, Japan and the entire EU, you end up with roughly the same number as the 1,350 million people who live in China. And to highlight the complexity, Chongqing, the largest of the municipalities with some 30 million people, is home to just 2% of China's population.

So where do you start? According to a recent *Brookings Data Now* report, the province of Guangdong, with its population of 100 million, accounts for nearly 40% of all of China's exports. If you combine the three coastal provinces that lie to its north, then this coastal region accounts for nearly 80% of all exports. So it is little surprise that it is in this area that there has been a focus on greater openness and engagement with international trade. The story is very different, however, as you venture further inland. Unsurprisingly, given these economic imbalances, there is a much greater reliance on the provision of public works and government spending. And hand in hand with this larger State sector is increased power for the provincial governments and their leaders.

In June of 2013, *The Economist* blogged about "Document Number Nine", which was circulating among the Party. There was a further discussion in the *New York Times*, in which President Xi Jinping warned of the risks of attempting to understand China's approach to politics and its separation of powers and individual liberties entirely through Western eyes.

It is no wonder that many people find it hard to understand how best to make the most of the opportunities that China presents. In part, we need to work hard to increase connections with China

and improve our collective understanding of its history, culture context, ambitions and mindset. On the other hand, we also need to recognise that China's domestic and foreign policy – and the strategies of many of its largest commercial organisations – are driven by a focus on long term outcomes that can be far more far reaching and visionary than is common in the West.

Ahead of this week's third plenum of the Communist Party, President Xi Jinping has continued to project an image of a reformist, suggesting that the ongoing and much-needed reforms will continue, including addressing environmental decay and corruption, whilst promoting innovation and stimulating increased domestic demand. He is thought by some to be the most powerful Chinese leader since Deng.

The changes in China since its entry to the WTO in 2002 are extraordinary. At that time, the widespread experience of many multinational companies was that doing business in China was very difficult and that it could take a very long time to achieve impact or profitability. Whilst the complexity remains, there are many examples where negotiations can move rapidly and substantial businesses can be created in a short space of time.

Joint CEO Cassandra Kelly has led Pottinger's engagement with China, and was one of the business delegates who participated as part of the official delegation to China earlier this year. She was previously responsible for the Asian development of GMAC Commercial Mortgage (then one of the largest commercial mortgage lenders in the world). She recently presented in Tokyo as a guest of the Japanese Government to speak on diversity and presented at the 2013 Global Summit of Women in Malaysia.



your understanding of individual cultures and complexities country by country and city by city. While much has been discussed on the need for a strategy for engaging with the region, little has been articulated about the specific requirements of doing business in particular countries, or on the nature of the market demand in those countries. Of course there are many books on this subject, but the implications for overall corporate strategy and culture are rarely enunciated clearly.

Ultimately, engagement with the Asian region must begin by asking not what your company thinks that it can do for Asia, but what Asia wants from you. These needs are diverse, and the perspective of a consumer in China or Japan or Vietnam will be very different from your own. The challenge for any Government or company will be how to best utilise core capabilities at home to harness the opportunities across the diverse Asian region. Thus to know and understand the opportunities that the region offers, it is critical to know yourself – and in particular

how you are perceived through the eyes of potential customers in the region. A true understanding of the cultural environment country by country is therefore essential to ensure that you have the best possible chance of understanding why any particular economy or market has evolved in a particular way.

2. CHOOSE YOUR DESTINY

The sheer scale of the region, and the dramatic increases in wealth that will occur within a very small number of decades, means that there are potentially many attractive opportunities. Faced with such an embarrassment of prospective strategic riches, it is easy to be overwhelmed by the range of choices. This extends beyond preference for particular countries to consideration of particular market segments, business models and other fundamental decisions. To cut through the noise, it's critical to establish at an early stage the strategic destination that you want to reach, and to be very clear how this will meet

customers' desires and unlock value for your business. The art of creating a true strategic destination is an important subject in its own right, and we have provided further guidance in ["Eyes Wide Open – Risk and Reward in Cross Border Expansion."](#)

And it's important to remember that there may be several attractive strategic destinations to target. Finding the perfect destination is not all important. Much more important is to find good opportunities and to bring them to life. Apple has had enormous success in China with the iPhone, but there are many other much more individualistic stories of success. Even in low growth markets such as Japan, foreigners have been able to develop profitable and rapidly growing businesses by identifying an attractive niche and growing market share.

