

# Chapter 11

## The Asia Pacific Region



### CHAPTER OUTLINE

Global Perspective: Walmart, Tide, and Three-Snake Wine

Dynamic Growth in the Asia Pacific Region

- The Greater China
- Japan
- India
- The Four “Asian Tigers”
- Vietnam

Bottom-of-the-Pyramid Markets (BOPMs)

Market Metrics

Asia Pacific Trade Associations

- Association of Southeast Asian Nations (ASEAN) and ASEAN+3
- Asia-Pacific Economic Cooperation (APEC)

A Focus on Diversity Within China

- Northeast China: Longtime Industrial Heartland
- Beijing–Tianjin
- Shanghai and the Yangtze River Delta
- Pearl River Delta
- The Other Billion
- Differences in Business Negotiation Styles Within The Greater China
- Marketing Opportunities in The Greater China

### CHAPTER LEARNING OBJECTIVES

What you should learn about in Chapter 11:

- LO1** The dynamic growth in the region
- LO2** The importance and slow growth of Japan
- LO3** The importance of the Bottom-of-the-Pyramid Markets
- LO4** The diversity across the region
- LO5** The interrelationships among countries in the region
- LO6** The diversity within China

## Global Perspective

### WALMART, TIDE, AND THREE-SNAKE WINE

Developing markets are experiencing rapid industrialization, growing industrial and consumer markets, and new opportunities for foreign investment. Consider the following illustration: In China, it is just a few shopping days before the Lunar New Year, and the aisles at the local Walmart Supercenter are jammed with bargain hunters pushing carts loaded high with food, kitchen appliances, and clothing. It could be the preholiday shopping rush in any Walmart in Middle America, but the shoppers here are China's *nouveau riche*. Superstores have proven popular with Chinese consumers, who devote a large part of their spending to food and daily necessities. Walmart has been able to tap into the Chinese sense of social status by offering membership cards that confer not only eligibility for special discounts but social status as well.

Alongside Campbell's soup and Bounty paper towels are racks of dried fish and preserved plums. One shelf is stacked high with multiple brands of *congee*, a popular southern Chinese breakfast dish, and another has *nam yue* peanuts and packets of bamboo shoots. In the liquor section in the back of the store is three-snake rice wine, complete with the dead serpents' bodies coiled together in the potent liquid. About 95 percent of what Walmart sells in China is sourced locally. Gone are the efforts to sell big extension ladders or a year's supply of soy sauce to customers living in tiny apartments.

At present Walmart operates over 8,000 units in 15 foreign countries, including almost 150 in China. Revenues and profits are growing nicely for its international operations,

and overseas expansion is set to continue particularly in China since its entry into the World Trade Organization. As one executive commented, "It boggles the mind to think if everybody washed their hair every day, how much shampoo you would sell [in China]."

The Chinese market can be difficult to tap and may not be profitable for many years for many companies. Most foreign retailers are in a learning mode about the ways and tastes of Asia, which are very different from those on Main Street U.S.A. For example, Pricemart designed its Beijing store with two huge loading docks to accommodate full-sized diesel trucks in anticipation of the big deliveries needed to keep shelves well packed. What the company found was Chinese distributors arriving with goods in car trunks, on three-wheel pedicabs, or strapped to the backs of bicycles.

Procter & Gamble offered powdered Tide detergent in large quantities, but China's oppressive summer humidity turned it into unwieldy clumps. Stocking large quantities of paper towels and disposable diapers didn't work well either—most customers didn't know what a paper towel was, and disposable diapers were too expensive a luxury for most. Package sizes also posed a problem—small Chinese apartments could not handle the large American-sized packages.

Sources: Keith B. Richburg, "Attention Shenzen Shoppers! U.S. Retail Giants Are Moving into China, and Finding the Learning Curve Formidable," *Washington Post*, February 12, 1997; David Barboza, "The Bold Struggle for China's Belly," *The New York Times*, March 6, 2003, p. C1; <http://www.walmartstores.com>, 2010.

**LO1**

The dynamic growth in the region

As the 21st century continues to unfold, so does the dynamism of the Asia Pacific Region. While economic growth rates in the Americas, Europe, and Africa remain at single-digit levels, double-digit annual growth rates are common in the Asia Pacific region. The economic miracle begun by Japan in the 1970s and carried on by the Four Asian Tigers in the 1980s has now been embraced by Greater China and the region as a whole. Indeed, marketers in the area are developing strong, new Asian brands,<sup>1</sup> reacting to and creating “a transnational, imagined Asian world” based on the common “globalization, hyper-urban and multicultural experience.” As evinced in Chapter 3, the Asia Pacific Region lagged for the last 500 years. But now opportunities abound, brought about by the combination of fast economic growth and half the population of the world.

**Dynamic Growth in the Asia Pacific Region** Asia has been the fastest growing area in the world for the past three decades, and the prospects for continued economic growth over the long run are excellent. Beginning in 1996, the leading economies of Asia (Japan, Hong Kong, South Korea, Singapore, and Taiwan) experienced a serious financial crisis, which culminated in the meltdown of the Asian stock market. A tight monetary policy, an appreciating dollar, and a deceleration of exports all contributed to the downturn. Despite this economic adjustment, the 1993 estimates by the International Monetary Fund (IMF) that Asian economies would have 29 percent of the global output by the year 2000 were on target. Both as sources of new products and technology and as vast consumer markets, the countries of Asia—particularly those along the Pacific Rim—are just beginning to gain their stride.

**The Greater China**

The term “**The Greater China**” refers to both the People’s Republic of China (PRC) and the Republic of China (ROC) or Taiwan. The two separate political units divided in 1949, and each government claimed the other as its territory. The dispute has persisted to this day. Although the ROC was one of the founding members of the United Nations in 1945, the PRC government was officially recognized with a seat on the U.N. Security Council in 1971. Over the years, the relationship between the disputants has been both politically difficult and militarily dangerous. But in the 21st century, direct trade between the formerly hostile neighbors has increased dramatically, easing much of the historical tension in all of East Asia.

**The People’s Republic of China (PRC)** Aside from the United States and Japan, there is no more important single national market than the People’s Republic of China (PRC).<sup>2</sup> The economic and social changes occurring in China since it began actively seeking economic ties with the industrialized world have been dramatic. China’s dual economic system, embracing socialism along with many tenets of capitalism, produced an economic boom with expanded opportunity for foreign investment that has resulted in annual GNP growth averaging nearly 10 percent since 1970. Most analysts predict that an 8 to 10 percent average for the next 10 to 15 years is possible. At that rate, China’s GNP should equal that of the United States by 2015. All of this growth is dependent on China’s ability to deregulate industry, import modern technology, privatize overstuffed and inefficient state owned enterprises (SOEs), and continue to attract foreign investment. So far in the 21st century, China’s successes have been astonishing; in 2009, China became the world’s biggest exporter ahead of Germany,<sup>3</sup> and its aggressive marketing through infrastructure development, particularly in developing countries around the world,<sup>4</sup> impresses as well.

<sup>1</sup>Julien Cayla and Giana M. Eckhardt, “Asian Brands and the Shaping of a Transnational Imagined Community,” *Journal of Consumer Research* 35 (2008), pp. 216–30.

<sup>2</sup>“How China Runs the World Economy,” *The Economist*, July 30, 2005, pp. 11, 61–63; Keith Bardsher, “China’s Trade Surplus Near Record Last Month,” *The New York Times*, March 13, 2007, p. C3.

<sup>3</sup>Judy Dempsey, “China Passes Germany as World’s Top Exporter,” *The New York Times*, February 10, 2010, p. B9.

<sup>4</sup>Vikas Bajaj, “China Builds, India Frets,” *The New York Times*, February 16, 2010, pp. B1, B2; Stanley Reed and Dexter Roberts, “Red Star over Iraq,” *Bloomberg BusinessWeek*, February 1 & 8, 2010, pp. 44–47.

Two major events that occurred in 2000 are having a profound effect on China's economy: admission to the World Trade Organization and the United States's granting normal trade relations (NTR) to China on a permanent basis (PNTR). The PNTR status and China's entry to the WTO cut import barriers previously imposed on American products and services. The United States is obligated to maintain the market access policies that it already applies to China, and has for over 30 years, and to make its normal trade relation status permanent. After years of procrastination, China has begun to comply with WTO provisions and made a wholehearted and irrevocable commitment to creating a market economy that is tied to the world at large.

An issue that concerns many is whether China will follow WTO rules as it has to lower its formidable barriers to imported goods. Enforcement of the agreement will not just happen. Experience with many past agreements has shown that gaining compliance on some issues is often next to impossible. Some of China's concessions are repeats of unfulfilled agreements extending back to 1979. The United States has learned from its experience with Japan that the toughest work is yet to come. A promise to open markets to U.S. exports can be just the beginning of a long effort at ensuring compliance.

Because of China's size, diversity,<sup>5</sup> and political organization, it can be more conveniently thought of as a group of regions rather than a single country. There is no one-growth strategy for China. Each region is at a different stage economically and has its own link to other regions, as well as links to other parts of the world. Each has its own investment patterns, is taxed differently, and has substantial autonomy in how it is governed. But while each region is separate enough to be considered individually, each is linked at the top to the central government in Beijing. We discuss the diversity within China at the end of this chapter.

China has two important steps to take if the road to economic growth is to be smooth: improving human rights and reforming the legal system. The human rights issue has been a sticking point with the United States because of the lack of religious freedom, the Tiananmen Square massacre in 1989, the jailing of dissidents, and China's treatment of Tibet. The U.S. government's decision to award PNTR reflected, in part, the growing importance of China in the global marketplace and the perception that trade with China was too valuable to be jeopardized over a single issue. However, the issue remains delicate both within the United States and between the United States and China.

Despite some positive changes, the American embassy in China has seen a big jump in complaints from disgruntled U.S. companies fed up with their lack of protection under China's legal system. Outside the major urban areas of Beijing, Shanghai, and Guangzhou, companies are discovering that local protectionism and cronyism make business tough even when they have local partners. Many are finding that Chinese partners with local political clout can rip off their foreign partner and, when complaints are taken to court, influence courts to rule in their favor.

Actually there are two Chinas—one a maddening, bureaucratic, bottomless money pit, the other an enormous emerging market. There is the old China, where holdovers of the Communist Party's planning apparatus heap demands on multinational corporations, especially in politically important sectors such as autos, chemicals, and telecom equipment. Companies are shaken down by local officials, whipsawed by policy swings, railroaded into bad partnerships, and squeezed for technology. But there is also a new, market-driven China that is fast emerging. Consumer areas, from fast food to shampoo, are now wide open. Even in tightly guarded sectors, the barriers to entry are eroding as provincial authorities, rival ministries, and even the military challenge the power of Beijing's technocrats.

No industry better illustrates the changing rules than information technology. Chinese planners once limited imports of PCs and software to promote homegrown industries, but the Chinese preferred smuggled imports to the local manufacturers. Beijing eventually

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<sup>5</sup>Diversity across regions also provides other dimensions suitable for market segmentation. See Kineta H. Hung, Flora Fang Gu, and Chi Kin (Bennett) Yim, "A Social Institutional Approach to Identifying Generation Cohorts in China with a Comparison with American Consumers," *Journal of International Business Studies* 38 (2007), pp. 836–53.

loosened the restraints, and Microsoft is now the dominant PC operating system. The market's modernization plan calls for imports of equipment and technology of over \$100 billion per year for the foreseeable future. Indeed, China is now the second biggest market for personal computers, following only the United States.

