

4-14-2006

Investment in Asia

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Recommended Citation

Trevor C. Rowe. (2006) "Investment in Asia" , , .

http://epublications.bond.edu.au/chanc_pubs/1

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INVESTMENT IN ASIA

- Asia is a new frontier:
 - China has emerged as its economy continues to roar ahead
 - India is now opening up its economy and attracting investment, particularly in the IT/ICT sector
 - ASEAN has now regained momentum following the late 90's Asian crisis
 - Japan is seeing a resurgence of growth, led by import growth (12% viz. 7% of GDP 80's/90's) that is, Japan consumer growth may help rebalance the global economy; as US consumers look somewhat fragile!

Japanese tourists are again travelling within the Asian region – further proof that Japan is back after years in the doldrums!

- Asia is not homogeneous
 - Asia is highly diverse in natural resources, populations, cultures and economic policies
 - However, Asian countries have several common characteristics: 1) high rates of investment and savings; and 2) high and increasing endowments of human capital; increasingly due to universal primary and secondary education.

- In the post World War II era and when I lived in Asia in the 70's, the East Asian economies, except Hong Kong, began with a period of import substitution
 However, this period of import substitution encouraged the import of capital and intermediate goods and discouraged the exporting of manufactured goods and this led to large trade deficits. Consequently, to obtain the foreign exchange necessary to finance these goods, the Asian economies shifted to export push strategies. Some like Singapore, Taiwan, South Korea and Japan moved earlier and more vigorously than others in Asia
- The stunning success of the East Asian economies in the 80's and early 90's created problems
 - Industrialisation at all costs left many of the countries with major pollution problems, massive trade surpluses which triggered a growing wave of protectionist sentiment overseas, especially in the US
- There was evident rotation in the 80's and 90's (or as the ADB describe it "flying geese" pattern of economic growth) where a number of Asian countries move up in technological development, following other countries ahead of them in the development process
 - Asian labour abundant nations became globally competitive in labour intensive industries and graduated to more capital or skill intensive industries as savings and education deepen the availability of capital and skilled workers.

- Led by market forces and the Asian government economic policies resulted in a strong export platform
- By the mid 90's, this rapid economic growth in Asia was starting to create financial bubble as the Asian countries attracted substantial capital inflows
- These large investment inflows of capital to Asia resulted in asset prices reaching "dizzy" heights and creating increased risk for banks and finance companies as a result of loans to purchase inflated assets. Living in Asia at that time one constantly heard the theme that the State was more effectively allocating resources than the free market or "lazy economies" like Australia
- This boom ended in the mid-90's when the US dollar, against which the East Asian currencies were tied, began to recover against the Yen. Asia's exports suddenly became too expensive resulting in falling sales. The external financial positions as a result of domestic asset price and its impact on the financial banking sector, led to a wave of currency devaluations of the East Asian economies
- Asia tended to be, acknowledging generalisations are dangerous, centrally controlled economies with Governments allocating resources as they perceived relevant to their countries' interests

- By the late 1990's, Asia's economies showed signs of fatigue, and observers were asking whether the Asian miracle would continue, then came the 1997 Asian crisis
- The Asian crisis of the late 90's found Asia's institutional structure wanting and led to severe currency runs. Australia, rising to the occasion, supported Indonesia, South Korea and Thailand with strong standby credit lines
- There was surprise in some quarters in Asia that the sell down – and its consequences – was structural, principally given the problem that heavy investment and the big shift of labour from farms into factories, rather than from productivity gains based on technological based organisational change
- As a result, and again generalising, Asia's corporate governance and transparency finally improved in the early part of this decade, albeit mixed
- Since the late 90's the Asian economies have regained economic momentum, albeit mixed, early this decade as a result of transparent policies and increasing corporate governance
- The Asian economies have realised remarkable economic growth. The foundation of such growth has included high rates of investment, the increasing endowments of an educated workforce and the use of export promotion policies.

