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CHAPTER 18

THE REGIONAL CONTEXT

CHAPTER OUTLINE

LEARNING OBJECTIVES

After studying this chapter, you should be able to:

- Identify the geographic and economic regions your current country of residence fits into and reasons for the positioning.
- Demonstrate an awareness of similarities between philosophical approaches to management existing in the South-East Asia region.
- Demonstrate an understanding of differences in management practices between ASEAN countries.
- Understand the development of your own country's management practices and factors impacting upon it.
- Identify factors affecting future relationships between trading partners of the South-East Asia region.

In this chapter we will examine driving forces and changes in the East-Asian Pacific region. It is a region which, over the last two decades or so, has become a significant force. In this chapter, we will track some changes in specific countries and draw conclusions on issues managers operating regionally must consider.

THE REGIONAL CONTEXT

This chapter is always difficult to develop. For the third edition of this book, aggregated trade statistics reached to the first part of 1998. The 'Asian crisis' became much more apparent in trade and other figures from late 1997. The problem for scholars and writers was that we were aware of subsequent events, which were unclear by the middle of 1998.

This meant that what the statistics showed as a small drop in trade growth, ultimately became a much more significant regional force. This force changed trading, borrowing and other financial patterns in the region, some very long-term. Some regional economies suffered much more from the 'crisis' than others.

However, as the American President J.F. Kennedy said, 'When written in Chinese, the word "crisis" is composed of two characters—one represents danger and one represents opportunity'.

Thus the 'Asian crisis' proved to be both a danger to regional economies and an opportunity for many structural changes. In the past few years, investment funds flowed into Asian countries. Some, such as Hong Kong, Korea, Singapore and Taiwan, known as Newly Industrialised Countries (NICs), have shown their ability to change to the world.

Many multinational companies invested heavily in Asian countries and transferred technologies there, only to discover it is harder to transfer management techniques. It is only after making the financial investment and commitment that organisations find management conformity is more difficult to transfer.

As discussed in Chapter 17, understanding views and practice of management in countries where investment is planned is vital to establish and manage enterprises there.

More recently, the emergence of Sudden Acute Respiratory Syndrome (SARS) and avian (bird) flu continue to stress the regional environment in unexpected and unpredictable ways. SARS meant one complete tourism season was lost and avian flu has resulted in the culling of millions of birds across the region, as well as a number of deaths. Both of these issues point to the increasingly close linkages across the region.

Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam form the group known as ASEAN (Association of South-East Asian Nations). Debate has continued as to whether Australia legitimately belongs to such a grouping. Membership of this group would benefit Australia, and Australia's government is pursuing the issue.

Companies seeking to establish themselves in another country already know the significant cultural elements of much of the local population's lives. Two reference points are that the major religions such as Christianity, Buddhism, Islam and Hinduism are represented in most Asian countries; and that the majority are politically called 'democratic'. Managers must also realise that over half the world's population is in Asia and this region has cultural and traditional roots far stronger than the Western world's in their influence over various aspects of life, including management practice.

FOCUS ON SINGAPORE

Singapore's turning point was its 1965 withdrawal from the Malaysian federation. American, Japanese, German, French and British multinational investors then flooded in, with their own management systems, often with expatriates as operational heads. Singapore was ideally located and low labour costs meant management could see workers as an extension of the foreign investors' imported machinery (Wong 1991). Singapore became an assembly centre for home-based technologies and production, then fed an international marketing network.

TABLE 18.1 AUSTRALIA'S TRADE WITH ASEAN IN 12 MONTHS ENDING MARCH QUARTER 2003 (A$ MILLION)

Country	Exports	Imports
Brunei Darussalam	53	687
Cambodia	16	3
Indonesia	3070	4586
Laos	19	1
Malaysia	2181	4175
Myanmar	16	18
Philippines	1102	832
Singapore	4826	4312
Thailand	2495	3329
Vietnam	484	2546
Total ASEAN	14262	20489

Source: ABS Catalogue No 5422.0.

TABLE 18.2 AUSTRALIA'S TRADE WITH ASEAN BY COMMODITY GROUP IN 12 MONTHS ENDED MARCH QUARTER 2003 (A$ MILLION)

Commodity grouping	Exports	Imports
Food and live animals	2654	968
Beverages and tobacco	148	38
Crude materials, inedible, except fuels	1090	315
Mineral fuels, lubricants and related materials	2358	6683
Animal and vegetable oils, fats and waxes	18	111
Chemical and related products	871	947
Manufactured goods classified chiefly by material	2046	1736
Machinery and transport equipment	1468	6042
Miscellaneous manufactured articles	466	1753
Commodities and transactions not classified elsewhere	3142	1896
Total trade with ASEAN	14262	20489

Source: ABS Catalogue No 5422.0.

A tripartite body of employer groups, unions and government representatives was formed in 1972 as the The National Wages Council (NWC). Their goals were to:

- recommend annual wage increases;
- ensure orderly wage determination to promote economic and social development; and
- assist in development of incentive schemes to improve national productivity.

The NWC played a major part in keeping industrial relations harmonious. However, poor personnel practices led to job-hopping rather than training and staff development. Organisations offered better pay to poach staff shamelessly.

To encourage upgrading workers' skills and increase productivity, the Singaporean government set up the Skills Development Fund (SDF) in 1979 (Wong 1991). Then in 1981 the National Productivity Council (NPC) was formed, emphasising higher worker productivity by skills upgrading.

Productivity growth is often seen as the driver of economic growth. This is very true in Singapore where productivity gains allowed economic expansion to continue. In fact, by NPC's figures, between 1981 and 1991, two-thirds of the 7.1 per cent average growth in gross domestic product (GDP) came directly from higher productivity. Had productivity stagnated, GDP would have been 36 per cent below the actual level (NPC 1991).

This is important as the only other source of GDP increase would have been employing more workers. Singapore's tight labour market stops this being a major source of future economic growth. Since 1997 GDP growth has see-sawed (Table 18.3) as the Singaporean economy was buffeted by waves of regional turmoil (Statistics Singapore 2004).

Issues confronting Singaporean managers

Over the next decade Singapore faces many issues. These will impact multinational corporations and Singaporean enterprises.

Economic restructuring

Global competition is accelerating. Singapore was one of the first Asian countries to undergo significant economic and technological change, and now other Asian countries face these changes (Dodd 2000). Therefore it is vital Singapore continue economic restructuring and adopting high technology and value-adding industries. In part, this is shown by the government's continuing drive to encourage multinational corporations to set up regional headquarters in Singapore.