After nearly a decade of frustration in trying to effectively market and service its products in China, IBM took a bold step<sup>6</sup> and entered a venture with the Railways Ministry that allowed IBM to set up IBM service centers dubbed the "Blue Express." The agreement created a national network of service centers in railway stations that has enabled IBM to ship computer parts via the railroad around the country within 24 hours; competitors must book cargo space weeks in advance. In addition, the ministry's staff of more than 300 computer engineers helps out by providing customer services on IBM products.

Such innovative thinking by IBM and other marketers often accelerates the development of a more efficient market system.<sup>7</sup> IBM's service centers set an example of effective service before and after sales—important marketing activities. Management training for the thousands of employees of franchises such as Pizza Hut, McDonald's, and KFC has spread expertise throughout the marketing system as the trainees move on to more advanced positions and other companies. Other important markets in China are in the healthcare<sup>8</sup> and environmental areas.<sup>9</sup>

In the long run, the economic strength of China will not be as an exporting machine but as a vast market,<sup>10</sup> particularly if consumers there can overcome the cultural hurdles of thrift<sup>11</sup> and xenophobia.<sup>12</sup> The economic strength of the United States comes from its resources, productivity, and vast internal market that drives its economy. China's future potential might better be compared with America's economy, which is driven by domestic demand, than with Japan's, driven by exports. China is neither an economic paradise nor an economic wasteland, but a relatively poor nation going through a painfully awkward transformation from a socialist market system to a hybrid socialist-free market system, not yet complete and with the rules of the game still being written. Of course, the biggest threat for China is the economic volatility that seems to accompany fast growth<sup>13</sup>—let us hope that the government manages the problem well.

**Hong Kong.** After 155 years of British rule, Hong Kong reverted to China in 1997 when it became a special administrative region (SAR) of the People's Republic of China. The Basic Law of the Hong Kong SAR forms the legal basis for China's "one country, two systems" agreement that guarantees Hong Kong a high degree of autonomy. The social and economic systems, lifestyle, and rights and freedoms enjoyed by the people of Hong Kong prior to the turnover were to remain unchanged for at least 50 years. The Hong Kong government negotiates bilateral agreements (which are then "confirmed" by Beijing) and makes major economic decisions on its own. The central government in Beijing is responsible only for foreign affairs and defense of the SAR.

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<sup>6</sup>MNCs are becoming more creative in their approaches to investment and operations in developing countries. See Ravi Ramamurti, "Developing Countries and MNEs: Extending and Enriching the Research Agenda," *Journal of International Business Studies* 35, no. 4 (2004), pp. 277–83.

<sup>7</sup>Klaus E. Meyer, "Perspectives on Multinational Enterprises in Emerging Economies," *Journal of International Business Studies* 35, no. 4 (2004), pp. 259–76.

<sup>8</sup>David Pierson, "Waiting for Care in China," *Los Angeles Times*, February 11, 2010, pp. A1, A10.

<sup>9</sup>Jonathan Ansfield with Keith Bradsher, "China Gives Fuller View of Pollution in Its Waters," *The New York Times*, February 10, 2010, p. A9; Keith Bradsher, "China Leading Race to Make Clean Energy," *The New York Times*, January 31, 2010, pp. 1, 8.

<sup>10</sup>Patricia Jiayi Ho and J. R. Ho, "GM's China Sales Surge," *The Wall Street Journal*, January 4, 2010, online; Todd Woody, "Pasadena Firm Lands, Solar Deal in China," *Los Angeles Times*, January 10, 2010, pp. B1, B4.

<sup>11</sup>David Pierson and Barbara Demick, "Thrifty Chinese Resist Enticements to Spend," *Los Angeles Times*, February 13, 2010, pp. B1, B5.

<sup>12</sup>Ian Buruma, "Battling the Information Barbarians," *The Wall Street Journal*, January 30–31, 2010, pp. W1, W2.

<sup>13</sup>Michael Forsythe and Kevin Hamlin, "The Building Bubble in China," *Bloomberg BusinessWeek*, March 1, 2010, pp. 18–19.

The Hong Kong dollar continues to be freely convertible, and foreign exchange, gold, and securities markets continue to operate as before. Hong Kong is a free society with legally protected rights. The Hong Kong SAR government continues to pursue a generally noninterventionist approach to economic policy that stresses the predominant role of the private sector. The first test came when the Hong Kong financial markets had a meltdown in 1997 that reverberated around the financial world and directly threatened the mainland's interests. Beijing's officials kept silent; when they said anything, they expressed confidence in the ability of Hong Kong authorities to solve their own problems.

The decision to let Hong Kong handle the crisis on its own is considered strong evidence that the relationship is working for the best for both sides, considering that China has so much riding on Hong Kong. Among other things, Hong Kong is the largest investor in the mainland, investing more than \$100 billion over the last few years for factories and infrastructure. The Hong Kong stock market is the primary source of capital for some of China's largest state-owned enterprises. China Telecom, for example, raised \$4 billion in an initial public offering there.

Most business problems that have arisen stem from fundamental concepts such as clear rules and transparent dealings that are not understood the same way on the mainland as they are in Hong Kong. Many thought the territory's laissez-faire ways, exuberant capitalism, and gung-ho spirit would prove unbearable for Beijing's heavy-handed communist leaders. But except for changes in tone and emphasis, even opponents of communist rule concede that Beijing is honoring the "one country, two systems" arrangement.

**Taiwan, The Republic of China (ROC).** Mainland-Taiwanese economic relations continue to improve as both have entered the World Trade Organization. As both sides implement WTO provisions, they are ending many restrictions and now implement direct trade—not that they have not been trading. Taiwanese companies have invested over \$50 billion in China, and about 250,000 Taiwanese-run factories are responsible for about 12 percent of China's exports. Estimates of real trade are even higher if activities conducted through Hong Kong front companies are taken into consideration.

It is best to wrap future talks on the One China debate inside a bundle of more concrete issues, such as establishing the "three direct links"—transportation, trade, and communications. The three direct links issue must be faced because each country has joined the WTO, and the rules insist that members communicate about trade disputes and other issues. Trade

Two giant pandas, four-year-old male Le Le and two-year-old female Ya Ye, are being loaded onto the Panda Express, a FedEx plane, that is airlifting them from China to the Memphis, Tennessee, zoo for a ten-year visit. Whether it is pandas, time-sensitive deliveries, or cost-saving solutions, FedEx delivers high-value shipments door-to-door to as many as 210 countries. Also, notice the white arrow embedded in the FedEx logo (between the E and the x) that connotes motion. Not only does China use pandas as rewards for trade, it also uses them as enticements. Indeed, it has used "Panda Diplomacy" for some 1400 years! Two Pandas were offered to Taiwan in 2006, but were rejected—at the time they were called the "Trojan Pandas" by those arguing for refusal. A new government on the island accepted the pair in 2008, and they now reside in the Taipei Zoo.



fits well with both countries' needs. Taiwanese companies face rising costs at home; China offers a nearly limitless pool of cheap labor and engineering talent. Taiwan's tech powerhouses also crave access to China's market.

For Beijing, the Taiwanese companies provide plentiful jobs at a time when bloated SOEs are laying off millions. They also bring the latest technology and management systems, which China needs as a member of the WTO. In any case, Taiwan continues to stand tall in the East Asian economy.<sup>14</sup>

## Japan

### LO2

The importance and slow growth of Japan

Japan's fast growth in the 1970s and 1980s amazed the world. Then came the early 1990s, and Japan's economy produced a stunning surprise. Almost abruptly, it slowed, sputtered, and stalled. Stagnation set in and tenaciously persisted. Four explanatory themes have emerged, each with a basis in observable fact, namely, Japan's (1) faulty economic policies, (2) inept political apparatus, (3) disadvantages due to global circumstances, and (4) cultural inhibitions.

Each of these four has their proponents, each their own rationale. So let's examine each separately.

**Faulty Economic Policies.** A wealth of facts describe Japan's economic pain during the 1990s, but none more so than its stock market collapse. In the early 1990s, its Nikkei index level plummeted from over 35,000 to under 13,000. At this writing, it hovers at about 10,000. Japan's woefully inflated real estate values similarly hit the skids. Its once huge (and to some Americans, alarming) flow of investment into this country simply dried up. The end result found Japan with an economy once accustomed to nearly double-digit annual growth rates struggling, at first just to stay above no-growth levels, and then crashing to "minus growth," that is, a recession, in 1998.

Economic recessions are not, of course, unknown. But the peculiar feature of Japan's 1990's version was its decade-long persistence. Unsurprisingly, most economists sought to convince us that faulty economic policies both triggered the onset and the persistence of Japan's troubles. They explained with commendable brevity: "The bubble burst." But why the bubble, and why did it burst? The most common answer went somewhat as follows: Decades of galloping economic recovery success had bred a prideful national overconfidence. Growing willingness to take exaggerated risks followed. Heavy borrowing soon drove up levels of marginal investment. Eventually, lending agencies began to edge away from confidence toward caution. With the caution flag up, almost suddenly the whole inflated structure collapsed. Caution also filtered down to consumer levels. Spending habits were curtailed. With a fall in product demand, industry was forced to cut back both output and hiring. Unemployment soared to unheard of levels for that nation. The main casualty, however, was the widespread deterioration of national confidence.

No sector was hit harder than Japan's lending institutions, especially its huge, world-class banks. With the crash, the banks looked at loan portfolios splashed with red ink. Lending had to be restricted, a practice that dried up sources of capital needed for financing economic recovery. And so it went, one discouraging development following another, until a verifiable national crisis existed.

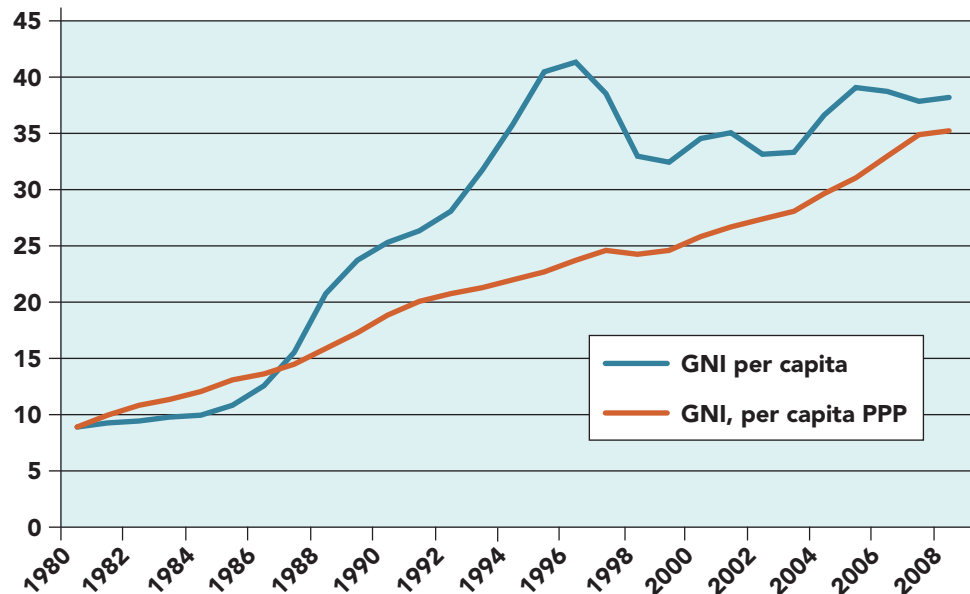
Seeing all this, American authorities and economists could not resist the temptation to offer remedies. "Draconian measures are needed," they chanted from across the Pacific. Understandable advice from on high, no doubt, but it reflected ignorance of the Japanese society's cultural prejudice against any action that might call for bold or rapid change. Always remember, Japan values stability above all else. Part of the problem is that most economists focused on overall economic performance and the dramatic slowdown in Japan's growth, tax revenues, and the potential disaster of deflation. And therefore, most economists have missed the real miracle of Japan's economic prowess. Please see Exhibit 11.1.