In choosing your destination, it's important to take account of dramatic differences in the way that Asian markets are evolving, compared to older economies. For example, the emergence of online shopping has been a particularly important driver of commerce in

Japan: No matter how long the storm, fair weather will follow | 苦あれば楽あり

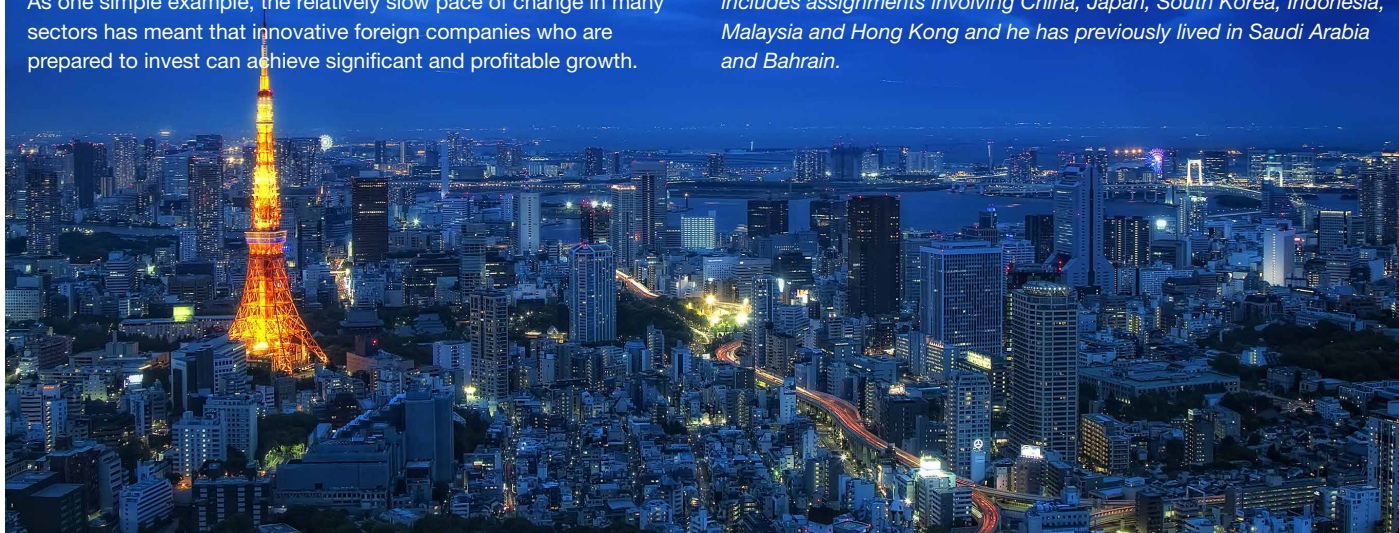
Despite some twenty years of very slow growth, Japan remains the world's third largest economy. It has a powerful high-tech manufacturing sector, with a strong position in motor manufacturing, robotics and optical equipment. Its economy remains dominated by domestic businesses, and is often regarded from the outside as a challenging place to do business. Extremely high domestic service standards, and the wage costs that this imposes, make it difficult for Western businesses simply to transplant their businesses into Japan. For those that have lived in Japan, the picture is very different. As a land of great complexity, and with a rich cultural heritage, Japan offers an enormous variety of opportunities, experiences and challenges. And any true Japan expert will tell you time and again that they still don't really understand the country.

Like any foreign culture, however, once you begin to understand the local context, the reality of doing business can be very different. For those that have the courage to make the most of what they know, and the enormous domestic economy, there are many opportunities. As one simple example, the relatively slow pace of change in many sectors has meant that innovative foreign companies who are prepared to invest can achieve significant and profitable growth.

The key is to present a proposition that will resonate with Japanese consumers and businesses.

Ultimately, the key to unlocking opportunities in Japan is to recognise the pure size of the economy and the opportunity to combine the power of innovation with delivery in a culturally sensitive manner. Meanwhile Japan remains home to some of the largest and most sophisticated companies in the world in a number of sectors. Many of these companies are at the early stages of building businesses that are much more diverse from a geographic point of view. As they grow, these companies will themselves need to embrace richer organisational and cultural diversity, as many Western businesses have done over the last twenty years.