- In the early 70's, China was an insignificant participant in the world markets. The value of its exports and imports was less than US\$15 billion
 - China's trade balance in 2000 was US\$24.1 billion, now US\$117.2 billion (forecast end 2006)
 - In the 50's, China departed from the Soviet model and shifted from the large-scale intensive industry to small-scale, labour intensive industry, scattered across the countryside – it proved to be an economic failure
 - By the 70's, China embarked on reforms, both in agriculture and industry, reducing the role of the State planners and increasing individual incentives. Also, China opened its economy for foreign investment and joint ventures in the late 80's/early 90's and by the Millennium China had made all the easy adjustments in its transition towards capitalism, including 1) a massive restructuring of State owned industries; 2) a clean up of bankrupt State Banks; 3) the creation of a social security system and, 4) establishment of a monetary system. To quote Deng Xiaoping "Poverty is not socialism – to be rich is glorious'. Since then, we have seen remarkable economic growth, albeit China is characterised by substantial income inequities, especially between urban and rural living standards

- China's succession into the WTO was an important transition for the Chinese economy in terms of integrating that economy with the world, which will have implications for tariffs, anti-dumping regulations, rules restricting regulation, issues of intellectual property and, as stated at the time by many Chinese observers that "the WTO made us reform our economy"
- China has followed a pattern of international trade consistent with the principle of comparative advantage, supplied a growing share of the world's demand for relatively inexpensive goods. China's economic expansion since the early 80's has been driven by rapid growth in exports and investment spending
- China now describes itself as a socialist market economy, or to quote Deng Xiaoping again, "It doesn't matter if a cat is black or white, so long as it catches mice".
- Chinese corporations, as selected by Beijing, are looking to go overseas, particularly in terms of securing key resources --- for example, CNOOC acquired a 45% interest in an offshore oil mining licence in Nigeria for US\$2.268m.
- China is still 75% Government and 25% private and, consequently, when dealing with China one will more than likely be dealing with, or have Government as a partner

- Whereas India has as many similarities it has as many differences to China, however, less Government involvement, but considerable red tape or bureaucracy
- It is not possible to describe the vast range of differing economies, business practices and opportunities within the Asian region, given the time I have. Asia is too broad and complex a region to deal in generalities. There is arguably not one Asian strategy, but rather many individual Asian country investment strategies to consider, i.e., rather it is a set of individual Asian strategies that define success
 - and getting it right, however, is not always easy and, as always, with reward there comes risk.
 - a number of Australian high profile companies have invested in business in Asia, including QBE, Leighton, AXA, Boral and some of the Banks. Such investments are well spread across a number of industries, especially those where Australians have technology or state-of-the-art business capabilities to export. More recently, however, other industries have drawn the attention of Australian companies seeking growth outside the confines of an overly competitive domestic market
- Australian companies investing in Asia – the track record has not always been good and the challenges associated have been a constraint.

- Australian institutional investors attitude towards Asian expansion has generally been negative with a preference to invest in proven and established ventures
- Investing in Asian businesses often requires a longer investment timeframe. Articulating long-term benefits to shareholders who have an imperative for short-term returns can be challenging.

When structuring a cross-border transaction a critical part is to structure the transaction and associated equity story in such a way that is acceptable to the institutional investor in the Australian market.

- Another challenge is assessing the attractive growth profile of an Asian market where there is a lack of truly local knowledge and in numerous situations the lack of local partner connections. Managing the cultural differences is often the main obstacle to a successful investment.
- The race for investment in the high growth Asian economies is often being won by the larger US and European players who have greater capital to deploy and for whom the relative size of investing in Asia is significantly smaller than an Australian company.

- However, Australian companies do have some advantages over their global peers. For example, proximity, similar time zone and greater focus on Asia are, in some cases, sufficient to level the playing field.
- When one is looking to invest in Asia, it is important to:
 - recognise that Asia is not homogeneous
 - one size does not fit all
 - mindful of different cultures and their implications for doing business
 - one must choose partners carefully, where your respective interests are aligned
 - one must take time to get to know the players and develop relationships --- this takes time and patience!
- There is no such thing at this time as a Pan-Asian investment strategy; more aptly many individual Asian country strategies