Tight labour market

The speed of industrialisation has produced an acute labour shortage, escalating wage costs and job-hopping. To overcome this, employers source workers from across the region. The Singaporean government has tried to discourage this by setting high permit fees. These workers also tend to job-hop, playing employers off against each other, lacking company loyalty and a feeling of belonging.

Human resource development and management

Many Singaporean workers are still unskilled. Though the general Singaporean educational level is rising, many manufacturing workers only have basic primary education (Wong 1991). Human resource management and development is crucial to Singapore. This means innovative personnel practices must be developed and introduced to use employees effectively.

TABLE 18.3 SINGAPORE GDP FIGURES, 1997–2003

Year	GDP
1997	8.1
1998	–0.9
1999	6.9
2000	9.7
2001	–1.9
2002	2.2
2003	1.1

Source: Statistics Singapore 2004

Productivity and quality of work-life

With higher educational levels come expectations of higher standards of living and work-life quality. Thus Singaporean workers want to be more involved in workplace decision-making processes, and increasingly are interested in consultative management approaches.

The tight labour market means wage escalation lowers competitiveness, especially for businesses with slim profits. Increased productivity is the key organisational objective. Efficiency gains can come from job redesign and task flexibility.

Directions for the future

Singapore's past determination is clear in its leader's plans. Singapore's vision, of being 'the intelligent island', sees every Singaporean home, office, school and factory linked by computer (Dodds 2000). Their commitment matches their vision, and much infrastructure is in place. Further, this vision is not simply an ideal way to establish national competitive advantage and to enhance its citizens' lives.

Four strategic thrusts are to (Birch 1993):

- develop a global hub to turn Singapore into a highly efficient traffic-switching centre;
- boost the economic engine towards greater value-adding manufacturing;
- improve quality of life and increase discretionary time; and
- enhance individuals' potential as skills, creativity and knowledge are increasingly important.

Singapore's political environment supports this vision. This is because the political leadership has been key to the island country's remarkable 25 years of growth and development. Conformity and compliance is expected and enforced in Singaporean society. This has produced some attributes the country's leaders are trying to eliminate.

One of these is *kiasu*, a Hokein word for 'fear of losing out'. It is best summed up in a phrase popularised by a cartoon character, Mr Kiasu, in Singlish (the local idiom): 'Better grab first, later no more'.

This trait means Singaporeans have an unfortunate reputation abroad, and can be seen as risk-aversive. With a government promoting expansion of Singapore's overseas business activities, the *kiasu* syndrome, deterring risk-taking, is seen to be an obstacle to home-grown entrepreneur development (Stewart 1993).

An enterprising spirit is seen as crucial for the future. Despite economic success, Singapore has not nurtured widespread entrepreneurship or enterprising spirit, and now needs to develop these skills.

The island republic's prosperity can be traced to a relentlessly far-sighted government, not individual deal makers. As noted, Singaporeans are risk-aversive and conservative. State-controlled companies expand slowly internationally, and private enterprise is reluctant to back risky enterprises (Bromby 1993). There are even private investors who look for government compensation when their investments do not make a profit. This does not fit with the increasingly sophisticated, knowledgeable, well-travelled and cosmopolitan Singaporean.

Relationship with Australia

Singapore's government wants business to invest overseas to grow beyond their domestic market. Following support offered to offshore investors, interest in Australia is growing as firms diversify under the republic's plan for establishing external economic arms (Chong 1993).

Traditionally Singapore has invested heavily in Australian property. Singapore companies are the third largest hotel and tourism investors after the United States and Japan.

In trade, Singapore is Australia's sixth largest export partner (ABS Catalogue 5422.0). However, many exports to Singapore are re-exported to other South-East Asian countries. For example, Indonesia often imports capital equipment from Australia via Singapore due to customs duty differences (Chong 1993).

Australian businesses investing in Singapore import Australian-made capital equipment to outfit their plants. For example, Goodman Fielder imported bakery equipment for its bakery in Singapore. Cladding-material producer Permasteel-ISA brings 40 per cent of its product (glass and aluminium) from Australian factories to assemble in its two Singapore plants.

Singapore and Australia's relationship is long-term, dating from the early 1960s, with projects including Changi Airport construction and land-reclamation. The relationship is moving to a strategic alliance, and eventually will see Singapore becoming Australia's competitor rather than business partner. Either way, the relationship will expand. One step in this process was the Singapore–Australia free trade agreement signed during 2003 (Burrell 2004). In the 12 months ending in the March quarter 2003, Australia's exports to Singapore were A$4826 million and imports from Singapore were A$4312 million.

FOCUS ON NEW ZEALAND

From 1984 New Zealand undertook significant economic reform moving from a heavily controlled country to a far more liberal one (Bollard & Mayes 1993). The process needed managers (in private and public sectors) to consider all operational aspects. The major changes are summarised below, based on the task-environment model (Chapter 3).

Economic reforms

Customers and clients

Reduction in trade restriction and deregulation of the foreign exchange market provided more options for New Zealand firms to find international customers. Domestically, regulatory limit changes (e.g. shop-trading hours and liquor sales) meant firms' responsiveness to customers, and their expectations, grew.

Competitors

Greater competition (particularly in finance, transport and energy) was seen as crucial to making New Zealand business more competitive internationally. Entry restrictions, price controls, monopolies and other existing advantages (banks and airlines) were removed. Government monopolies such as Telecom and Air New Zealand competed with new entrants Clear and Ansett. For other businesses, the competition was international. Removal of trade barriers and protection freed up imports, and domestic producers had to meet international quality and price standards to survive. Not all of these new competitors were well attuned to the changed environment.

Suppliers

Deregulating finance, transport and energy sectors gave more choice (with greater complexity and risk) to New Zealand firms. Local and international companies now own, wholly or in part, government services (rail transport, natural resources and electricity supply). Phasing out import licensing and changed tariff structures allowed managers greater flexibility sourcing overseas material (and put competitive pressure on local import-substitute manufacturers).

Labour supply

The strength of New Zealand labour unions let them restrict labour supply (e.g. by compulsory membership and blanket coverage), and lift wages to uncompetitive levels. The *Employment Contracts Act 1991* (ECA) swung the power balance back to employers. Unions lost the monopoly right to represent workers, and some union membership benefits (access to legal unfair dismissal remedies) became universal—even chief executives could use the Employment Court for personal grievances and disputes. The implication for managers was that they had to communicate more with their workforce, and develop an employment strategy tailored to organisational needs; they no longer had a rigid pay award set by unions and employer representatives in Wellington. Unions, unable to restrict labour supply, had to build demand for their membership to use their power for higher wages. As a result, they emphasised productivity bargaining, workplace reform, and performance agreements (*National Business Review* 1993).