Nigel Lake was previously based in Tokyo and has worked with Japanese companies for 15 years. He has advised on major domestic Japanese M&A transactions for institutions such as Daiwa Bank, as well as on a number of cross-border transactions involving Japanese acquirors and counterparties. His Asian experience includes assignments involving China, Japan, South Korea, Indonesia, Malaysia and Hong Kong and he has previously lived in Saudi Arabia and Bahrain.



Asia. In the same way that developing nations leap-frogged fixed line telecommunications to embrace the mobile phone, cities across Asia are embracing social media and online commerce much more rapidly than physical retail infrastructure can be developed. As a result, retailers with strong supply chains who source from China can have a ready market in Thailand or in the Philippines as easily as in their home country. So a significant retail presence can be established with nothing more than a T-Mall account and a distribution centre. With the right partners, branding and ranging, a number of foreign organisations have been able to build an online following in the region which has underwritten the opening of bricks and mortar stores.

3. EMBRACE DIVERSITY

Asia is an exceptionally diverse region – even individual countries have regional differences internally which are much greater than in many Western nations. Faced with this complexity, it is essential to embrace the uncertainties that it implies, rather than trying to identify a single “best” opportunity or approach. To do this requires courage, not to mention an open mind and the need to spend time to get to know the individual markets and cultures first hand. The underlying fundamentals should, however, be very familiar to anyone who has built businesses around the world:

- **Build relationships and take a long**

term view: the requirement to build relationships is often seen as a uniquely

“Asian” phenomenon, but in reality it’s the approach that permeates any successful Government or company. Taking a long term approach makes sense in any market or cultural environment, and reflects a recognition that if you are building from a modest base, virtually all the value will lie at least five to ten years in the future;

- **Be innovative:** opportunities in Asia may not fit all the criteria you might apply at home in a mature, stable market where growth is low and the status quo is well defined. Many markets in Asia are moving very rapidly, so the ability to think differently and seize opportunities that come from unexpected angles will mark out the winners at an early stage;

Indonesia: Catching the wave

Paul Keating’s pronouncement first made in 1994 that “No country is more important to Australia than Indonesia” seems to have been somewhat lost in the decade or so since the challenges of the Asian Financial Crisis. Despite Indonesia’s economy growing at some four times that of Australia, and a market of some 240 million people, the most significant engagement of the last decade between Australia and Indonesia has been the pilgrimages of Australian surfers who have visited Indonesia to catch that next “big wave”.

Much of this has been as a result of sometimes unpredictable policy positions in the country, as well as perceptions of rampant corruption which have often deterred engagement. Indonesia’s growing nationalism drives many international investors to realise that they need to choose a local Indonesian partner. This choice is a real challenge as many Indonesian companies have a wide range of activities and invariably this will therefore involve developing a

wide range of political connections and related relationships. One clue to making the right choice of partner is to have or develop the knowledge of the track records of Indonesian companies and how they have evolved. Another clue may be to piggy back on already successful partnerships between Indonesian companies and international companies. Both paths require careful research and the use of informed contacts at the right levels.

Andrew Agnew was previously based in Singapore and Jakarta. He has worked with many Indonesian financial institutions, including advising the Indonesian Central Bank on the development of the Indonesian bond market. For 7 years, Andrew worked in Asia undertaking a wide range of advisory assignments with Indonesian, Indian, Singaporean, Taiwanese, Korean and Japanese clients. Andrew also lived and worked in Tokyo for three years.



- **Break down barriers:** the fear of the unknown is one of the most significant inhibitors of success, holding individuals and their organisations back from making informed, confident decisions to pursue opportunities as they arise. So each and every step you can take to remove these barriers and build familiarity with the region, its cultures and its people will be valuable.

Together, our team has lived and worked in many of the countries in the region, and we have consciously sought to bring together individuals and capabilities that are diverse and creative in nature. And we take our own medicine every day – the best opportunities

for Pottinger come from taking the longer term view, building relationships with people and businesses with shared values and ambitions, and continuing to extend our relationships in the region.

