Partnerships and Alliances within APEC

By Nelson An-Ping Chang

International joint ventures and cooperation are becoming the norm rather than the exception given the globalisation of economies worldwide. Companies must change their national or even regional mindsets in order to go global.

The vast majority of market entries into the emerging markets of Asia, Latin America, and Eastern Europe are through alliances. One of the reasons that Coca Cola was able to obtain a fast entry into the mainland China market was its linkage with Kerry Beverages, which is part of a group run by Robert Khok, a Malaysian Overseas Chinese with good connections to China.

Despite the difficulties inherent in cross-border joint ventures, future global players will have no alternative but to consider such alliances in one form or another.

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A RICH HISTORY

When we consider present-day networking and cooperation between multinational companies and domestic Asian firms, it is imperative that we understand the rich and varied historical background. Although exceptions can always be found to counter any conclusions we might draw, we can nonetheless arrive at some general inferences by examining the past.

The West has been quite interested – indeed, fascinated – with the Asian market over the past few hundred years, but the two cultures have actually been trading for millennia. Thousands of years ago, silk, spices and other items made many traders wealthy in both regions. However, this business was only available to a few knowledgeable and privileged traders.

Stories of Marco Polo intrigued the West even further. In fact, Columbus was looking for an alternate route to Cathay (China), though of course he found America instead. Once regular trading routes were established, the foundations were laid for the following few centuries of a love-hate relationship between Asia and the West.

In the beginning, Western traders desperately tried to pry open the cloistered and inward-looking markets of Asia. Once these markets were opened, colonial exploitation marked the next few centuries of the East-West relationship.

The British West Indies Co. was the best example of this type of one-sided business relationship. Business was booming, but it was never in the form of a partnership nor alliance. This period lasted till the end of the Second World War when the world geopolitical situation took a major turn. The old colonial powers lost strength and many new independent nations were formed in Asia.

Asia then started to develop its own economies. Trading with the West was again the best road to development. Relying on its ability to churn out low-cost consumer goods, the region for the first time began to develop a mutually beneficial relationship between East and West. (At the time, however, the biggest foreign investor in Asia was still another Asian country: Japan.)

In the 1970s, some Western companies were once again interested in Asia – this time not for silk or spices, but for the region's cheap but diligent workforce. Investments were concentrated mostly on export-oriented industries such as textiles and consumer electronics. Their targets were the markets of the West.

Nonetheless, business relationships were still pretty much one-sided, and rarely in the form of a partnership. Asian markets were either too small or too closed to garner much interest from the West. The fear of colonial domination and corporate imperialism was still vivid in the minds of many Asians and few Western companies saw the potential of Asian consumers.

Most Westerners were still Eurocentric and US-focused. However, some multinationals – and especially American companies – invested in Asia, mostly in the form of subsidiaries. A number of very successful foreign business ventures was formed in Asia, mainly for the sake of servicing Western markets. Only a handful had local partners, however, and even then that was mostly because the Western multinationals faced legal constraints or needed help in obtaining the necessary local resources.

Toward the end of the eighties and into the early nineties, Asia was becoming prosperous.

Prosperity gave Asia a new middle class that was endowed with both purchasing power and the desire to buy.

For the first time, Western companies realised the potential promise of Asian markets. But they found that penetrating these local markets was extremely difficult, either because of local regulations or because of their own lack of understanding of Asian mentalities and market behaviour.

Western companies tended to group all Asian markets outside of Japan into one category. But in fact, there are huge differences even within the so-called greater China market of Singapore, Hong Kong, China, and Taiwan. Even we Chinese cannot claim to understand all four. It was virtually impossible for multinationals headquartered in New York or London to begin to appreciate the subtle differences of each Asian market.

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THE RULES CHANGE

This brings us to the present day. Even as Asia's markets have been entering a new phase in their relations with the West, the rules of this interaction have been changing with the successful completion of GATT negotiations and the formation of the WTO.

Deregulation, technological innovation and trade liberalisation have been opening up the world's economies. The old business strategies were formed in line with the requirements of the past. Now, with the emergence of the global economy, companies have to reset their aspirations and broaden their horizons. The sudden introduction of new products and new geographic markets is forcing companies to rethink in terms of partnerships and alliances.

As we enter this new era, however, we must note the inherent inequality that can still be found in many of the new partnerships and address the challenges that face both Western multinationals and Asian domestic firms as they try to cooperate.

The Asian financial crisis of 1997 gave Western companies an even greater chance to enter the Asian market. Just within the four-month period of August-December 1997, there were more than 400 mergers and alliances (M&A) in Asia excluding Japan. Their value totalled much more than US$35 billion.

During 1998 and 1999 we have seen even more deals made all across Asia and in almost all industrial sectors, including financial, petrochemicals, real estate, construction materials, electronics, retail, and food. Almost no sector remained untouched. Some sectors of the Asian market are starting to be dominated by Western companies whereas that was almost never the case before.

M&As were not solely driven by bargain basement prices. It was economic imperatives and changing business attitudes that attracted so many deals. M&A has become an important Asian growth strategy for both Western and Eastern companies. However, only a few deals seriously examined the possibilities of true alliances or partnerships, with even less thought given to networking.

POTENTIAL PROBLEMS

Asia's financial crisis has made M&A and entry into the Asian market easier for the following reasons:

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- The easing of restrictions and the deregulation of foreign investments, as well as the opening of some industrial sectors that had been closed to foreigners.
- Financial difficulties encountered by some Asian companies which have forced them to seek additional outside capital and assistance.
- The privatisation of state owned enterprises.
- The restructuring of family owned conglomerates.