Issues confronting New Zealand managers

Skill levels

During the last recession, few firms (including public sector apprentice employers) took on new trainees. When firms expanded, skilled technical staff were in short supply and affected companies had to find employees offshore. Workforce planning with staff training and development can help avoid such limits to growth.

Labour relations

The ECA required greater manager skills to reach agreements with workers. If unemployment is high, employers' bargaining position is strong, and some exploit this. However, where demand is high or supply limited, employees are powerful (*National Business Review* 1993).

Workplace reform

Labour market deregulation let New Zealand companies create more flexible work practices. The Council of Trade Unions supported the trend to greater employee involvement in decisions affecting them at work; for example, job design and teamwork strategies set out in Chapters 8 and 14 (New Zealand Council of Trade Unions 1992). Managers must use these to maintain quality and productivity levels.

Social problems

These reforms caused pain for many. While some benefits are clear (lower home-loan interest rates and taxes, improved business confidence), community sectors can suffer. Unemployment is still high, and user-pays policies limit tertiary education access. There are concerns over the impact of corporatisations (business structure creation) in government-funded health service delivery. Unless these issues (especially unemployment) are overcome, the government will be pressured to become more interventionist.

Growth and influence of Maori in the economic sector

The past decade has seen Maori become a major player in the New Zealand economy. The return to Maori of major assets through Treaty of Waitangi settlements, the upskilling and retraining of the Maori workforce following the 1980s economic reforms, and the development of strategic investments have enabled Maori to take a leading role in developing their substantial resource base which has, in the past, been inaccessible to Maori.

With an asset base of over NZ$10 billion, Maori collectively represent New Zealand's third largest business entity. Strategic partnerships with both local and international organisations have seen many Maori organisations grow from small, locally owned and managed enterprises into large, multinational corporates. While the commercial and business practices have had to change within these Maori organisations, the traditional values and philosophies of collective ownership, resource sustainability and consensus decision-making have not. The result has often seen conflict arise within the partnership due to these different philosophies.

With the Maori population expected to grow from 13 per cent of the total New Zealand population in 2004 to 20 per cent of the population by 2050, the role and influence of Maori in the New Zealand economy will grow accordingly.

TABLE 18.4 NEW ZEALAND'S MAIN EXPORT MARKETS IN THE YEAR ENDED DECEMBER 2003 (NZ$ MILLION)

Country	Value
Australia	6 120.6
USA	4 117.1
Japan	3 122.3
China	1 372.4
UK	1 362.5
South Korea	992.2
Germany	745.8
Taiwan	624.8
Belgium	624.1
Hong Kong	558.9

Source: Trade New Zealand 2004.

Relationship with Asia

Asia is an increasingly significant New Zealand market, and the government actively supports business initiatives. East Asian and Japanese exports have grown since 1970, most rapidly since 1990. Now, six Asian countries are among New Zealand's top 10 export customers (see Table 18.4).

Agriculture and forestry products form the backbone of New Zealand exports; however, exports of clothing, software, domestic appliances and machinery are growing.

Ministry of Foreign Affairs and Trade figures for the year ended December 2003 show Japan to be New Zealand's third largest import source (behind Australia and the USA). China and Taiwan are in sixth and seventh places, with Korea, Malaysia and Singapore appearing in the top 15.

Asian investment in New Zealand is significant, particularly in forestry, property and tourism. Most main Auckland hotels belong to Asian investors (Smith 1993) and other investments include retail operations and golf courses. New Zealand and Asian joint ventures are planned or underway in projects such as Asian television broadcasting (Hudson 1993), beer brewing in China (Morrison 1993), and telecommunications in Vietnam (*National Business Review* 1993).

Relationship with Australia

Australia is New Zealand's biggest export market and import source, while New Zealand is Australia's fourth largest export market. The two economies have close cultural, sporting and economic ties and these, coupled with the closer economic relationship agreement (CER) between the two countries, facilitate trade in goods and services.

Recent New Zealand reforms have led to reduced business costs and some manufacturing operations being moved from Australia to New Zealand. This includes manufacture of appliances by PDL, toiletry products by Gillette, powder detergent by Unilever PLC and toothbrushes by Johnson and Johnson (Doman 1993). These shifts highlight why managers must pay close attention to the international environment; changing a company's mega-environmental political and economic fields can alter its competitiveness significantly, and mean its strengths, weaknesses, opportunities and threats must be reassessed.

TABLE 18.5 AUSTRALIAN TRADE WITH NEW ZEALAND (A$BILLION)

Year	Exports	Imports
2002–03	8.00	4.97
2001–02	7.43	4.74
2000–01	6.87	4.57
1999–00	6.74	4.37
1998–99	5.75	3.88
1997–98	7.47	4.03
1996–97	6.21	3.69
1995–96	5.61	3.59
1994–95	4.79	3.55
1993–94	4.01	3.20
1992–93	3.37	2.79
1991–92	2.83	2.40
1990–91	2.54	2.15
1989–90	2.61	2.17
1988–89	2.22	1.97
1987–88	2.18	1.73
1986–87	1.77	1.43
1985–86	1.51	1.45
1984–85	1.54	1.10
1983–84	1.39	0.91
1982–83	1.16	0.69
1981–82	1.03	0.73
1980–81	0.92	0.64
1979–80	0.86	0.55
1978–79	0.74	0.42

Source: ABS 5410.0 and Trade New Zealand 2004.

FOCUS ON INDONESIA

The Republic of Indonesia is a product of Asia's post–World War II decolonisation. The territory which was known as the Netherlands Indies became a state of its own. Ki Hadjar Dewantara, founder of the Indonesian educational system, set out three basic characteristics of the Indonesian leadership style in the following quotation:

> *Ing ngarso sung tulodo,*
> *Ing madya mangun karso,*
> *Tut sari handayani.*
> Ki Hadjar Dewantara

Ing ngarso sung tulodo means leaders must build themselves up by changing their attitudes and practices to become exemplary models to subordinates. *Ing madya mangun karso* means leaders must be able to motivate and generate a spirit of self-help and creativity in subordinates.

Tut sari handayani means leaders must be able to persuade their subordinates and be brave enough to become forerunners in bearing responsibilities (Widyahartono 1991).

The above describes what many management students feel is the essence of management practice. It is congruent with the Indonesian state philosophy stated in its constitution's preamble. It comprises the Five Pillars (principles) known as *Panca Sila*, *panca* meaning five, and *sila* meaning principles.

1. Belief in God the Almighty, hence communism is totally rejected. There is no one state religion. All religions are equally fostered.
2. Humanism, that is treating people as human beings, being kind to them and respecting and helping each other.
3. Nationalism, that is putting the nation above all self-interest. The country's welfare and progress are the primary goals of individuals, institutions and organisations.
4. Sovereignty, that is the rights of the people are cared for and respected.
5. Justice, that is fairness in rendering justice to all, regardless of status differences.