Innovation is like a mountain river. If you stand on the river bank watching, you will never get anywhere. If you jump in, the ride will be bumpy, and the water may be incredibly cold, but if you survive the journey, you will be way ahead of your competitors. The same is true for cross-border business expansion. There are many challenges to be navigated, and careful planning is needed. But if you sit on the sidelines, you will most certainly be left behind.

Beyond companies, all of this thinking

applies to countries too. As an example, Australia has an immense opportunity to participate in Asian growth and to harness this as a lever to move its entire economy up the food chain towards higher value-added activities in the financial sector, tourism, education and other areas. The nation already benefits from a diverse, multi-cultural population and global recognition and success in these critical sectors. The same is true for a number of other countries around the world. For everyone, we hope that the destination is clear, and that your team is ready. What is needed now is the leadership and action to bring this to life. **P**

By Olivia Loadwick and Nigel Lake

South Korea: “We got what we came for”

Australia’s relationship with Korea is typified by Australia’s economic history, with its roots at the bottom of the value chain. South Korea is Australia’s fourth-largest overall trading partner and South Korea’s POSCO (formerly Pohang Iron and Steel Company and one of the world’s largest steel companies) is Australia’s largest single export customer. Yet this relationship has its basis in the digging up of our resources, putting them on a boat and sending them off, only to be returned to us in the form of high value-add products, namely automobiles and the cargo ships on which they arrive. Unsurprisingly, the nature of this relationship has meant that very little understanding of Korea has developed within the consciousness of either the Australian public or within the Australian corporate landscape with Australia’s position in the relationship very much characterised as being the market price taker for commodity exports.

The challenge and opportunity for the Korea-Australia relationship in the “Asian Century” is to find a way to elevate Australia’s position as a high value trading partner. One area within which this may be possible is in renewable energy. Australia has been at the forefront of the development of renewable energy technologies. Meanwhile,

South Korea in 2010 passed a legislative framework for “Low Carbon Green Growth” which pledged that 11 per cent of its total energy would come from renewable sources by 2030. The legislation has spurred significant interest by Korean companies in renewable power technologies, an area which Australia is well positioned to leverage. Australia has a long history of development of world leading technologies in a number of industries, including in clean tech. Australia’s largest ASX-listed geothermal energy company, Geodynamics, recently successfully produced the first energy from its Enhanced Geothermal Systems pilot plant, a world first for such technology.

Olivia Loadwick previously worked for Samsung Electronics in Seoul, Korea where she was involved in strategic initiatives particularly focused on Samsung’s telecom networks division. Olivia’s work was focused on the North American market, with an emphasis on 4th generation Mobile WiMax technologies. She has extensive experience in international markets having lived, studied and worked in China, South Korea, Europe, the Middle East, the US and New Zealand.



India: A patient approach

As one of the BRIC countries India has seen rapid economic growth over the last decade with annual GDP growth in the range of 5% to 10%pa. This fact along with the huge market and large population has made it a target for inward investment by many multinational companies. Meanwhile India has a highly developed education system and highly skilled human capital in abundance.

In parallel with this economic growth, the last decade has seen Australia's relationship with India deepen progressively at the political and economic levels, yet there remains little understanding of the Indian business environment amongst many Australian companies.

The last decade has also seen Indian companies invest in Australia, particularly in the resources sector (Lanco, Adani, GVK, and the Birla group), and service companies such as Tata Consulting Services, establish very successful Australian subsidiaries.

But engagement with India is not without its challenges. Corruption is nearly endemic in India, and any company seeking to develop its business in India must recognise this and plan accordingly. This is not to say that one can't develop a business without corruption, but one must recognise that it will impact timeframes. Robust and enforced anti-corruption policies are essential from day one. The selection of any JV partner must also take this into account. Similarly, the legal system is complex and perilously slow requiring a long term and

cautious approach to be adopted.

In order to be successful in India companies will need to thoroughly prepare for any engagement including:

- Research the Indian market in depth to identify the optimal entry point and vehicle;
- Develop a detailed HR plan to maximise the use of the abundant Indian human capital;
- Put in place robust and enforceable anti-corruption policies;
- Ensure that high quality and trusted advisors are appointed who have thorough knowledge of Indian legal and regulatory systems; and
- Adopt a patient approach.