<sup>14</sup>Alex Frangos, "Thailand, Taiwan Post Strong GDP Growth," *The Wall Street Journal*, February 22, 2010, online.

**Exhibit 11.1**

Japan's GNI per Capita  
(current international \$)

Source: World Bank, 2010.



If we control for **purchase price parity (PPP)** in the per capita GDP calculations, Japanese growth simply wavered during the 1990s. That is, the PPP calculation takes into account deflation and best reflects the average well-being of the Japanese people. Per capita income fell, but so did prices. You can see that Japan pretty much avoided the Asian financial crisis that resulted in a precipitous economic decline in neighboring South Korea. Indeed, using this metric, the stability of the Japanese economy is miraculous, particularly given the troubles its close neighbors experienced in 1997 and the dimensions of both its stock and property market declines in the early 1990s. It is hard to imagine how the United States's economic performance might respond to simultaneous 60 percent declines in both the NYSE and the housing markets.

**The Political Explanation.** Views of economists on Japan's crisis have not been the only ones heard. Political pundits also rose to the challenge. They found two major villains:

Villain #1: The Country's Long Entrenched Liberal Democratic Political Party.

Villain #2: The Hidebound Japanese Bureaucracy.

Back in the 1970s, an authority on just about everything Japanese, one Frank Gibney, had written a seminal book on the nation. He called it *The Fragile Superpower*. His insight into the possible future of Japan's then surging economy was confirmed when the 1990s brought on crisis conditions. "Fragile" proved to be an apt tag.

In a new appraisal, Gibney has written that Japan became the victim of "one-party sickness," an ailment brought on by a 40-year hardening of political arteries. Meanwhile, many observers thought politicians had to share blame with Japan's powerful bureaucracy. Many observers, both inside and outside Japan, had long since come to believe that the bureaucracy actually controlled its elected politicians. Of course, in a consensus-type society, it is not easy, particularly for outsiders, to tell where one institution's power leaves off and another's begins. In any event, to those who championed a political explanation of Japan's woes, these two national institutions were viewed as joint culprits. Meanwhile, other observers, particularly within Japan, were dissatisfied with either the economic or political explanations they were hearing. They felt compelled to look for deeper roots.

**Global Circumstances Have Hurt.** The third explanation for Japan's end-of-the-century economic problems has more to do with three circumstances beyond their control.

First, the Japanese population, like the western European population, is shrinking faster than the American. While American baby-boomers circa 2005 were at their peak



of productivity, both the Japanese and Europeans were about 10 years ahead in adjusting their economic, political, and cultural systems and institutions to population declines and graying hair. And this adjustment is costly—just wait until 2015 in the United States to see how costly.

Second, Japan has a serious disadvantage in the information age: its complex language. Not only did its three alphabet systems hinder software innovations appropriate for world markets, but the fundamental indirectness of the Japanese linguistic system hinders electronic information flows in general. So Japan has been late to participate in the information technology explosion that drove the American economy to precarious heights in the late 1990s. We would be the first to argue that Japan is now catching up, particularly as software advances have made the structure of the Japanese language less a hindrance in the digital age. Also, 9/11 caused a slowdown in international travel that pushed Japanese businesspeople to become more adept with e-mail and other electronic communication media.

Third, with American baby boomer households operating at peak consumption levels and oil at historically low real prices, sports utility vehicles (SUVs) became the rage in the United States during 1990–2007. Japanese auto firms, which drove the 1980s boom in Japan, came quite late to the American SUV market. Honda was the last entrant, which in the short run was a huge national economic disadvantage for Japan. But the reluctance to bet so much on big car designs has proven much to the advantage of Japanese car makers. A good argument can be made that they are leading Japan toward a new resurgence; that is, assuming Toyota can regain its former prowess.

**The Cultural Explanation.** In the mid-nineties, we became aware of what might be called “The Cultural Causation” theory. This theory went something as follows: Immediately after World War II, a shattered Japanese nation arrived at a consensus goal for national recovery. That consensual goal provided the incentive for its spectacular progress, decade after decade. Then during the late 1980s, the Japanese people stepped back and looked around at their manifest achievement. It was easy to conclude they had reached their coveted goal. So the question for them became, “all right, what’s next?”

Perhaps more than any other society, the Japanese have an affinity for united effort. They seem inspired by common striving toward a common goal. Lack of one can present a problem.

Others who champion a cultural explanation of Japan’s 1990s woes did not limit their reasoning to an absence of a national goal. During most of the 20th century, building a strong enterprise structure provided the key to continuing success. Then with the advent of globalized competition, this inflexible structure became a hindrance. Agility, not structure, became the prime need. As has been pointed out, American corporate enterprise has met this need through wholesale restructuring and a blizzard of mergers, acquisitions, and consolidations. Standard Japanese practices, such as lifetime employment, job promotion based not on merit but on length of service, reciprocal contractor/subcontractor loyalties, and dozens of others have inhibited adaptive corporate measures. To put it simply, the U.S. enterprise scene handled its adjustment to the new economic era better than did the Japanese.

Japan is expected to continue its slow-growth economy during the second decade of the 21st century. Even as large companies have ambitious new growth plans,<sup>15</sup> economic cross-currents continue to roil with unemployment,<sup>16</sup> and Toyota’s 2010 quality problems have disrupted that crucial company’s contributions to the economy. However, economists and governments all over the world are using Japan as a model for policymaking, as Japan was the first to manage a big recession and its fast-graying population by strategically growing its government debt.<sup>17</sup>

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<sup>15</sup>Mariko Sanchanta, “High-Speed Rail Approaches Station,” *The Wall Street Journal*, January 26, 2010, online.

<sup>16</sup>David McNeill, “In Bleak Economy, Japanese Students Grow Frustrated with Endless Job Hunt,” *Chronicle of Higher Education*, February 7, 2010, online.

<sup>17</sup>Tomoyuki Tachikawa, “Exports Boost Japan’s GDP Growth,” *The Wall Street Journal*, February 15, 2010, online.

**India** The wave of change that has been washing away restricted trade, controlled economies, closed markets, and hostility to foreign investment in most developing countries has finally reached India. Since its independence in 1950, the world's largest democracy had set a poor example as a model for economic growth for other developing countries and was among the last of the economically important developing nations to throw off traditional insular policies. As a consequence, India's growth had been constrained and shaped



Despite world-class scientists, the Indian pharmaceutical industry (with its ownership restrictions, price controls, and weak intellectual property restrictions) does not benefit from innovations and international investments compared with more open emerging economies such as China.

by policies of import substitution and an aversion to free markets. While other Asian countries were wooing foreign capital, India was doing its best to keep it out. Multinationals, seen as vanguards of a new colonialism, were shunned. Aside from textiles, Indian industrial products found few markets abroad other than in the former Soviet Union and eastern Europe.

Now however, times have changed, and India has embarked on the most profound transformation since it won political independence from Britain. A five-point agenda that includes improving the investment climate; developing a comprehensive WTO strategy; reforming agriculture, food processing, and small-scale industry; eliminating red tape; and instituting better corporate governance has been announced. Steps already taken include the following:

- Privatizing state-owned companies as opposed to merely selling shares in them. The government is now willing to reduce its take below 51 percent and to give management control to so-called strategic investors.
- Recasting the telecom sector's regulatory authority and demolishing the monopolies enjoyed by SOEs.
- Signing a trade agreement with the United States to lift all quantitative restrictions on imports.
- Maintaining momentum in the reform of the petroleum sector.
- Planning the opening of domestic long-distance phone services, housing, and real estate and retail trading sectors to foreign direct investment.

Leaders have quietly distanced themselves from campaign rhetoric that advocated “computer chips and not potato chips” in foreign investment and a *swadeshi* (made-in-India) economy. The new direction promises to adjust the philosophy of self-sufficiency that had been taken to extremes and to open India to world markets. India now has the look and feel of the next China or Latin America.

Foreign investors<sup>18</sup> and Indian reformers still face problems, however. Although India has overthrown the restrictions of earlier governments, reforms meet resistance from bureaucrats, union members, and farmers, as well as from some industrialists who have lived comfortably behind protective tariff walls that excluded competition. Socialism is not dead in the minds of many in India, and religious, ethnic, and other political passions flare easily.

For a number of reasons, India still presents a difficult business environment.<sup>19</sup> Tariffs are well above those of developing world norms, though they have been slashed to a maximum of 65 percent from 400 percent. Inadequate protection of intellectual property rights remains a serious concern. The anti-business attitudes of India's federal and state bureaucracies continue to hinder potential investors and plague their routine operations. Policymakers have dragged their feet on selling money-losing SOEs, making labor laws flexible, and deregulating banking.

<sup>18</sup>Matthew Dolan and Eric Bellman, “Ford Makes Push to Boost Asian Presence,” *The Wall Street Journal*, September 23, 2009, pp. A1–2.

<sup>19</sup>Mehul Srivastava, “What's Holding India Back,” *BusinessWeek*, October 19, 2009, pp. 38–44.

## CROSSING BORDERS 11.1

### Infrastructure: India

Animals in India provide 30,000 megawatts (MW) of power, more than the 29,000 MW provided by electricity.

Because of the religious ban on the slaughter of cattle in almost all states in the country, India has the highest cattle population in the world—perhaps as many as 360 million head. Bullocks are used for plowing fields, turning waterwheels, working crushers and threshers, and above all for hauling carts. The number of bullock carts has doubled to 15 million since India's independence in 1947. Bullocks haul more tonnage than the entire railway system (though over a much shorter distance); in many parts of rural India, they are the only practical means of moving things about.

As a bonus, India's cattle produce enormous quantities of dung, which is used both as farmyard manure

and, when dried in cakes, as household fuel. Each animal produces an estimated average of 3 kilograms of dung per day. Some studies suggest that these forms of energy are the equivalent of another 10,000 MW.

Although Indian farmers prefer machines for plowing and hauling carts, bullocks and other draft animals are still in demand. Because it will take a long time for farmers to replace these draft animals with machines and there is concern that the better breeds may degenerate or become extinct, the government has developed an artificial insemination program to preserve the best breeds.

Sources: "Bullock Manure," *The Economist*, October 17, 1981, p. 88; S. Rajendran, "India: Scheme to Preserve Local Cattle Breed on Anvil," *The Hindu*, August 9, 1997; "Not Enough Bulls to Till the Land," *Times of India*, May 9, 2000; Randeep Ramesh, "India's Drivers Feel the Need for Speed," *The Guardian*, December 6, 2007, p. 29.