The above principles are built into every Indonesian organisation and reflected in the principles and practices of management in every aspect of Indonesian society.

Issues confronting Indonesian managers

The relevance of management to Indonesian society

Indonesia is a country with a range of cultural settings. One managerial style cannot apply to all and distinctive cultural flavours prevail. Thus people from Central Java will close their minds and remain silent about their disagreement, while those from North Sumatra will only respond to an authoritative tone. The resulting tendency is for managers to adopt an American or European methodology. The challenge for Indonesia, currently a developing country, is to develop a style of its own and not mimic Western, Chinese or Japanese styles. In many Indonesian organisations, conflict therefore is cultural, between modernity and tradition (Widyahartono 1991).

Indonesian society is still quite traditionally hierarchical and honour-oriented, almost feudalistic. It prescribes the structuring and maintenance of relations between people. Conflict must be prevented at all cost. Subordinates will therefore only comment on what they believe their superior will like to hear. Unlike most Western value systems, Indonesian society is in general not materialistic.

In overtly Western organisations people work to achieve organisational objectives but in a harmonious manner, operating within Indonesian communication patterns. For example, the Javanese 3A philosophy demonstrates this. The first A is *Asuh* or taking care of others; the second A is *Asah* or improving others' capabilities; the third A is *Asih* or love for each other. Indonesian society is traditionally geared to consultation, agreement and solidarity, with a strong hierarchical orientation (The Expatriate Web Site Association 2000).

In Indonesian organisations work is the way to achieve objectives but also establish and guarantee harmony. The manager's main aim is therefore to achieve and maintain this harmony while accumulating power and authority. It must be noted though that the concept of power and authority in this context is different to the Western view. It is not based on contract or appointment. It is a status embodied in the manager based on their age, class, expertise and so on. An Indonesian manager then uses organisational assets to achieve the goal of harmony.

Indonesians of Chinese origins also apply teachings of Confucius to their dealings. These are the five principles of filial piety, fidelity, obedience, kindness, and loyalty to one's superior.

While these two philosophies may appear different, their similarities give Indonesia a philosophical homogeneity rare in Western countries.

Directions for the future

Indonesia, the world's fourth most populous state with 212.9 million people, showed impressive growth until the last couple of years. Once the relative pauper of South-East Asia, Indonesia stood poised to become the region's newest industrialised power. As recently as 1976, half of Indonesia's population lived in what the World Bank designated as developing-world poverty. Until 1997 that number reduced dramatically, but after then the economic outlook became considerably less favourable. Until 1997 year-on-year growth averaged 8 per cent, on much the same economic formula as its ASEAN neighbours; after a severe drop in 1998, it has since recovered to 4.2 per cent (Business Monitor International 2004).

The gross national product per person was just US$60 in 1967, growing to US$600 in 1993, and was targeted to US$1000 by the turn of the century. Instead it was US$45 in 1999, recovering to US$213 in 2000.

Indonesia is responding to these and other challenges. One area to be addressed is telecommunications infrastructure to deliver business-integration and rebuilding solutions. Indonesia is a sprawling country and development requires linkages with Jakarta.

This would be a move from its labour-intensive areas of electronics, clothing, textiles, footwear and furniture industries. In fact one World Bank Review expected the manufacturing sector to continue as the main engine of growth, but it would be difficult to change without assured funding.

Other areas needing development are railways, power generation and distribution. This is due to the change in the Indonesian economy from an agriculture and resource base, to one with higher technology levels. This means training and industrial relations will again be important to managers in the country over the next decade.

Relationship with Australia

The Australian view of Indonesia is changing. Previously the Indonesian market was misunderstood. Indonesian economic reform saw changes in taxation, banking and customs procedures. However, there was little information about different business cultures in interpersonal relationships, corporate structures and business customs.

This point is evidenced by involvement of the 'big five' chartered accounting firms in Indonesia. For them, Indonesia was seen as a major expansion area with strong growth in joint ventures, mining, manufacturing and infrastructure projects. Note was made of increased interest in Indonesia by Australian companies due to proximity and market potential, particularly in food processing and distribution, construction and engineering services, mining and textiles (Jay 1993). After the Australian involvement in East Timor, most business interactions slowed or halted; however, they are starting to grow again.

Ultimately, for Australia, a return to growth means an increase in trade opportunities. The issue Australian companies will have to remember as they seek these opportunities is that Indonesia must be judged by Indonesian standards and not Western ones.

FOCUS ON MALAYSIA

Malaysia is a multiracial nation with a population of over 20 million. The population of Malaysia consists of Malays (about 58 per cent of the population), Chinese (about 26 per cent), Indians (about 7 per cent) and other minor racial groups (about 9 per cent). By the time Malaysia gained its independence in 1957, a situation had evolved where the general livelihood of the three main racial groups was segregated largely according to economic calling. Economic returns from small agricultural holdings and wages derived from estate working were small, which meant Malays (Bumiputras—sons of the soil) were not as financially well off as were the Chinese population who tended to be in business.

The Second (1971–75) and Third (1976–80) Malaysia Plans concentrated on two objectives:

- eradication of poverty among the population irrespective of race, and
- restructuring society to eliminate identification of race with economic function.

These objectives were promulgated to influence national planning and development for the 20-year period from 1971 to 1990 (Thong 1991). Through social engineering, it was planned

TABLE 18.6 AUSTRALIAN TRADE WITH INDONESIA (A$ MILLION)

Year	Exports	Imports
2002–03	3070	4586
2001–02	3163	4095
2000–01	3119	3277
1999–00	2248	2701
1998–99	2101	3487
1997–98	3390	2266
1996–97	3233	1753
1995–96	2720	1340
1994–95	2110	1040
1993–94	1910	1220
1992–93	1720	1240
1991–92	1635	995
1990–91	1462	784
1989–90	1030	441
1988–89	734	419
1987–88	595	587
1986–87	528	310
1985–86	522	209
1984–85	431	363
1983–84	375	299
1982–83	384	561
1981–82	416	515
1980–81	358	416
1979–80	293	241
1978–79	217	99

Source: ABS 5410.0 and 5422.0.

that by 1990, as a general guideline, 30 per cent of Malaysian companies would be owned by Bumiputras, 40 per cent by Chinese and Indians, and the other 30 per cent by foreign investors. The intention was to make employment of Bumiputras at various levels of private enterprise representative of the country's racial composition.

