The Asian Renaissance

Come gather ’round people
Wherever you roam
And admit that the waters
Around you have grown
And accept it that soon
You’ll be drenched to the bone
If your time to you
Is worth savin’
Then you better start swimmin’
Or you’ll sink like a stone
For the times they are a-changin’

—Bob Dylan, 1964
Ian Fleming was my inspiration to write this book. Growing up, I devoured Fleming’s novels about the fictional British superspy James Bond. Bond's adventures were exciting and—for a teenager back then—quite racy. What appealed to me the most was that Bond traveled everywhere, from Istanbul to the Bahamas to Saint-Tropez to Carnival in Rio to Asia.

One Bond novel, *You Only Live Twice*, took place in the exotic land of Japan. The novel sparked in me an obsession to visit Japan, to understand and experience it all. It took years, but I would eventually get my chance to travel to Japan and the rest of Asia.

In 1985 I received a call from the United States Information Agency (now part of the U.S. State Department) inviting me to travel to Asia to speak as a private business executive at American embassies and consulates. That year I had published a book on technology theft and the importance of protecting trade secrets. It was a hot business topic at the time, as American and Euro-
pean companies were having their technologies regularly stolen throughout Asia. Hopefully concealing my excitement, I accepted the invitation and spent the next month visiting Japan, Korea, Taiwan, and Hong Kong. Provided with coach airfare, tiny hotel rooms, a food allowance, and $100 per diem, I was living my childhood dream. It was one of the greatest months of my life and a turning point in my career. Since that first trip, I have traveled continuously to Asia as a business consultant and lawyer advising multinational companies and global investors on markets and opportunities in Asia.

Why should you read this book? The answer is simple. Asia will dominate the world economy over the next century. To compete in and with Asia, you must understand how to act and know what to avoid. You will need a strategy. Throughout this book you will discover practical inside advice about what works and what is doomed to fail. You cannot hope to succeed without some basic understanding of this wildly diverse continent.

Which leads to perhaps the most important lesson—Asia is a continent. There are no “Asians.” Asia is comprised of a diverse mixture of individuals, religions, languages, history, and cultures like nowhere else on earth. Using a blanket term like “Asians” is misleading, because Asians simply do not exist.

Traveling to Asia forces you to be humble. No one can ever hope to know everything about Asia or even any individual country there. Accept the fact that the person sitting on the other side of the table is at least as smart as you are and is likely to know just as much, if not more, about any proposed deal. You cannot finesse or manipulate a business negotiation in Asia. Your best hope is to be as prepared as possible. Leave at home any preconceived notions about how business is conducted. The fact that you are successful where you live has no bearing at all on how you will perform in Asia.

Asia’s growing dominance is due to a fundamental and historic change taking place. All of the countries in Asia are shedding more than 500 years of unwanted outside influence and pressures. Today, too few in the West understand this history,
but you can probably trace the source of this back to 1421 when China was the most powerful nation in the world. At that point, the Europeans were episodic but not crucial traders. In 1424, China’s Emperor Zhu Di died. His son Zhu Gaozhi issued an edict that destroyed China’s entire navy, then the most massive fleet in the world. Zhu Gaozhi forced China to turn inward, closing most of its ports. For 100 years, foreign trade was embargoed. Then, when the Qing Dynasty succeeded the Ming Dynasty in 1644, the Qing rulers moved to further isolate China from the rest of the world. Into this void came the English, the Spanish, and the Portuguese, seeking to control trade and commerce throughout Asia. For almost 500 years the West dominated Asia. That era is over.

**America in Asia: 1945 to 1990**

Asia’s ascendancy did not happen overnight. The shift began just after the end of World War II. When the Pacific phase of World War II abruptly ended with Japan’s surrender in Tokyo Bay, all of Asia lay in ruins. Even those countries that had “triumphed” basically had nothing to show. For this reason, most American and European businesses paid little attention to Asia for the next thirty-five years. Even former President Richard Nixon’s well-documented trip to China in 1972 did little to help alter America’s perception of Asia. As recently as the 1980s, the U.S. government looked at Asia more from a geopolitical and military perspective rather than an economic one. This attitude came back to haunt and damage America’s prestige in Asia in the following years.

Underlying America’s indifference was either ignorance or unjustified arrogance toward its Asian counterparts. Prior to the 1990s, most American industries (except steel producers) expressed little concern for the head-to-head competition emerging from Asia. How naive America was to not see what was coming. First Japan, then Korea, and later the “Tigers” of Southeast Asia and Taiwan; one by one the countries throughout Asia began
to pose increasingly competitive economic threats to American dominance in a wide variety of industries.