In addition, widespread corruption and a deeply ingrained system of bribery make every transaction complicated and expensive. One noted authority on India declared that corrupt practices are not the quaint custom of *baksheesh* but pervasive, systematic, structured, and degraded corruption running from the bottom to the top of the political order. Nevertheless, a survey of U.S. manufacturers shows that 95 percent of respondents with Indian operations plan on expanding, and none say they are leaving. They are hooked on the country's cheap, qualified labor and the potential of a massive market.

With a population now over 1 billion, India is second in size only to China, and both contain enormous low-cost labor pools. India has a middle class numbering some 250 million, about the population of the United States. Among its middle class are large numbers of college graduates, 40 percent of whom have degrees in science and engineering. India has a diverse industrial base and has become a center for computer software. India is now enjoying an information technology boom. After establishing a reputation among foreign corporations by debugging computer networks in time for Y2K, Indian companies now supply everything from animation work to the browsers used on new-generation wireless phones to e-commerce Web sites. As discussed previously, India has been an exporter of technical talent to the U.S. Silicon Valley,<sup>20</sup> and now many of these individuals are returning to establish IT companies of their own. Finally, there is a competitive advantage to being on the other side of the world: Wide-awake English speakers are available for 24/7 services for the United States, while their American counterparts sleep.

India not only stands firmly at the center of many success stories in California's Silicon Valley (Indian engineers provide some 30 percent of the workforce there) but is also seeing Internet enthusiasm build to a frenzy on its own shores. Indian entrepreneurs and capital are creating an Indian Silicon Valley, dubbed "Cyberabad," in Bangalore. Exports there are growing 50 percent annually, and each worker adds \$27,000 of value per year, an extraordinary figure in a country where per capita GDP is about \$1,000. After a little more than a decade of growth, the Indian industry has an estimated 280,000 software engineers in about 1,000 companies. Moreover, large Indian companies are now expanding their own operations abroad.<sup>21</sup>

<sup>20</sup>William M. Bulkeley, "IBM to Cut U.S. Jobs, Expand in India," *The Wall Street Journal*, March 26, 2009, p. B1.

<sup>21</sup>Mehul Srivastava and Moira Herbst, "The Return of the Outsourced Job," *Bloomberg BusinessWeek*, January 11, 2010, pp. 16–17.

## The Four “Asian Tigers”

The most rapidly growing economies in this region during the 1980s and 1990s were the group sometimes referred to as the **Four Asian Tigers** (or Four Dragons): Hong Kong, South Korea, Singapore, and Taiwan. Often described as the “East Asian miracle,” they were the first countries in Asia, after Japan, to move from a status of developing countries to newly industrialized countries. In addition, each has become a major influence in trade and development in the economies of the other countries within their spheres of influence. The rapid economic growth and regional influence of the member countries of the Association of Southeast Nations (ASEAN) over the last decade has prompted the U.S. Trade Representative to pursue free-trade agreements—Singapore has already signed up. They are vast markets for industrial goods and, as will be discussed later, important emerging consumer markets.

The Four Tigers are rapidly industrializing and extending their trading activity to other parts of Asia. Japan was once the dominant investment leader in the area and was a key player in the economic development of China, Taiwan, Hong Kong, South Korea, and other countries of the region. But as the economies of other Asian countries have strengthened and industrialized, they are becoming more important as economic leaders. For example, South Korea is the center of trade links with north China and the Asian republics of the former Soviet Union. South Korea’s sphere of influence and trade extends to Guangdong and Fujian, two of the most productive Chinese Special Economic Zones, and is becoming more important in interregional investment as well.

South Korea exports such high-tech goods as petrochemicals, electronics, machinery, and steel, all of which are in direct competition with Japanese and U.S.-made products. In consumer products, Hyundai, Kia, Samsung, and Lucky-Goldstar (LG) are among the familiar Korean-made brand names in automobiles, microwaves, and televisions sold in the United States. Korea is also making sizable investments outside its borders. A Korean company purchased 58 percent of Zenith, the last remaining TV manufacturer in the United States. At the same time, Korea is dependent on Japan and the United States for much of the capital equipment and components needed to run its factories.

## Vietnam

Vietnam’s economy and infrastructure were in shambles after 20 years of socialism and war, but this country of more than 88 million is poised for significant growth. A bilateral trade agreement between the United States and Vietnam led to NTR status for Vietnam and will lower tariffs on Vietnamese exports to the United States from an average of 40 percent to less than 3 percent. For example, Vietnamese coffee is now in almost every pantry in

Vietnam has almost no cars; motorbikes deliver almost everything, including moon cakes, in Hanoi.



## CROSSING BORDERS 11.2

### The Benefits of Information Technology in Village Life

Delora Begum's home office is a corrugated metal and straw hut in Bangladesh with a mud floor, no toilet, and no running water. Yet in this humble setting, she reigns as the "phone lady," a successful entrepreneur and a person of standing in her community. It's all due to a sleek Nokia cell phone. Begum acquired the handset in 1999. Her telephone "booth" is mobile: During the day, it's the stall on the village's main dirt road; at night, callers drop by her family hut to use the cell phone.

Once the phone hookup was made, incomes and quality of life improved almost immediately for many villagers. For as long as he can remember, a brick factory manager had to take a two-and-a-half-hour bus ride to Dhaka to order furnace oil and coal for the brick factory. Now, he avoids the biweekly trip: "I can just call if I need anything, or if I have any problems." The local carpenter uses the cell phone to check the current market price of wood, so he ensures a higher profit for the furniture he makes.

The only public telecom link to the outside world, this unit allows villagers to learn the fair value of their

rice and vegetables, cutting out middlemen notorious for exploiting them. They can arrange bank transfers or consult doctors in distant cities and, in a nation where only 45 percent of the population can read and write, the cell phone allows people to dispense with a scribe to compose a letter. It also earns some \$1,100 a year for its owner—twice the annual per capita income in Bangladesh.

When members of the Grand Coast Fishing Operators cooperative salt and smoke the day's catch to prepare it for market, it may seem light years away from cyberspace, but for these women, the Internet is a boon. The cooperative has set up a Web site that enables its 7,350 members to promote their produce, monitor export markets, and negotiate prices with overseas buyers before they arrive at markets in Senegal. Information technology has thus improved their economic position.

Sources: Miriam Jordan, "It Takes a Cell Phone," *The Wall Street Journal*, June 25, 1999, pp. B1; 7; World Bank, "World Development Indicators," 2010.

America, and the new competitiveness has caused prices to sharply decline on the world market. If Vietnam follows the same pattern of development as other Southeast Asian countries, it could become another Asian Tiger. Many of the ingredients are there: The population is educated and highly motivated, and the government is committed to economic growth. Some factors are a drag on development, however, including poor infrastructure, often onerous government restrictions, minimal industrial base, competition for resources with China,<sup>22</sup> and a lack of capital and technology, which must come primarily from outside the country. Most of the capital and technology are being supplied by three of the Asian Tigers—Taiwan, Hong Kong, and South Korea. American companies such as Intel are also beginning to make huge investments now that the embargo has been lifted.

## Bottom-of-the-Pyramid Markets (BOPMs)

### LO3

The importance of the Bottom-of-the-Pyramid Markets

C. K. Prahalad and his associates introduced a new concept into the discussion of developing countries and markets—**bottom-of-the-pyramid markets (BOPMs)**<sup>23</sup>—consisting of the 4 billion people across the globe with annual incomes of less than \$1,200. These markets are not necessarily defined by national borders but rather by the pockets of poverty across countries. These 4 billion consumers are, of course, concentrated in the LDCs and LLDCs, as defined in the aforementioned U.N. classification scheme, particularly in South Asia and sub-Saharan Africa.

Prahalad's basic point is that these consumers have been relatively ignored by international marketers because of misconceptions about their lack of resources (both money and technology) and the lack of appropriateness of products and services usually developed

<sup>22</sup>Edward Wong, "Vietnam Enlists Allies to Stave Off China's Reach," *The New York Times*, February 5, 2010, p. A9.

<sup>23</sup>C. K. Prahalad, *The Fortune at the Bottom of the Pyramid* (Philadelphia: Wharton School Publishing, 2005).



Here we see the start of economic development. As rough as conditions are in this rural school in Lahtora, India, they're even more difficult in Tanzania. But in both places, students are eager to learn.

for more affluent consumers. Three cases demonstrate the commercial viability of such markets and their long-term potential. CEMEX, a Mexican cement company with global operations, pioneered an often<sup>24</sup> profitable program to build better housing for the poor that includes innovative design, financing, and distribution systems. Similarly, Aravind Eye Care System in India began with the problem of blindness among the poor and developed an innovative organization of workflow—from patient identification to postoperative care—that has yielded better vision for consumers and profits for the company. Finally, in her wonderful book about the global economy, Pietra Rivoli<sup>25</sup> tells the story of how small entrepreneurs clothe East Africa with old American t-shirts. All three operations include combinations of products, services, research, and promotions that are appropriate for the lowest-income neighborhoods in the world.

A comprehensive study of the development of the leather-working industry in West Africa presents a new model for creating industries and markets in BOPMs.<sup>26</sup> The authors describe how industry clusters evolve and can be supported by outside investments from commercial and governmental concerns. Exhibit 11.2 represents the ingredients and processes involved in establishing a viable industry cluster in a LLDC. Craftspeople must network and collaborate with one another, vendors, customers, and family<sup>27</sup> to attain efficiencies in production, domestic and international distribution,<sup>28</sup> and other marketing activities. Key to the vibrancy of the industry cluster will be a series of cluster characteristics, external inputs, and macroenvironment factors. The scheme presented might serve as a checklist for stimulating economic development through marketing in BOPMs. Entrepreneurial activities that are networked appear to be perhaps the best way to stimulate economic development and growth from within developing countries. And marketing is key.

<sup>24</sup>Geri Smith, "Hard Times Ease for a Cement King," *BusinessWeek*, November 9, 2009, p. 28.

<sup>25</sup>Pietra Rivoli, *The Travels of a T-Shirt in the Global Economy* (New York: Wiley, 2005).