Issues confronting Malaysian managers

Multiculturalism

Due to Malaysian encouragement of foreign investments since the early 1970s, management's professionalisation has increased. Many Malaysians have been trained in overseas head offices, and there has been considerable in-plant training by foreign consultants and trainers, integrating motivation programs used on sites in other countries.

Programs such as management by objectives (MBO), critical path methods (CPM), just in time (JIT), and quality control circles (QCC) have been implemented. These were often introduced by chief executives who brought them back from training periods overseas. The crucial issue to all of these approaches has been that the method's success depends on the facilitator's ability to transfer concepts to local operations.

This is complicated by the Malaysian tendency to use an indirect approach. For example, first-time contact is often made through an intermediary. This person takes an informal role of guarantor of trustworthiness and goodwill of the party seeking the contact. This, of course, reflects on the intermediary's future credibility. While this takes time, the degree of success is much greater than a direct approach.

Considerable importance is also placed on 'face'—observance of courtesy and sensitivities to what is right and wrong. A win–win situation must always be maintained for a transaction to be successful.

Malaysia's multiracial composition means foreign managers must be constantly aware of issues specific to each racial group. For example, Malays, being Muslims, will not eat pork, and will not use crockery contaminated by pork. All meat must be slaughtered according to a specific religious ceremony. As well, Indian Hindus will not eat beef, and may be vegetarian. Managers should be aware of these issues, and firms with canteen facilities must cater to these needs (Thong 1991). Finally, as religion plays such an important part in Malaysian life, staffing at some times of the year will need to take religious calendars into consideration.

Decision-making practices

Malaysian managers may seek second opinions consistently when faced with an important decision, by consulting astrology and occult science experts. Meanwhile many Chinese also believe in *feng shui* or geomancy (Thong 1991). An example of this is that it is generally believed that even placement of a building's front door will bring an organisation either good or bad luck.

While these practices may seem odd to Western management students, they are a matter of belief; and in Malaysia many successful managers and businessmen take them very seriously. They may not openly advocate them, and may even have been educated and trained in Western management, but they can still effectively integrate the two styles.

Directions for the future

Vision 2020 aims to give Malaysians affluence that is now only widely available in leading Western economies. This vision has as its goal an industrialised Malaysia where citizens will have the purchasing power available to the average American citizen today. This required doubling of national income every 10 years, so that by 2000, an eightfold increase would have been achieved (Doraisami 1993). The challenge in achieving this vision has become much greater recently. Firstly, it became harder to maintain the economy's momentum as it slowed during the regional crisis. Then other challenges came from transformation of relatively fragile manufacturing sectors and destinations of manufactured exports within the region.

Malaysia's manufactured-export performance has been influenced by its competitiveness relative to neighbouring South-East Asian countries. Malaysia was successful in drawing from Taiwanese and South Korean investments as their currency appreciated, labour costs rose and their preferential treatment by the United States was lost, forcing them to seek off-shore bases.

However, as the cycle continues, labour markets will tighten up and wage rises will produce a new generation of lower-cost producers to undercut Malaysia. This is important, for while manufactured exports account for about 70 per cent of total exports, the Malaysian manufacturing base is very narrow (Doraisami 1993).

Malaysia is working overtime to promote development of medium- and small-scale industries. This needs upgrading of its generally low-level technology, particularly if Malaysia is to achieve newly-developed country status soon.

Malaysia has shortages of both skilled and unskilled indigenous labour as production grows. Concern is growing around environmental issues, and temporary acceleration in economic growth will force exhaustion of forestry and petroleum reserves. These difficulties are then coupled with little attention being given to occupational health and safety standards, waste disposal and environmental hazards due to irresponsible investors.

Malaysia currently plays a leading role in fostering greater economic cooperation in the region through ASEAN. This cooperation is increasingly the critical path to prosperity. As a part of the process, growth triangles are being set up to take advantage of complementary conditions between neighbouring countries, due to growing gaps between labour costs, capital flows and technology levels.

Relationship with Australia

The past few years have seen an encouraging broadening of the business base—from Australia's perspective—in Malaysia. Many small to medium-sized companies have won contracts in a wide range of areas, specifically in construction and development industry service sectors (Chong 1993). For example, the architectural firm Davenport Campbell was involved with a $200 million Tampoi Retail Centre in Johore, and John Holland won a contract to build a 12-storey apartment building in Kuala Lumpur. In addition, one of Australia's largest current investment plans is a petrochemical refinery worth more than $1 billion which BHP has proposed to build in Sarawak, although this is still not proceeding due to financial limitations.

While Australia's investment base is off a low base, Australia's trade with Malaysia is modest compared with other Asian countries, due to Malaysia's reduced raw material imports. This is expected to change as Malaysia needs technology transfer. Traditionally, Australian companies have been better at this transfer than Japanese firms, for example. Furthermore, Australian technology is robust and operates under a range of climatic conditions suited to Malaysian conditions. To illustrate, Nilson's Transformers, Melbourne based, won a $12 million contract with Tenaga Nasional Berhad, Malaysia's electricity-generating body.

While opportunities exist and will increase for Australian investments and developments in Malaysia, the challenge for Australian managers and their organisations will be adjusting to a very different culture.

FOCUS ON THAILAND

Thailand's population is 60 million, of whom 14 per cent are of Chinese origin and 95 per cent are Buddhists. The most pervasive characteristic of Thai society is a love of freedom, and this basic value has greatly affected the development of the country, which is richly endowed with natural resources. Thai businessmen are mostly engaged in commodity production and manufactured goods importation, and most financial institutions have been built on trading activities. While currently the more influential businessmen are traders, manufacturers are a new social group.

Belief and value systems in Thai society are deeply rooted in Buddhism. The Buddhist approach to life and understanding of human behaviour is exemplified by Buddha's passive and contemplative way of dealing with the problems of life. The following are tenets for consideration by Buddhists (Siengthai & Vadhanasindhu 1991):

1. Self-realisation—know who you are, and what your strengths and weaknesses are.
2. Knowing others—know whom you have to deal with and how to deal with them.
3. Causality—know about the cause and effect of what you are doing.
4. Appropriate timing—know the appropriate time for dealing with problems or confronting them.
5. Appropriate place—know where to do things appropriately.
6. Knowing potentiality—know your ability and your limitations.

If you compare these tenets with those of Western society, which is conflict-resolution oriented, Thai society is geared to conflict avoidance. As Western society has developed values and institutions requiring people to deal with others in a particular way, so has Thai society.

The difference is Thai society has a strong desire to keep relationships peaceful and on an even keel. There is a tendency to shrug off small frustrations and disagreements, preventing anger surfacing. To achieve this, relationships must be kept under control. This often leads to social relationships with Westerners staying superficial and leads to involvement avoidance (Siengthai & Vadhanasindhu 1991).