Gerry Grove-White is an energy specialist having held senior roles in companies spanning gas, oil, coal, hydro, wind, geothermal and nuclear. He has almost a decade of experience working in the Indian market with Indian companies, including as COO of Tata Power, India's largest private power company. He was also previously Managing Director of Eraring Energy in NSW and prior to that Country Director for PowerGen India, where he successfully developed, financed, constructed and subsequently operated a 700 MW CCGT facility in Gujarat.



About Pottinger

Pottinger is a multiple award-winning strategic and financial advisory firm.

We help our clients to adapt, innovate and transform their organisations to ensure their sustained success in today's increasingly complex and fast-moving business and economic environment. We do this by providing insight and advice that encompasses the design of strategy and the negotiation and execution of M&A transactions.

Our clients say that we offer a completely different proposition to traditional consulting and investment banking advisors, seamlessly integrating true strategic thinking, commercial insight, financial expertise and execution excellence. Our assignments typically relate to one or more of:

- Strategy and public policy
- Mergers and acquisitions
- Partnerships and joint ventures
- Restructuring and capital advice
- Risk, sustainability and related decision-making

Together our team has advised on over 200 M&A and financing transactions, as well as many significant strategic advisory assignments. Our experience covers most of the world's larger economies, and we enjoy the complexity of assignments that extend across borders and cultures.

We are regarded as an industry leader in productivity and as a role model for investment in our people. We have been recognised by the Australian Workforce and Productivity Agency as a benchmark for effective skills development in financial services and for the last seven years we have been awarded "Recommended Employer" by the Australian Business Awards.



Cassandra Kelly
Joint CEO



Nigel Lake
Joint CEO

For further information, please contact either of our joint CEOs.

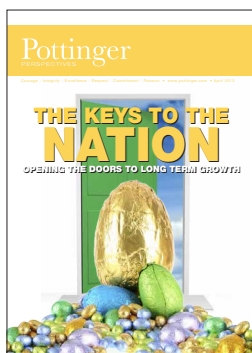
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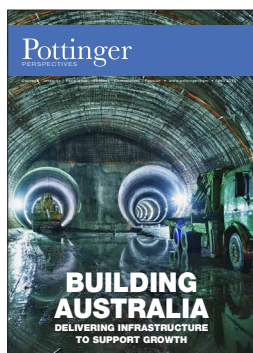
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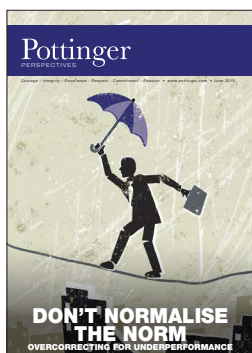
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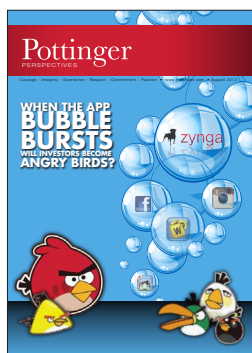
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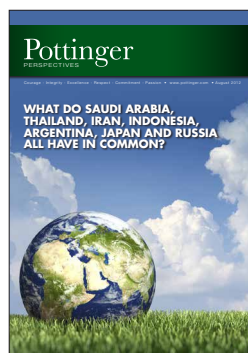
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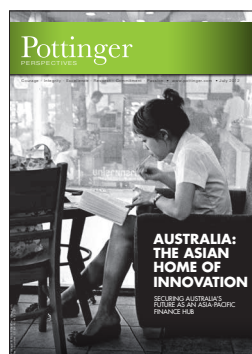
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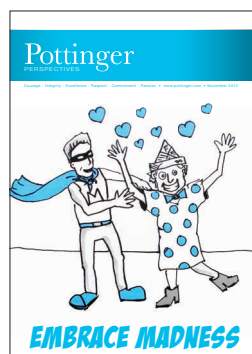
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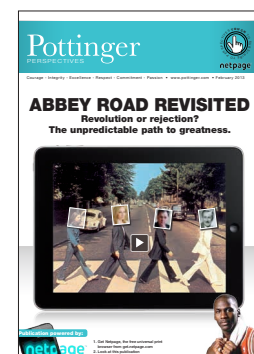
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