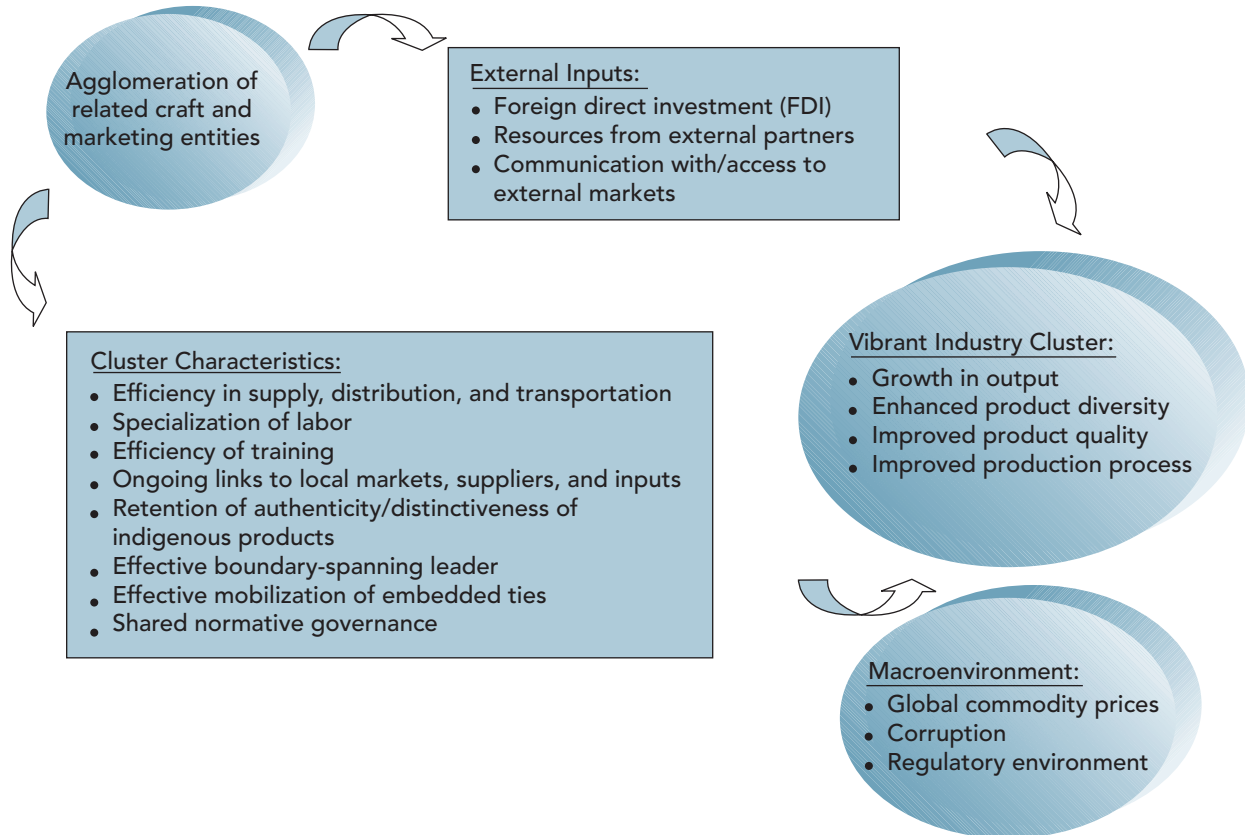
<sup>26</sup>Eric Arnould and Jakki J. Mohr, "Dynamic Transformation for Base-of-the-Pyramid Market Clusters," *Journal of the Academy of Marketing Science* 33, no. 3 (July 2005), pp. 254–74.

<sup>27</sup>Madhu Viswanathan, "Exchanges in Marketing Systems: The Cases of Subsistence Consumer-Merchants in Chennai, India," *Journal of Marketing* (2010), online.

<sup>28</sup>Jagdish Bhagwati, *In Defense of Globalization* (Oxford: Oxford University Press, 2004).

## Exhibit 11.2

### Dynamic Transformation of BOPM Clusters



Source: Eric Arnould and Jakki J. Mohr, "Dynamic Transformation for Base-of-the-Pyramid Market Clusters," *Journal of the Academy of Marketing Science* 33, no. 3 (July 2005). Reprinted by permission of Springer.

Note: BOPM = bottom-of-the-pyramid market.

Finally, Grameen Bank, a private commercial enterprise in Bangladesh, developed a program to supply phones to 300 villages. There are only eight land phone lines for every 1,000 people in Bangladesh, one of the lowest phone-penetration rates in the world. The new network is nationwide, endeavoring to put every villager within two kilometers of a cellular phone. Already cell phone penetration has exploded, growing from 4 per 1,000 to 63.5 per 1,000 during the last four years.<sup>29</sup>

## Market Metrics

### LO4

The diversity across the region

Exhibits 11.3–11.5 display the fundamental market metrics for the eight most populous countries of the Asia Pacific region. Notice the great diversity in the way people live across the countries, and once again the north-south disparity is clear as well. The income of the Japanese dominates the first chart, along with the dearth of data for Bangladesh. The general excellence of the Japanese healthcare system that produces the longest lifespans in the world is represented, and the emphasis communism places on health is also shown for China and Vietnam.

Exhibit 11.4 compares the infrastructures of the countries. The Japanese rail system is the best in the world, while in the Philippines, people travel by boat and bus. The Vietnamese have few cars, so most travel by motorbike. It is amazing to see families of five traveling on single motorbikes in the hectic streets of Ho Chi Minh City (Saigon). The emphases put on university training in both the Philippines and Vietnam bode well for their future growth.

<sup>29</sup>World Bank, "World Development Indicators," 2008.

### Exhibit 11.3

Standard of Living in the Eight Most Populous Countries in the Asia Pacific Region

Country	Population (millions)	GNI per Capita*	Medical Resources per 1000 persons		Household Ownership %		
			Doctors	Hospital Beds	Color TV	Refrigerator	Shower
China	1328	3324	1.5	2.9	97	60	45
India	1169	1016	0.6	—	34	18	46
Indonesia	230	2197	0.2	—	87	25	52
Pakistan	181	925	0.8	0.6	37	39	74
Bangladesh	162	576	0.3	—	—	—	—
Japan	128	41500	2.2	13.8	99	99	100
Philippines	92	1919	0.01	1.0	90	48	87
Vietnam	88	1056	0.7	2.6	86	30	40

\*Current US \$.

Source: Euromonitor International, 2009.

### Exhibit 11.4

Infrastructures of the Eight Most Populous Countries of the Asia/Pacific Region

Country	Travel by Rail (passenger-km per capita)	Passenger Cars/1000	Energy Consumption (tonnes oil equivalent)	Computers in Use per 1000 People	Mobile Phones in Use per 1000 People	Literacy Rate (%)	University Students per 1000 People
China	525	20	1.6	77	532	95%	17
India	613	15	0.4	41	386	67	12
Indonesia	98	17	0.6	34	788	92	14
Pakistan	163	6	0.4	6	588	58	2
Bangladesh	25	1	0.1	37	352	55	6
Japan	3115	446	3.9	524	894	100	23
Philippines	1	8	0.3	121	831	94	29
Vietnam	48	2	—	157	1020	92	27

Source: Euromonitor International, 2009.



Seeing the rough weave of traffic on the streets of old Delhi, India, you likely can understand the need for the elevated expressways. The introduction of Tata Motor's new \$2,500 car, the Nano, will only make congestion worse. The country just raised the national speed limit from 80 kph to 100 kph, spurred by a roads revolution, the centerpiece of which is the 3,650-mile golden Quadrilateral highway linking Delhi, Mumbai (Bombay), Chennai (Madras), and Kolkata (Calcutta), the most expensive public works project in the nation's history. However, we wonder: How will the traffic police keep the ubiquitous sacred cows off expressway on-ramps?



## Exhibit 11.5

Consumption Patterns in the eight Most Populous Countries in the Asia/Pacific Region

Country	People per Household	Household Expenditures (\$/capita)								
		Food	Alcohol, Tobacco	Clothing	Housing	Health Goods, Services	Transportation	Communication	Leisure	Education
China	3.4	430	34	112	157	114	46	147	37	82
India	5.3	212	18	25	73	24	90	20	12	16
Indonesia	3.4	588	75	52	230	34	48	23	28	91
Pakistan	7.2	291	16	35	133	47	32	4	1	18
Bangladesh	6.0	—	—	—	—	—	—	—	—	—
Japan	2.5	3303	743	658	5916	1034	2423	910	2694	507
Philippines	4.8	456	19	29	270	42	103	8	6	58
Vietnam	4.4	285	19	29	30	54	103	10	10	51

Source: Euromonitor International, 2009.

Exhibit 11.5 briefly enumerates consumption patterns. Of course, Japan stands out. Also, notice the difference between the Chinese and Indian emphases on education.

## Asia Pacific Trade Associations

### LOS

The interrelationships among countries in the region

After decades of dependence on the United States and Europe for technology and markets, countries in the Asia Pacific region are preparing for the next economic leap driven by trade, investment, and technology, aided by others in the region. Though few in number, trade agreements among some of the Asian newly industrialized countries are seen as movement toward a regionwide, intra-Asian trade area, with Japan and China<sup>30</sup> at the center of this activity.

In years past, the United States was Japan's single largest trading partner. However, now markets in China and Southeast Asia are increasingly more important in Japanese corporate strategy for trade and direct investment. Once a source of inexpensive labor for products shipped to Japan or to third markets, these countries are now seen as viable markets. Furthermore, Japanese investment across a number of manufacturing industries is geared toward serving local customers and building sophisticated local production and supplier networks.

Present trade agreements include one multinational trade group, the Association of Southeast Asian Nations (ASEAN), which is evolving into the ASEAN Free Trade Area (AFTA); ASEAN+3, a forum for ASEAN ministers plus ministers from China, Japan, and South Korea; and the Asia-Pacific Economic Cooperation (APEC), a forum that meets annually to discuss regional economic development and cooperation.

### Association of Southeast Asian Nations (ASEAN) and ASEAN+3

The primary multinational trade group in Asia is **ASEAN**.<sup>31</sup> Like all multinational market groups, ASEAN has experienced problems and false starts in attempting to unify the combined economies of its member nations. Most of the early economic growth came from trade outside the ASEAN group. Similarities in the kinds of products they had to export, in their natural resources, and other national assets hampered earlier attempts at intra-ASEAN trade. The steps that the countries took to expand and diversify their industrial base to foster intraregional trade when ASEAN was first created have resulted in the fastest growing economies in the region and an increase in trade among members (see Exhibit 11.6).

Four major events account for the vigorous economic growth of the ASEAN countries and their transformation from cheap-labor havens to industrialized nations: (1) the ASEAN governments' commitment to deregulation, liberalization, and privatization of their economies; (2) the decision to shift their economies from commodity based to manufacturing based; (3) the decision to specialize in manufacturing components in which they have a

<sup>30</sup>Carlos H. Conde, "China and ASEAN in Services Pact," *The New York Times*, January 15, 2007, p. C2.

<sup>31</sup>See <http://www.aseansec.org>; "Ajar for Business," *The Economist*, January 9, 2010, p. 44.

**Exhibit 11.6**

## Asia Pacific Market Group Fundamental Market Metrics

(in parentheses) = average annual growth rate 2004–2009 as a percentage

Country (year entered Association union)	Population (millions)	GNI* (billions \$)	Exports* of Goods (billions \$)	Imports* of Goods (billions \$)	Ease of Doing Business Index	GNI/ capita* (\$)	Internet Users (per 1000 people)
<b>ASEAN Free Trade Area (AFTA)</b>							
Brunei	0.4 (2.0)	11.5	10.2 (17.7)	2.6 (9.6)	94	30032	755 (15.4)
Cambodia	14.8 (1.6)	9.2	3.9 (7.0)	6.3 (14.6)	139	651	7 (17.3)
Indonesia	230.0 (1.2)	505.2 (15.5)	118.0 (10.8)	92.7 (11.0)	129	2197 (14.1)	154 (42.6)
Laos	6.1 (1.8)	5.0	1.2 (26.7)	1.6 (17.3)	165	837	26 (47.9)
Malaysia	28.1 (1.9)	195.6 (10.6)	152.6 (3.9)	120.2 (2.7)	21	6960 (8.5)	646 (9.2)
Myanmar	50.0 (0.8)	29.7 (23.0)	4.3 (12.4)	9.2 (33.2)	—	594 (22.0)	1 (33.2)
Philippines	92.1 (2.0)	176.8 (13.5)	38.6 (−0.5)	49.6 (3.2)	141	1919 (11.3)	73 (6.6)
Singapore	4.7 (2.1)	166.6 (10.1)	269.2 (8.4)	244.3 (8.3)	1	35402 (7.8)	701 (2.3)
Thailand	64.7 (0.7)	246.1 (9.2)	147.8 (9.0)	126.7 (6.1)	12	3801 (8.4)	254 (17.9)
Vietnam	87.6 (1.3)	92.5 (15.7)	55.8 (16.)	68.2 (14.5)	91	1056 (14.2)	286 (29.9)
<b>ASEAN +3</b>							
China	13280.5 (0.5)	4414.8 (18.0)	1185.8 (14.9)	986.8 (11.9)	86	3324 (17.4)	283 (31.2)
Japan	127.6 (0.0)	5295.2 (2.4)	577.4 (0.4)	548.9 (3.8)	13	41500 (2.5)	724 (3.1)
South Korea	48.7 (0.3)	821.7 (2.6)	372.5 (7.6)	314.3 (7.4)	23	16857 (2.3)	783 (2.4)

\*Current U.S. \$.