Traditionally an agrarian community, Thailand has developed rapidly to combine a multi-faceted society with technology. In fact it hopes to exploit its geographic advantage as a central point in Asia to compete with established aviation hubs, Singapore and Hong Kong. Thailand has one natural advantage in this, as it is a few flying hours closer to Europe than most established stopovers.

Issues confronting Thai managers

Incompatible business law

Unlike many regional countries, Thailand was never colonised by the British as were Singapore and Malaysia. As a result, Thai business law has little similarity to the common law heritage of Australia's other Asian trading partners. Thai business law seems largely dependent upon a system of discretion, favours and patronage (Castellari 1993).

Demand for infrastructure

Thailand's middle class is demanding better infrastructure, creating opportunities in the country but also stressing the government to provide incentives to satisfy those demands through foreign investments and imports. Many projects are still on hold; however, some resources are becoming available.

An under-educated workforce

While 90 per cent of the workforce is literate, their education level is only primary school. So, Thailand has needed to import thousands of engineers and technicians to satisfy its needs.

Cheap labour base

Thailand's competitive advantage rests heavily on a combination of cheap labour, foreign money and foreign technology. Many Thai industries such as textiles could easily migrate to lower-wage countries if a competitive economic environment is not maintained.

TABLE 18.7 AUSTRALIAN TRADE WITH THAILAND (A$ MILLION)

Year	Exports	Imports
2002–03	2495	3329
2001–02	2329	2778
2000–01	2219	2780
1999–00	1517	2282
1998–99	1286	1765
1997–98	1651	1332
1996–97	1690	1080
1995–96	1780	1010
1994–95	1560	877
1993–94	1280	767
1992–93	1215	756
1991–92	816	647
1990–91	665	505

Source: ABS.

A critical issue currently facing Thailand is whether it has the infrastructure to move from low-cost producer dependent on foreign investment to an economy supported by domestic and high-value-added production. This is urgent as other countries with lower wage costs covet Thailand's markets and may prove to be attractive to offshore manufacturing (Edwards & Edwards 1993).

Fuelled by a labour shortage, shopfloor wages in greater Bangkok have doubled to between A$10 and A$12 a day. This is over three times higher than in Vietnam and double that of China. The result is that Japanese, Taiwanese and Hong Kong investments in light industry, which lead Thailand to see itself as Asia's newest industrialised economy, are being lured away.

Relationship with Australia

Thailand in the 2000s was Australia's fourteenth largest export market. In the 2002–03 year, Australia sold A$2.5 billion worth of goods, mostly gold, dairy products, wool and crude petroleum (ABS 5422.0). Australia's relationship with Thailand has traditionally been very friendly. Of all 10 ASEAN members, it is Thailand which seems most enthusiastic about Australia's thrust into Asia.

In 1993 a Thai Australian Chamber of Commerce was established in Melbourne, to provide information to companies interested in exploring business opportunities in Thailand. With infrastructure needs, support for continuing manufacturing growth, and increased services in areas like quality control and training, Thailand offers many opportunities to Australian organisations as its economy continues to recover.

JAPAN'S IMPACT ON THE REGION

Japan's economy traditionally depends on raw material importation and high-value-added goods exportation. Japan's export dependency on the United States is very high, matched only by the aggressively export-oriented economies of Malaysia, Thailand and China.

To maintain its export capacity, Japan has set up facilities and assembly plants in South-East Asian countries. The pattern is to put expatriate Japanese managers in charge, with technology and managerial skills transfer not occurring readily. However, many of this decade's new management practices have come from Japan. Quality circles and just in time, for example, are Japanese management developments.

Since World War II, the Japanese economy and industrial infrastructure's restructuring has given birth to the second largest economy in the world. It has brought with it a generally stable work environment for Japanese workers. Lifetime employment, the seniority system and in-house labour unions were the three major system features. Company loyalty was assumed, while promotion involved years of rotation through many departments and locations. Talent was a negligible asset and generalists ruled. Women had equal opportunity so long as their work involved a supporting role to male managers.

In the 1990s changes started. Presently, Japan is in the midst of a transformation. While the new Japan will still have a vast economic structure, deregulation will produce new dilemmas such as unemployment. Deregulation is urgently needed. For example, to open a small business, some 250 forms are needed to satisfy local governmental regulations.

The themes of the new Japan are liberation of the economy from rigid regulation, liberation of consumer and worker from industry's interests, and dismantling of the iron triangle—the collusion between politicians, bureaucrats and industrialists (Hartcher 1993). This will provide a freer Japan but probably a less passive one too. Japan is realising its impact on the world and appears to be increasingly determined to influence world politics and trade and the systems through which they are conducted. Traditionally, Japan has been content to do business in its own way, interacting remotely with its trading partners. The next decade may see changes to this practice. One recent example of this increasing confidence is the decision to contribute military personnel to those in Iraq.

Relationship with Australia

Japan's relationship with Australia has been one of the basic development foundations for Australia's broader relationships with East Asia. In the last few years, dynamic growth has turned East Asia into a market which, in 2002, absorbed 60 per cent of Australia's trade, over six times the value of Australia's exports to the United States (Australian Bureau of Statistics 2003).

Australia is a large commodities trader and as such has a huge direct stake in Asia-Pacific economic diplomacy, supporting an open, non-discriminatory global trading system. Furthermore, Australia has an indirect stake in the open trading system which has been critical to the region's development.

In the past, bilateral dialogue between Australia and Japan focused on the strategic-energy and raw-materials trade relationship between the two countries. Australia supplies about half the raw materials Japan uses for steel production as well as large volumes of coal and natural gas for energy.

Japan is by far Australia's largest trading partner and has been its largest export market since the late 1960s, and its second largest source of imports since the early 1970s. Japan has also become Australia's most important source of tourism revenue, and by 1993 was the largest direct foreign investor in the Australian economy. Australia's manufactured exports to Japan are now larger than its total exports to the United Kingdom (Drysdale & Yamazawa 1993).

Social, cultural and educational contacts and exchanges are growing, bringing with them greater cooperation between both governments on a wide range of international affairs. Also many Australian students undertake Japanese language studies with a view to their future.

In short, Australia's Asia-Pacific partnership with Japan promises great practical economic benefits. Time will, however, demonstrate it to have enormous political significance as well.