**A Slow Sunset in Japan?**

Japan today is the third-largest economy in the world (China surpassed Japan and took the spot second to the United States in August 2010). The challenge facing Japan is that it has reached the peak in its growth cycle as a result of two factors. First, Japan is an aging society with a birthrate so low that it no longer replaces itself on an annual basis (in other words, a “graying society”). In coming years, Japan will need to extract tremendous resources out of its national wealth to pay for the needs of its elderly who are no longer working and will have increasing and costly health care needs. A second factor influencing Japan’s stagnation is its relatively small geographic size and population compared to other countries in Asia. With about half the population of the United States, Japan finds itself competing with major players such as China and India, both of which have growing economies and much larger populations.

**China and India: The Elephants in the Room**

Though Japan will remain a strong economic power, India and China will be the ones to define Asia and impact the world economy in the twenty-first century. Economists project that China will surpass the U.S. economy in size within the next seven years. Is it an accident that China and now India have grown so quickly? Definitely not. Looking at China and India in 1980, both had approximately the same size economies with large populations living in poor, technologically backward conditions. Who could have guessed then that China and India were destined to dominate the world’s economy? Few predicted it. How each country went about transforming itself is an interesting story.
China’s Plan

Since its Revolution in 1949, China has operated as a centrally controlled economy, but in the 1980s, China decided to radically change course. The central government decreed to the surprise of many outsiders that Chinese entrepreneurs would be permitted economic freedom, with the caveat that individual political freedom would not necessarily follow suit. The reason for this new philosophy espoused by Deng Xiaoping was China’s realization that it needed to attract massive amounts of foreign direct investment to grow. To accomplish this ambitious goal, Chinese leaders began a sustained effort to build a world-class infrastructure.

Beginning with Special Economic Zones, such as the Pearl River Delta in the South, and later with other carefully targeted efforts throughout China, the Chinese government pulled out all the stops to attract foreign-based manufacturing to China. The Chinese spent billions and billions of dollars constructing ports, bridges, roads, railroads, and a power grid to provide the key resources every manufacturer needs to succeed. With new industrial parks and special areas targeted for investment, China boomed in a way no other country has since the United States in the late nineteenth century during the height of the Industrial Revolution. China’s approach to growth was to build infrastructure and supply low-cost, efficient labor pools.

It is hard to argue with the success of this plan—China has experienced anywhere between 9 percent and 12 percent annual growth since the late 1980s. To put that into perspective, if an economy grows at 8.5 percent per year over a period of eight years, it doubles. You can see how many times the Chinese economy has doubled, and then doubled again, since the 1980s. China under the leadership of Xi Jinping will continue to sprint forward.

The Indian Path

India was far slower off the mark than China. After gaining its independence, India exhibited a deep-seated aversion to foreign
direct investment. Part of this attitude is due to remnants of strong anticolonialism feelings, which is understandable following the many generations of British colonial rule the nation endured. Once India finally achieved its independence, the Indians believed they would do things their way with no need to involve outsiders. It was essentially “India for Indians.”

From the 1950s through the early 1990s, India followed an NIH philosophy—that is, “not invented here.” India’s bureaucracy strongly opposed foreign direct investment or the licensing of technology that Indians had to pay for. The Indians continued to believe that they could develop whatever they needed themselves.

The results are better described in the chapter of this book focusing on India, but basically in the 1970s and 1980s India grew very slowly (i.e., about 3 percent a year). In the early 1990s, though, the Indians began to realize they had to change their way of doing business or else they would continue to lag behind China, Korea, and Japan. Over the last fifteen years, India has become much more open to foreign direct investment and is now growing between 7 percent and 7.5 percent per year. After China, watch for India to dominate Asian economic growth.

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This book contains practical insider advice on conducting business in Asia. The four most comprehensive chapters examine China, India, Japan, and Korea, which today are the dominant players in the region. Other chapters reveal the unique aspects of doing business in smaller but still very vital economies such as Indonesia, Thailand, Singapore, Malaysia, the Philippines, and Taiwan. Then, sometimes overlooked and emerging economies with great potential such as Vietnam are explored. Long-term success overseas requires taking the time to educate, plan, prepare, and execute with both a specific business strategy and cultural sensitivity in mind. My hope is that this book is the first step on your journey.