Source: Euromonitor International, 2010 and World Bank, 2010.



For products using high value and time-sensitive component parts such as manufactured in Kuala Lumpur, Malaysia, the air express services, such as provided by this DHL Worldwide Express Boeing 737, are vital.

comparative advantage (which created more diversity in their industrial output and increased opportunities for trade); and (4) Japan's emergence as a major provider of technology and capital necessary to upgrade manufacturing capability and develop new industries.<sup>32</sup>

Although there has never been an attempt to duplicate the supranational government of the European Union, each year the group becomes more interrelated. ASEAN Vision 2020 is the most outward-looking commitment to regional goals ever accepted by the group. Among the targets that will lead to further integration is the commitment to implementing fully and as rapidly as possible the ASEAN Free Trade Area. Toward those ends, the ten ASEAN nations have signed formal trade agreements with China, Australia, and New Zealand.

As in the European Union, businesses are drafting plans for operation within a free trade area. The ability to sell in an entire region without differing tariff and nontariff barriers is one of the important changes that will affect many parts of the marketing mix. Distribution can be centralized at the most cost-effective point rather than having distribution points dictated by tariff restrictions. Some standardization of branding will be necessary because large customers will buy at the regional level rather than bit by bit at the country level. Pricing can be more consistent, which will help reduce the smuggling and parallel importing that occur when different tariff schedules create major price differentials among countries. In essence, marketing can become more regionally and centrally managed.

<sup>32</sup>Shisei Kaku, "Japan Walks the Path of Peace," *The Age*, September 6, 2005, p. 13.

One result of the Asian financial crisis of 1997 to 1998 was the creation of **ASEAN+3** (ASEAN plus China, Japan, and South Korea) to deal with trade and monetary issues facing Asia. Most of East Asia felt that they were both let down and put upon by the West, which they felt created much of the problem by pulling out in the midst of the crisis. The leading financial powers seemingly either declined to take part in the rescue operations, as the United States did in Thailand, or proposed unattainable solutions. The result was the creation of ASEAN+3, consisting of the foreign and finance ministers of each country, which meets annually after ASEAN meetings. The first meeting was devoted to devising a system whereby the member countries shared foreign exchange reserves to defend their currencies against future attack. Although they were only tentative, the members of ASEAN+3 also discussed creating a common market and even a single currency or, perhaps, a new Asian entity encompassing both Northeast and Southeast Asia. Closer links between Southeast Asia and Northeast Asia are seen as a step toward strengthening Asia's role in the global economy and creating a global three-bloc configuration.

### Asia-Pacific Economic Cooperation (APEC)

The other important grouping that encompasses the Asian-Pacific Rim is the Asia-Pacific Economic Cooperation.<sup>33</sup> Formed in 1989, **APEC** provides a formal structure for the major governments of the region, including the United States and Canada, to discuss their mutual interests in open trade and economic collaboration. APEC is a unique forum that has evolved into the primary regional vehicle for promoting trade liberalization and economic cooperation. APEC includes all the major economies around the Pacific Rim, from Russia to Chile to Australia, the most dynamic, fastest growing economies in the world. APEC has as its common goals a commitment to open trade, to increase economic collaboration, to sustain regional growth and development, to strengthen the multilateral trading system, and to reduce barriers to investment and trade without detriment to other economies.

Representatives from APEC member nations meet annually to discuss issues confronting the group, to propose solutions to problems arising from the growing interdependence among their economies, and to continue their quest for ways to lower barriers to trade. Although APEC is still far from being a free trade area, each meeting seems to advance it another step in that direction, notwithstanding the objections of some members.

## A Focus on Diversity Within China

### LO6

The diversity within China

We close this chapter with a section briefly describing the diversity *within* China. Certainly we might include a similar section on India; both have twice the population of the European Union and three times that of the United States. We might also consider the cultural and economic differences in other large countries such as Japan<sup>34</sup> or Vietnam or across the islands of Indonesia. But given our limited room here, and both the fast ascendancy and wide diversity of the Chinese economy, we have chosen to focus on The Greater China.<sup>35</sup>

Today's China is divided into mutually competitive, complementary economic "warring states" (as some have said), just as it was twenty-two hundred years ago, before being united in the Qin Dynasty. Among these "warring states," four regional economies stand out from the north to the south of the country, along the Pacific Coast:

- The traditional industrial heartland in Northeast China, with the coastal Dalian city as its hub among the three provinces of Liaoning, Jilin, and Heilongjiang.
- The Beijing–Tianjin information technology (IT) corridor in north China.

<sup>33</sup>See <http://www.apec.org>.

<sup>34</sup>Shinobu Kitayama, Keiko Ishii, Toshie Imada, Kosuke Takemura, and Jenny Ramaswamy, "Voluntary Settlement and the Spirit of Independence: Evidence from Japan's 'Northern Frontier,'" *Journal of Personality and Social Psychology* 91, no. 3 (2006), pp. 369–84.

<sup>35</sup>The concept of The Greater China combines the PRC and Taiwan. This combination politically is a matter of ongoing debate, but we adopt it to be comprehensive in our discussion.

- The Yangtze River Delta, known as the Greater Shanghai area, with its emerging IT manufacturing center of Suzhou.
- The Pearl River Delta, containing Hong Kong, Macau, Guangzhou, and Shenzhen, as the world's manufacturing base for the IT industry.

Today these four regions include about one-quarter of the Mainland's people (that is, over 300 million) but account for about half of the GDP of the country. The per capita income of these provinces is greater than \$6000 (\$12,000 at PPP), roughly twice the national average. In Exhibit 11.7, we list the economic differences across the regions, provinces, and municipalities. People in the Shanghai municipality make eight times the income of those in Guizhou in the inland south of the country. Per capita incomes in the previously separate areas of Hong Kong, Macau, and Taiwan are the highest.

Beyond the economic diversity, the people of China exhibit important ethnic and linguistic differences (see Exhibit 11.8). Han Chinese constitute more than 90 percent of the people, with substantially sized minority groups that include the Zhuang, Manchu, Hui,

**Exhibit 11.7**  
Chinese Administrative  
Divisions

Major Economic Regions	Provinces and Other Divisions	Population (millions)	GDP (billions US\$)	GDP/capita (U.S. \$s)
<b>Northeast China</b>	Liaoning	43.2	204.1	4716
	Jilin	27.4	97.3	3551
	Heilongjiang	38.3	112.2	2930
<b>Beijing–Tianjin IT corridor</b>	Beijing <sup>2</sup>	17.6	160.8	9283
	Tianjin <sup>2</sup>	12.3	101.4	8432
<b>Yangtze River Delta</b>	Shanghai <sup>2</sup>	18.9	201.4	10654
	Jiangsu	77.2	460.8	5971
<b>Pearl River Delta</b>	Guangdong	96.4	528.3	5477
	Hong Kong <sup>4</sup>	7.0	2156	30755
	Macau <sup>4</sup>	0.5	14.2	40390
<b>Others</b>	Henan	94.9	262.2	2757
	Shandong	94.7	456.8	4811
	Sichuan	81.9	191.9	2341
	Hebei	70.4	229.7	3283
	Hunan	64.1	174.3	2729
	Anhui	61.3	136.4	2230
	Hubei	57.1	163.3	2857
	Zhejiang	51.8	308.1	5954
	Guangxi <sup>1</sup>	48.6	104.1	2140
	Yunnan	45.4	83.4	1844
	Jiangxi	44.3	102.7	2341
	Guizhou	37.9	52.6	1333
	Shaanxi	37.7	110.6	2934
	Fujian	36.3	160.8	4436
	Shanxi	34.3	99.5	2905
	Chongqing <sup>2</sup>	28.6	88.2	3084
	Gansu	26.4	45.7	1731
	Inner Mongolia <sup>1</sup>	24.2	131.5	5445
	Taiwan <sup>3</sup>	23.0	383.3	16987
Xinjiang <sup>1</sup>	21.6	57.7	2671	
Hainan	8.6	22.3	2593	
Ningxia <sup>1</sup>	6.8	18.1	2662	
Qinghai	5.6	14.6	2607	
Tibet <sup>1</sup>	2.9	6.0	2068	

<sup>1</sup>Autonomous Region.

<sup>2</sup>Municipality.

<sup>3</sup>Province of ROC.

<sup>4</sup>Special Administrative Region.

Source: All China Data Center (<http://www.chinadataonline.org>), for year 2009, accessed in 2010.

**Exhibit 11.8****Map of Greater China**

Source: Reprinted courtesy of Oriental Travel - offers tourist information and reservation services for worldwide travelers to the Greater China region. <http://www.orientaltravel.com>.



Miao, Uyghur, Tujia, Yi, Monglo, Tibetan, Buyi, Dong, Yao, Korean, and others. The national language is standard Mandarin, but more than 56 dialects and other languages are spoken across the country. Of course, written Chinese can be read almost universally, but different dialects are almost always mutually indecipherable. This lack of common language causes some interesting problems for television and radio advertisers in the country that print media can usually avoid. For example, the more than 3,000 television stations around the PRC are mandated by the State Administration of Radio, Film, and Television to present programming and advertisements in Mandarin. But such directives are commonly ignored in favor of local languages and dialects that better communicate to consumers both the programming content and the commercial messages. Particularly in Guangdong province, the emphasis on the local Cantonese “language” is pervasive. Television programming in that region is predominantly in Cantonese, but most commercial messages are in Mandarin. Radio programming and commercials both tend to be presented in Cantonese. Moreover, many residents of Guangdong province pay closest attention to the Hong Kong media in Cantonese via satellite. See Crossing Borders 11.3 for some additional interesting details.

### **Northeast China: Longtime Industrial Heartland**

Northeast China was the industrial and technological center of the country in the 1970s and 1980s. Then, large numbers of state-owned enterprises in the petrochemical, steel, and heavy industries dominated production in the old planned economy. While still hugely important, growth in the other three major regions has exceeded that in the Northeast as China moves from communism toward a more free-enterprise orientation.

The three contiguous provinces in Northeast China—Liaoning (43.2 million persons), Jilin (27.4 million), and Heilongjiang (38.3 million)—have long represented a cohesive unit in terms of culture and the political economy. Indeed, the strength of the regional interrelationship is well reflected in how they are described in other parts of the Middle Kingdom: The three are referred to as *dongbei*, meaning Northeast, or *dong*

## CROSSING BORDERS 11.3

### Comments on Dealing with Dialects in China

The State Administration of Radio, Film, and Television has decided that it needs to put a stop to dialect creep.