TABLE 18.8 TRADE BETWEEN AUSTRALIA AND JAPAN IN 12 MONTHS ENDING MARCH QUARTER 2003

Bilateral trade $38.26 billion
Australian exports to Japan $22.09 billion
Australian imports from Japan $16.17 billion

Main exports to Japan	$ million	Main imports from Japan	$ million
Coal	5272	Road vehicles	8234
Metalliferous ores and metal scrap	2936	General industrial machinery and equipment, and machine parts	892
Non-ferrous metals	1661	Telecommunications and sound equipment	845
Meat and meat preparations	1618	Office and automatic data processing machines	808
Petroleum	1177	Machinery specialised for particular industries	649

Source: ABS May 2003.

FOCUS ON CHINA

China is a land of opportunity and an untapped mine of investment opportunities for foreign investors. With a population over 1.3 billion, it has potentially the biggest consumer market in the world. More importantly, its economy has grown faster than that of any other place in the world over the past 20 years. The growth rate remained high even during the Asia financial crisis, reaching 7.8 per cent in 1998 and 7.5 per cent in 2003, despite suffering heavy floods and SARS in those years. It is predicted China will be the world's second largest economy by 2010 and world's largest by 2030.

Despite the opportunities, undertaking business in China presents its risks and obstacles. Traditional management and decision-making methods fitting other countries may not work in China or may need extensive adjustment. Some reasons include China's embryonic legal structure and immature economic market and banking system, as well as different cultures.

As China develops it will do so not with a US-based business model or way of thinking, and not with a European one, and not even a Japanese one; it will, however, be influenced by all of these, while developing its own distinct philosophies, experts and experiences of business and management.

Issues confronting Chinese managers

Chinese managers face many problems with the very fast development of their economy.

Economic reform

China's economy is only partially reformed, with the state-owned banking system dominating the financial sector. Other state-owned enterprises (SOEs) dominate capital-intensive industrial production, employing the vast majority of urban workers. The government relies on SOEs to keep the urban peace by providing workers with social benefits such as housing, health care and pensions, as the fiscal system at present is far too inefficient to allow the government itself to fund a large-scale social welfare system. What is needed is a simultaneous reform of China's capital markets, industrial ownership structure, social welfare system, and fiscal system, since each constitutes an integral component of the total political-economic system (Oksenberg et al. n.d).

It is hard to attract and retain talented managers. One survey by management-consulting firm Hewitt Associates found that each year 43 per cent of senior managers and leaders in China voluntarily leave their organisations, in contrast to just 5 per cent in Singapore and 11 per cent in Australia. 'I have had five managers in our Shanghai office in the last two years', says a Japanese shipping company executive with 120 employees in China. 'There is no end in sight to this, and it is hard to establish business relationships when you are constantly dealing with new people.' (Wozniak 2001)

The role of leadership

Leadership and authority in China are different to the West. Western leadership tends to be task-focused and straightforward. In contrast, Chinese managers tend to be more focused on determining who is awarded a role or task. In China, personal relationships determine who gets to do what.

In traditional Chinese culture the boss is all-powerful and the organisational hierarchy is a critical element of managing an organisation or business—it is the key mechanism to run the business. The boss is expected to have all the answers and provide clear direction. People expect to be instructed and led at all times, and staff will wait for instruction and be heavily dependent on the boss. This means those lower in the organisation tend to take less initiative and ownership, a behaviour viewed by some Western managers as responsibility avoidance.

Over population

Since 1972, China's population has grown by over 400 million people. Annually 15 million additional laborers enter the urban and rural workforce. This leads to dramatic cuts in rural poverty rates and growing employment opportunities. However, urban unemployment rates are growing rapidly.

Quality of the workforce

The number of workers in China is vast, but the quality is often low. For decades, China's per capita expenditures on primary schools have ranked among the lowest in the world, and the dissolution of communes has led to an erosion in school financing and attendance in many villages. University faculty meanwhile have not fully recovered from the Mao years and, as with other agencies, dependent on government funding, are expected to launch their own enterprises and to secure foreign support to sustain their educational offerings. Low workforce quality leads to problems for Chinese managers including safety and product quality.

Directions for the future

Legal environment

The Chinese legal system is weak and some managers take advantage of this. With the amendment and redevelopment of the legal system, this phenomenon should be reduced in future.

Human resources

China's economic growth also will be restrained by inadequate human resources. In fact, China is a major importer of human talent. It is estimated over 50 000 Hong Kong citizens and 200 000 Taiwanese serve in managerial, professional and technical positions on the mainland. This situation reflects Beijing's inability to attract over 150 000 Chinese graduate students sent abroad and yet to return home.

This leads to inadequate supply of technically proficient staff in managerial, engineering and scientific areas. Shortages are clear in the brain drain from rural and impoverished areas, where skilled labour is particularly important but wages and working conditions are not competitive, and urban firms' difficulty keeping skilled personnel. Eventually, a free labour market and expanded higher education will overcome these problems, but for the foreseeable future, China's growth rate will be affected.

Corruption

Due to historical and political issues, corruption is common in China. Managers at all levels enjoy the personal advantages of their power. The Chinese government continues to battle corruption and hopefully will win.

Bureaucracy

While Chinese firms lack highly-educated, intelligent, competent top managers, they do contain many middle-level managers. The result is that decision making becomes more bureaucratic and inefficient. The government structure makes this situation even worse. Further political and economic reform should lead to reduced bureaucracy.

Relationship with Australia

Diplomatic relations between China and Australia were set up on 21 December 1972, and by and large bilateral relations have developed smoothly. The two governments agreed to develop diplomatic relations, friendship and cooperation on the basis of principles of mutual respect for sovereignty and territorial integrity, mutual non-aggression, non-interference in each other's internal affairs, equality and mutual benefit, and peaceful coexistence.

The relationship between Australia and China is substantial and well established—this year marks 32 years of diplomatic relations. It extends well beyond burgeoning economic and political links to include an array of cultural, educational and extensive people-to-people contacts.

On 24 July 1973, the governments of the People's Republic of China and Australia concluded a Trade Agreement, granted each Most Favoured Nation Status and set up a joint trade committee. China is presently Australia's third largest trading partner (Hong Kong Special Administrative Region excluded) while Australia is China's ninth largest trading partner. China is Australia's 13th largest source of foreign investment, and Australia is in the same position for China. Australian firms have a significant and growing presence, in Beijing, Shanghai and Guangzhou, and in other parts of China. New trade and investment sectors take advantage of Australia's strengths in banking, insurance, accounting and legal services.

In August 2002, China chose the Australian Liquefied Natural Gas Corporation (ALNG) as the resource supplier for the Guangdong LNG project. This deal is worth some $17.5 billion.

The result of these powerful economic trends is that the relationship matters for both Australia and China, and will matter more in future. The outlook for better economic links is thus promising. Two-way trade between the nations is worth over $15 billion a year, with Australia primarily exporting energy and raw commodities, such as iron ore, and importing low-cost manufactured goods.