However, simple acquisitions – rather than real local partnerships – often fail to give international firms their desired full access to the local networks that have developed over decades. Newly acquired ownership of a local company does not always entail the takeover of its existing network.

Moreover, even local partnerships are no guarantee of success. Many joint ventures have ended in failure, necessitating restructuring and the buying-out of one partner's share by the other.

In any international joint venture, both parties must overcome formidable differences in culture and business mentality.

In evaluating the prospects for success in a joint venture, we must first ask ourselves, "What is the investment philosophy held by each partner? Is the venture merely a market play – an attempt to reap capital gains – or is it a strategic investment?" Different commercial projects mean different things in different countries and have different connotations.

A second issue concerns the aspirations of each party. "Do any of the partners desire full control in the long run? Does the local partner have global ambitions or is it content to focus only on domestic business?"

Family businesses often have different goals or aspirations from those of public companies, with control issues often acting as the major sticking point: Many companies have a "51 percent or nothing" mindset. This can close off many opportunities.

Actually, the notion of control can be broken down into the right to make decisions on specific issues such as capital expenditures, human resources, production facilities and dividend policies. Control problems can be solved in many creative ways by segregating different parts of the business thereby separating financial flows from technology flows, personnel flows from physical flows, etc.

ASK BEFORE TAKING ACTION

Ultimately, any prospective joint venture must be evaluated in terms of what each party brings to the table as well as each party's strengths and weaknesses and the relative importance of its contribution.

Local partners tend to bring local market know-how, distribution expertise, the benefit of domestic relationships and domestic assets. Over time, most of these items will fade in importance.

Multinationals' contributions tend to increase in importance over time as they bring in technology, management skills, capital and international market accessibility. Because of this inherent imbalance, local partners may be vulnerable over the long term.

Multinationals often have considerably larger and deeper pockets and broader capabilities. Therefore, it is difficult to form equal and lasting complementary partnerships. When the balance of power shifts, multinationals are likely to end up with control.

Before the formation of a joint venture, each party must ask itself several important questions:

- Is this venture really necessary or would a contractual relationship suffice?
- Does this venture represent a short-term, defensive measure for our firm or should it be viewed as an inevitable step in the evolution of our firm's business?
- How should we adapt to differences between the strategies and tactics of the respective partners?
- How will this partnership evolve?
- How sustainable is it given the partners' differing ambitions and strengths?
- What strategy and endgame will my side adopt? (Regardless of the type of venture, each player must have a clear strategy as well as endgame in mind.)

Turning to the perspective of the smaller local company, it must invest today to build up power for tomorrow. In doing so, it should focus on such areas as its own-brand development, more effective distribution control, the securing of proprietary assets and the pre-emptive acquisition of local competitors. In this way, a smaller local company can position itself to act as a regional hub for a future global partner.

When looking for foreign partners, the firm can consider a smaller non-global company, a financial investor or possibly a global leader from a different industry with ambitions to expand into new turf.

These would be good choices because they may present less of a long-term threat – unless, of course, it is the company's strategy to become part of a global network. (To have a local partner calling the shots could be anathema to some truly global players as they may have to synchronise certain international decisions). The local company might in some cases be better off holding simultaneous discussions with several potential partners.

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For a multinational, a simultaneous global and local strategy is required. It must not only think on a project by project basis, but also consider a whole range of opportunities over a long period. It cannot look only at its own short-term interest.

Relationship building is the essence of alliance strategy, not a by-product. Often, principal and operators may be different in Asia. A multinational requires special programmes to retain talented local managers.

Such a firm must create an international institutionalised system in which all participants – both local and international – feel they have a stake and ownership. It must truly look for synergies rather than just cheap prices. Investment in local people, not just local assets, is important. Success is measured by objectives met, not by the duration of the partnership.

A new paradigm is called for in forging new partnerships, alliances and ventures between multinational firms and domestic Asian companies. Borrowing a phrase from the worldwide environmental movement, the key is to "think globally but act locally".

For a foreign venture to be truly successful, a multinational may be required to meet the intellectual challenge of turning its multinational mentality into what I would like to term a "multi-domestic" way of thinking.

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Under this model, a multinational could comprise several autonomous, domestically focused units based in several countries. The parent company or international advisory board should set a standardised platform governing standards to be met by each unit's business plan, IT, and financing activities. Within this framework, however, each unit should have the flexibility and freedom to take full advantage of its local networking and market expertise.

This concept implies that, in a global economy, the talents of a multinational management team are best utilised in the services of a multi-domestic firm. But whatever the model, it will still take courage, determination and staying power to succeed.

OF BENEFIT TO BOTH

For the first time in the past few hundred years, Asian local firms and Western outside investors can truly enter an alliance that is of benefit to both parties. Capital, technology, management and regional know-how can be put together with a global view to serve one partner as well as the other.

Worldwide, we will see an increasing number of companies like Nestlé (with less than two percent of its revenue coming from its home market) and Corning Glass (with more than 50 percent of its corporate earnings coming from strategic alliances). Other types of co-investment methods can develop out of successful joint ventures, including cross shareholding and joint direct investment into a third country. We might even see an investment club type of arrangement emerging from a mutually beneficial relationship.

Given the fast evolution of technologies, much tougher consumer demands and huge capitalisation requirements for future global firms, I believe the time has come for us to develop true partnerships and alliances within the APEC region.

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