In a short news item posted to SARFT's Web site, a spokesperson reiterated the rules requiring that the dialogue in television dramas be standard Mandarin. SARFT spokesperson Zhu Hong said that the number of television shows making extensive use of dialect is on the rise, and some of the programs showed overlong and excessive uses of dialect not in accordance with the spirit of the country's strong promotion of standard Mandarin and in violation of national rules. Additionally, the practice has an effect on the audience on an aesthetic level.

Zhu Hong also said that province-level radio, film, and television administrative departments and producers needed to strictly follow the rules spelled out in SARFT document #560 (from 2005), the Notice Concerning Further Reiteration the Use of Standard Mandarin in TV Series, and more rigorously review completed shows. The use of standard Mandarin should predominate in shows going into production, under normal circumstances, he noted.

Zhu Hong also stressed that the language in television shows other than local musicals should be

predominantly standard Mandarin. In normal circumstances, dialect and non-standard Mandarin should not be used. Major revolutionary and historically themed TV shows, children's series, and shows promoting educational content are to use Mandarin. Leaders portrayed in TV shows are to use Mandarin.

Local dialects can add color to dialogue that is predominantly in Mandarin, but major characters are supposed to have standard speech. This requirement presents difficulties for the accurate, lifelike portrayal of many of China's founding leaders, such as Mao Zedong (from Hunan) and Deng Xiaoping (from Sichuan).

In a more mundane circumstance, a freight carrier active in China and Taiwan once aired a commercial showing one of its competitors trying to tell an old lady that he had a package for her. She did not understand the message in Mandarin, so the hapless delivery guy was forced to stand there repeating the message a few dozen times. The company that made the commercial naturally has their delivery guy walk right up and use the right dialect.

Sources: Joel Martinsen, "Too Much Dialect on the Small Screen," Danwei.org, July 17, 2009; "Chinese Dialects and Accents," tvtroes.org, accessed 2010.

*sansheng*, meaning Northeastern Three Provinces, instead of identifying each province individually. Finally, perhaps the most important advantage of the region is its juxtaposition with China's most important industrial neighbors. For centuries, goods and ideas have flowed across those borders and continue to do so in the greatest quantities ever. Liaoning has the closest economic ties with Japan, Jilin with South Korea, and Heilongjiang with Russia.

Because of the economic opportunity and proximity, students in this region study Japanese or Russian in foreign language classes instead of English. Korean is also a widely spoken language, with about 2 million minority Koreans residing in this area. The Chinese dialect spoken in this region is similar to Mandarin but with a slight *dongbei* accent.

The Japanese influence in the region goes back to the 1930s, when the Japanese controlled much of northern China through the puppet emperor of Manchukuo (Manchurian State). Fifty years later, the Japanese/Chinese commercial relationship resumed and has blossomed along with China's rise. Japanese investment has flowed into the area since the 1980s, and China is now Japan's most important trading partner, even ahead of the United States.

Dalian at the southern tip of the Liaodong Peninsula is the focus of bi-national relationships. The city has one of the world's largest and most modern port facilities (managed by a Singaporean company), it is only a four-hour flight from Japan, and its high-quality workforce and inexpensive real estate attract Japanese high-tech investments. Companies such as Toshiba, Canon, and Matsushita employ tens of thousands of Chinese workers there, and thousands of Japanese managers and engineers reside there. All this interaction

is made easier because some 70,000 Chinese speak fluent Japanese. Finally, Dalian has been able to clean up much of the environmental damage done by decades of industrial abuse and now has become a tree-lined host to high-tech and software companies from around the world.

Both Liaoning and Jilin provinces share borders with North Korea, and both provinces host substantial numbers of Korean minorities. Of the 2 million ethnic Koreans in the country, about 60 percent live in Jilin province. South Korea has taken advantage of this cultural bridge and focused its investments there, particularly since 2002.

China's longest border is with Russia, some 4,600 miles. The most important part of the border commercially is that near Heilongjiang. The long Russian influence in Harbin, the provincial capital—some call it “Little Moscow”—is evident in its architecture, consumption patterns (vodka and ice cream are popular), and its residents' valuable Russian language skills. Although tensions have almost always run high along the border, now the two countries are beginning to cooperate more closely around the trade of energy resources. In particular, Russian oil is flowing fast to feed the white-hot growth of *dongbei*.

## Beijing–Tianjin

Central planning has made this region of 29.9 million not only the political center of the country but the R&D center as well. The Central Business District (CBD), Zhongguancun (known as China's Silicon Valley), and most recently the Olympic Village are among the consequences of the unique political and cultural background of Beijing, the Chinese capital. The 75-mile corridor between Beijing and its coastal cousin Tianjin hosts some 5,000 Chinese high-tech companies, among them Lenovo, and more than 1,000 international IT companies. Perhaps the key to this region is the quality of its higher education. Peking University and Tsinghua University are the most prominent among the 70 universities in the region. The development of the Beijing Central Business District continues with the ambitious goal of rivaling those in Manhattan, Paris, and Japan.

Tianjin is China's third largest industrial city after Shanghai and Beijing, but it is also the fastest growing one. Primary industries include automotive, electronics, metals, and

Chinese air force officers undergo a training session on the latest command center instruments at a training school in Beijing. China successfully test-fired a new type of long-range ground-to-ground missile within its territory as tensions between China and Taiwan intensified after Taiwan's president declared that relations between Taipei and Beijing should be regarded as “special state-to-state relations.” Most recently, China and the United States have both shot down their own “errant” satellites with missiles.<sup>36</sup> Much of the electronic technology used in long-range missiles is dual-use; that is, the technology can be used for both nonmilitary and military applications. It is the exporter's responsibility to ensure that the final user of restricted dual-use products complies with export restrictions.



<sup>36</sup>“China Confirms Anti-Satellite Test to US, Says Not a Threat,” *AFX UK Focus*, January 22, 2007; Yochi J. Dreazen, “U.S. Missile Hits Satellite—Military Strike Raised Hackles in China; Test Charges Denied,” *The Wall Street Journal*, February 22, 2008, p. A9.

petrochemicals. New emphases are also being put on developing information technology, biotechnology, medicine, and green energies. Motorola's huge investments in the Tianjin Economic and Technology Development Zone have yielded perhaps the biggest mobile phone manufacturing operations in the world.

## Shanghai and the Yangtze River Delta



A vendor delivers a Christmas tree in Beijing. Since China's reforms and loosening of controls on religion at the end of the 1970s, the number of Christians has risen from 2 million to 50 million. Although restrictions on freedom of religion continue, as economic freedom grows, so do political freedoms.

Before World War II, Shanghai was perhaps the most important center for Asia Pacific trade and finance. Now in the 21st century, it has regained its status among several rivals, including Hong Kong, Singapore, Tokyo, and Los Angeles. Shanghai has been undergoing a major industrial renaissance during the past two decades. The traditional share of low value-added manufacturing in textiles and heavy equipment manufacturing industries has declined as many of them move west. Medium value-added industries now account for the vast majority of Shanghai's industrial employment. But new emphases are being put on developing its automobile assembly industry and other high-tech industries, such as computer, telecommunications equipment, and integrated circuit manufacturing.

China's sustained economic growth and accession to the WTO have aided Shanghai's position as a regional trade and financial center. Half the city's GDP derives from financial services industries, such as banking, retailing, finance, trade, insurance, and real estate development. Shanghai's stock exchange appears to have the potential to overtake Hong Kong and Shenzhen. It has a much broader base of industries, complementary economic resources from the Yangtze River Delta and the entire Yangtze River Valley area that extends deep into China's hinterland, and powerful backing from Beijing. Indeed, the Commerce Department reports the fastest growth in U.S. exports among cities away from the coast has been in Ningbo, Chengdu, and Wuhan, all up the Yangtze River Valley from Shanghai.

Pudong, with an area of 200 square miles and a population of over 2 million, is located on the east bank of the Huangpu River, just across from the urban center of Shanghai. The new airport and Pudong New Area's fast green-field growth effectively represents the modernization of greater Shanghai and China's emergence as an economic power in the new millennium.

Suzhou, an hour's drive west of Shanghai, is emerging as one of China's hottest manufacturing centers. It has replaced the provincial capital Nanjing, two hours away on the Shanghai–Nanjing expressway, to become Jiangsu province's number one economy and foreign trade center. In the last ten years foreign investors, particularly tens of thousands of Taiwanese firms, have built manufacturing facilities for everything from consumer goods to high-tech products. Over 250,000 managers and engineers from Taiwan now live in the area as well. Suzhou is now ranked in the top 10 of the Chinese Cities Comprehensive Competitive Powers Ranking.

## Pearl River Delta

The Greater Pearl River area includes three cities of over 5 million inhabitants (Hong Kong, Guangzhou, and Shenzhen); five cities with more than 1 million inhabitants (Zhuhai, Huizhou, Foshan, Zhongshan, and Dongguan); and a number of cities that each contain approximately half a million inhabitants, such as Macau.

Shenzhen, a boomtown bordering Hong Kong and a fishing village just 20 years ago, has replaced the provincial capital Guangzhou to lead the local economy. In 1980, Shenzhen was designated as China's first Special Economic Zone. The permanent resident population in Shenzhen in 1980 was only 300,000. Today's population has reached 7 million, reflecting the significance and attractiveness of the city as a manufacturing and transportation base. Proximity to Hong Kong, an international service center, is one of the advantages of Shenzhen. As a manufacturing base for a wide range of industries, Shenzhen can use Hong Kong as a trade platform to expand the global market. In addition, foreign enterprises can supply industrial products to Shenzhen through Hong Kong. As major foreign investors in Shenzhen, Hong Kong companies can form strategic partnerships with multinational companies. With their mainland experience, international exposure, and business acumen,



## CROSSING BORDERS 11.4

### Culture Changes, Celebrations Spread from the South

Philip Cheng, a 26-year-old financial analyst, has spent the past four Valentine's Days with his girlfriend, Molly Lam. Last year, they flew to Shanghai together, taking photos of the city's famous skyline and sharing a romantic meal at a cozy Italian restaurant.

This year, however, the young couple's Valentine's Day plans are under a new threat from Cheng's 50-year-old mother. For the first time in decades, Valentine's Day this year falls on the first day of the Lunar New Year, the biggest holiday on the Chinese calendar. For most Chinese families, Chinese New Year is a major family occasion filled with family visits and big meals. Mrs. Cheng has plans. Her son's choice: girlfriend or mother?

The Chinese New Year shifts each year according to the lunar cycle. Its overlap with Valentine's Day, which hasn't happened since 1953 and won't recur until 2048, is forcing time-honored Chinese and Western traditions to jockey for space with one another in Hong Kong, where both holidays are celebrated. Earlier in the week, Cheng and his two sisters got a text message from their mother, pleading with them not to miss the family Chinese New Year dinner. Says Cheng's mother, Anna, "Even though we're family, we're all so busy with our own things that we hardly ever see each other. On an occasion like this, I just think it's important for us to be able to share a meal together."

"When the message showed up on my phone, I couldn't believe it," Mr. Cheng recounts with a groan. "I had already been planning to spend the day with my girlfriend." In mainland China, one newspaper pitted the clash of dates as one between "the West's ideal of a paradise for two, and Chinese New Year's ideal of a reunited family."

The calendrical coincidence is frustrating restaurant owners and florists who look to Cupid's big day and the Chinese New Year as the biggest annual moneymakers. "It's a huge blow to the industry," says Elizabeth Tse, chairwoman of the Hong Kong Flower Retailers Association. With Valentine's Day falling on Sunday, husbands

and boyfriends won't have to send flowers to their partners' offices, where "having flowers on your desk is seen as a real status symbol," she says. She figures that because of the New Year, many people will visit their relatives and perhaps go to a temple, and then if they go out for a romantic evening, "many will say, 'Forget the flowers, let's just do dinner.'"

In mainland China, celebrating Valentine's Day is a more recent phenomenon, but 5 percent of respondents to a recent poll said they would ditch the lunar holiday to spend it with their lover, and another 5 percent admitted to being torn and confused. Elsa Ma, a 34-year-old telecom marketing manager from the interior mainland city of Wuhan, is traveling to her fiancé's hometown for the long weekend to meet her future in-laws for the first time after an eight-month courtship, and to celebrate Chinese New Year. But she's not giving up Valentine's Day, which "is important to both of us," she says. "Definitely, I will see his parents when I wake up, but the whole day we are going to spend alone."

In Hong Kong, where Valentine's Day has been celebrated for much longer, some restaurants are plowing ahead with their usual romantic offerings. At the French restaurant Gaddi's in the Peninsula Hotel, the Valentine's Day *prix fixe* menus are available for \$370 a person.

The saying in the Pearl River Delta area is, "They make the rules in Beijing, we interpret the rules here." So change in China has always flowed from the south to the north, since the former has greater exposure to foreign ideas and has for at least the last three centuries. Christmas and Valentine's Day holidays are catching on up north; however, we think it will be some time before \$370 per person dinners catch on in Guizhou province, where that amount is about 25 percent of annual per capita income.

Source: N. Mark Lam and John L. Graham, *China Now, Doing Business in the World's Most Dynamic Market* (New York: McGraw-Hill, 2007); Jonathan Cheng, "In Hong Kong, Love's at War with Tradition," *The Wall Street Journal*, February 13, 2010, online.

Hong Kong companies and personnel are capable of helping foreign companies reduce their investment and management risks in Shenzhen.

### The Other Billion

So far in this section, we have talked about one-fourth of the population of China—the coastal, industrializing, relatively rich folks. But the rural China few Westerners ever see is the part of China that doesn't yet participate in the global economy. The central government pays it some attention, but not much. These one billion people usually receive about 10 percent of the central government budget. That amounts to less than \$100 a head for rural roads, water, power supplies, schools, and hospitals.

Development in the region is focused on the large municipalities and cities such as the Chongqing municipality (28.6 million) within Sichuan province (another 81.9 million persons). China's World War II capital, this developing city is 1,500 miles up the Yangtze River from Shanghai. The average income for a Chongqing resident was about \$3,000 in 2009, compared with rural neighbors at about \$250. But the government actually is not spending much in the area. Instead, we find multinational companies funding development. For example, BP has built a \$200 million chemical plant in the area, Volvo has begun producing its small S40 series there, and Yamaha has a motorcycle plant nearby. Much, much more work needs to be done. But as wages rise along with the recent labor shortages along the east coast, the "market" will pull development westward. "How fast?" is the question of the day. The concept of bottom-of-the-pyramid marketing applies here.

Yum! Brands is looking to expand fast in China. In 2009 it added 500 new KFC, Pizza Hut, and Taco Bell restaurants, to total 2,870 restaurants in more than 650 cities. Fast food competitor McDonald's also intends to expand at a similar pace, if from a smaller base. Location decisions are made primarily by consideration of local incomes, particularly in central China. The KFC location decisions in the area are instructive: At last count, of 10 stores in Gansu province, 9 are in the capital city; 28 of 39 restaurants in Hubei are in Wuhan, the capital; and 17 of 25 in Sichuan are located in Chengdu.

Unrest in the countryside also flares up as the economic divide widens, and new communication technologies display the gap. The problems of development for this three-fourths of the population are daunting, and the scale of the potential social frictions are truly frightening. The opportunities for American companies there are very different from those of the bustling east coast.

Although it is difficult to compete with China's low manufacturing costs, imagine marketing in a country with production but little disposable income, no storage, limited transportation that goes to the wrong markets, and no middlemen or facilitating agents to activate the flow of goods from the manufacturer to the consumer. When such conditions exist in developing markets, marketing and economic progress are retarded. To some degree, this problem faces China and many of the republics of the former Soviet Union too. In China, for example, most of the 1.3 billion potential consumers are not accessible because of a poor or nonexistent distribution network. Indeed, the true consumer market in China is probably limited to no more than 25 percent of those who live in the more affluent cities. No distribution and channel system exists to effectively distribute products, so companies must become resourceful to compensate for the poor infrastructure.

## Differences in Business Negotiation Styles Within The Greater China

In Chapter 19, we discuss in some detail differences in negotiation styles across several national cultures, as well as the dangers of stereotyping. Here we briefly focus on differences in approaches in six regions of the greater China, and we hope it is obvious that people from the various regions listed will not conform exactly to the ethnic characterizations summarized next.<sup>37</sup> Our purpose here is simply to demonstrate the interesting breadth of behavior in Chinese business culture.

**Northeastern Negotiators.** Forthrightness is the stereotype of businesspeople in the Northeast, mostly held by their southern neighbors. Negotiators from the three northeastern provinces above the Yangtze are certainly industrious, competent businesspeople. They are generally honest and plainspoken. They are also not known for their risk-taking propensity or creativity.

**Beijing Area.** Negotiators from the Beijing area are known for their unusual (within China) bureaucratic sloth and imperialist perspective, both yielding a relative lack of creativity, that is, thinking outside the box. Because they often have defined the box in the first place, they are not used to thinking of ways to escape it. A note of caution about this

<sup>37</sup>See N. Mark Lam and John L. Graham, *China Now: Doing Business in the World's Most Dynamic Market* (New York: McGraw-Hill, 2007).

generalization is particularly necessary though when it comes to the growing cosmopolitanism of managers working in and around the capital city.

**Shanghai Area.** Negotiators from the Shanghai area are renowned in China for their shrewdness. They are outgoing, big talkers and big spenders. They try to impress you in ways and to extents you won't see anywhere else in China. For them, anything is possible—they are very creative thinkers. But more than anything else, they are successful and really the dominant business group on the Mainland.

**The Pearl River Delta.** Chinese in the south have always been the closest to foreign influences, which has yielded their special forms of entrepreneurship and spontaneity. Negotiators are reputed to be relatively honest and forthright. They are less calculating than folks in Shanghai. But they are excellent traders and particularly interested in making short-term gains.

**Hong Kong.** The business culture in Hong Kong is distinct from general descriptions in important ways. Almost all the Chinese you deal with in Hong Kong will be bilingual and speak at least English fluently. Indeed, their English may be better than yours. As Hong Kong executives have learned English, they have also absorbed British culture. However, for most, their first language is Cantonese. Among Chinese speakers around the world, Cantonese is the roughest dialect. It almost always sounds like an argument is going on. But if you get mad, face is lost on both sides of the table, and usually the deal is dead. Finally, humility and indirection are more emphasized in southern than in northern China.

**Taiwan.** Both the behavior and the language of the people of Taiwan are considered, by other Chinese, to be the most conservative. That is, neither Confucius's influence nor the Mandarin spoken has been mitigated by Communist philosophies and rule. Consequently, age, rank, and family play the most powerful roles. Companies tend to be managed directly from the top, and the decision-making style is autocratic. Managers are simultaneously down-to-earth and practical but on occasion daring.

## Marketing Opportunities in The Greater China

Everyone knows the Chinese market is huge and growing fast. We also note that across this vast land of opportunity, there are extreme differences in economic well-being, cultures, and political structures. The rich municipalities like Beijing and Shanghai are quite comparable to Paris, New York, or Tokyo in terms of the availability of luxury products. In terms of the stages of economic development, they are large and rich enough to be thought of as “more-developed countries.” As in the United States, luxury cars sell better on the coast, and trucks sell better in rural areas of the west. Some of the latter might still be labeled “least-developed countries.” However, unlike the United States, in China you cannot sell the same lines of cosmetics or shampoos nationwide.

The U.S. Commerce Department lists the following commercial sectors as particularly inviting for American exporters: automotive components, cleaner coal, construction equipment, education and training services, machine tools, marine industries, healthcare, water and wastewater treatment, rail equipment, renewable energy, and green building. Marketing most of these industrial products in China requires little cultural nuance, except perhaps at the negotiation table. But selling consumer products will require both linguistic and values-based adjustments in integrated marketing communication strategies and tactics.

Finally, the influence of national government policies and regulations of marketing will often be minor compared with that of their local counterparts. The rules themselves may be different from province to province, and certainly their interpretation and enforcement will depend on local values and individual administrators at the provincial and municipal levels. Spending time learning the local differences and building good personal relationships with distribution partners and government officials will be crucial for success. This last piece of advice holds true in every market around the world, but the diversity of the Chinese market will especially challenge the patience and persistence of international marketers for decades to come.

## Summary

The Asia Pacific region is the most dynamic of the three regions covered in Chapters 9–11. It includes more than half the people on the planet, and for a variety of reasons, the economies are growing quite fast. In particular, China and India both grew at double-digit rates during the last five years, and *so far* they have fared better than the United States or Europe coming out of the 2008–2009 global recession. Meanwhile economic growth in South Korea, Singapore, Taiwan, and particularly Japan has remained tepid. Still Japan remains the second most important national market, behind only the United States.

The mix of stages of economic development present a variety of opportunities for international marketers: infrastructure development, new industrial markets, and huge consumer markets. Japan and high-income consumers in many countries also represent important luxury markets. New concepts, such as marketing to the bottom of the pyramid, are also most applicable in south Asia. The countries of the Asia Pacific region are cooperating in two major trade associations, ASEAN+3 and APEC. Finally, we have addressed the diversity in markets, industries, and cultures within China.

## Key Terms

“The Greater China”  
Purchase price parity (PPP)  
Four Asian Tigers

Bottom-of-the-pyramid  
markets (BOPMs)

ASEAN  
ASEAN+3

APEC

## Questions

1. Define the key terms listed above.
2. Explain why China’s economy languished for the last 500 years but has now burgeoned in the last 20.
3. Why has Japan’s economy faltered?
4. What explains the fast growth of the four “Asian Tigers?”
5. Compare the growth success and potentials of India and China. List the advantages and disadvantages of each.
6. Discuss the problems a marketer might encounter when considering the Marxist–socialist countries as markets.
7. What are the market opportunities and challenges in Greater China?
8. What are the political issues swirling around the strong trade relationship between the U.S. and the PRC?
9. Briefly describe three examples of strategies of MNC in China and in India.
10. Should the United States fear China’s emergence? Why or why not?
11. Do you expect that China, then India, will follow the growth paths of Japan and South Korea? What factors are similar across the countries, and what is unique about each of these four?
12. Describe the opportunities and threats of entering the market in Bangladesh.
13. Describe the economic interaction of China and its northern neighbors.
14. How are China’s marketing strategies abroad similar to and different from those of American firms?
15. What can the United States, Europe, and China learn from the experiences of Japan during the last 20 years?