'China has made tremendous progress toward establishing a fully-fledged, market-based economy and has emerged as an important regional and global economic player. Our commercial relationship with China is expanding more rapidly than with any other major trading partner. Australia–China two-way merchandise trade has almost trebled since 1996–97 to be worth in excess of $22 billion in 2002–03', said Australian Trade Minister Mark Vaile on 24 October 2003 at the signing of the Australia–China Trade and Economic Framework. This is another important stage in the Australia–China relationship. The Framework sets a clear agenda for bilateral trade and economic relationship, including a commitment by both governments to undertake a joint study into the feasibility and benefits of a free trade agreement (FTA) between Australia and China. The Framework also covers many activities aiming to improve commercial and policy linkages. These cover sectors such as energy and mining, agriculture, textiles, clothing and footwear, services, investment, education, ICT, and policy issues including food safety, health, customs cooperation and intellectual property rights (Doman 2003).

AUSTRALIA'S POSITION WITHIN SOUTH-EAST ASIA

Traditionally, Australia's heritage and culture place it squarely in the Western nation category. Historically, its closest relationships have been with Great Britain and Europe and then the United States. The corollary to this overwhelmingly Western orientation has been the tyranny of distance. The importance of this orientation was emphasised by World War II and it was not until the Whitlam years with the end of the 'white Australia policy' that Australia ended its self-imposed cultural quarantine (Tye 1993). When Britain joined the European Economic Community in the 1970s the resulting severing of trade ties with Australia gave real impetus to the exploration of our closest neighbours for trade purposes.

Though economics may seem to be the spur, the Hawke government in the 1980s was guided by a need to espouse a regional viewpoint which saw where Australia's strategic interests lay. Under the Colombo Plan, Australia opened its doors to Asian scholars; through the Five Power Defence Arrangement, it helps maintain regional stability along with New Zealand, Great Britain, Singapore and Malaysia. History shows Australia pursued geo-political interests before it pursued an economic agenda in the region. Then over the past decade Australia's involvement, both political and economic, in South-East Asia has grown. It is therefore no surprise Australia's position and sense of belonging within the region is an important issue.

There is a strong difference of opinion, both on the part of Australians and non-Australians, as to Australia's legitimate membership of Asia. Consider the headline 'Wish as hard as we like, we cannot become part of Asia' (Davidson 1993, p. 15). Davidson quotes Mr Paul Cheng, president of the Hong Kong General Chamber of Commerce as saying, 'Asians may be very polite publicly, saying sure, sure we welcome you. But privately you're not part of Asia—ethnically, culturally, geographically...To keep on the [Keating] policy and keep saying "We are part of Asia"—to me it jars. It's not being realistic'.

This debate will continue. Economically and politically, Australia cannot afford not to be a part of Asia. Australia's economic importance to the region is receding in some areas as the growing supply sources and industrial sophistication of Asian countries mean the importance of Australia's commodity exports is diminishing (Davidson 1993), while service exports including education are growing. The real question for Australia is not whether we are part of Asia or not. Our geographic location on the edge of the Asian continental shelf is not at issue in any form. The issue is whether Australia will develop the cultural maturity to be its own country and enter into equal partnership with our neighbours for the benefit of all.

CRITICAL THINKING QUESTIONS

To answer some of these questions you will need to do further research. Useful references are given below each section of the questions.

This chapter of the text dealt with the bigger picture of management within the Pacific Rim. It examined the role of each of the key nation members as well as reviewing the operation of Australia within the region and within the global economy. The following questions examine some emerging trends and some projections about what may occur.

Australia's smallness economically and its geographical remoteness impose some harsh realities. According to James (2004, p. 64), it is this 'harsh' business climate which makes Australian companies so adept at responding to local conditions. A good example of this is how they have responded to declining foreign investment. The period 1985 to 1995 saw Australia identified as an attractive nation in which to invest, but rates of foreign direct investment (FDI) have fallen from those heady days (when it attracted 3.4 per cent of global FDI), to a level of about 1 per cent. While this lower figure may be more in line with Australia's share of world GDP, some of its neighbours are now the target of investment.

MaxMARK

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1. Which nations do you think these are and why?
2. What reactions would you expect from Australian companies in response to declining overseas investment?

James (2004) suggests that the fact that much of Australia's domestic industry is run by oligopolies can spell trouble.

3. Why?
4. What options can Australian companies pursue if they want to grow to match the size of their domestic market?

In conclusion, James (2004, p. 64) suggests that a decade of a national market characterised by a few dominant oligopolies and many small businesses and a few medium-sized businesses has seen Australia become a 'camel economy' (two-humped). The challenge for the oligopolies now is how to continue to grow—before the good times run out.

(Material relevant to these questions may be found in James, D. 2004, Perfectly adapted, *Business Review Weekly*, Australia, 1 April, p. 64.)

Kavanagh (2004) focuses on what is happening in the Asian market. She suggests that, while China is the investor's darling, other Asian markets offer promise too.

5. Which countries do you think investors are being encouraged to look at and why?
6. Despite all the glowing results, some investors are warning of problems in China. What do you think they are?

(Material relevant to these questions may be found in Kavanagh, J. 2004, Good value in Asia, *Business Review Weekly*, 15 January, p. 49.)

The notion of Asia emerging as an equal partner or even a prospective leader in the world economy can be expected to have a much wider impact on business dealings within the Asia Pacific region. We examine one small aspect of this in our last questions: the issue of remuneration. Callick (2004, p. 29) reports a senior Asian diplomat's astonishment at the 2004 salary National Australia Bank boss Frank Cicutto was being paid —about A$3.27 million—an amount less than one-third of his resignation payout later that year. 'It's crazy', said the diplomat. 'So much more than your Prime Minister!' (who is on A$248 000 a year, leaving aside the decreasingly 'super' superannuation package).

The much smaller gap between the average white-collar worker and CEOs in Asian economies is generally explained in part as the result of the lack of options packages at the senior level.

7. Why have stock options not been as readily adopted in Asian nations as they are in Australia?

8. Remuneration packages to executives vary widely across Asia, and many of the variations are the result of cultural differences. What do you think the major differences are?

Despite this general pattern of greater equality in Asian economies, Austrade chief economist Tim Harcourt suggests that emerging demographic trends may influence patterns of greater economic inequality in the future.

9. What do you think Harcourt means?

It has also been documented that there is some movement, in Japan in particular, from traditional systems of base remuneration towards substantial merit-based executive bonuses. This is exactly what occurred in Honda in 2003, and others in the region now watch with interest to see if such moves are indicative of a trend which will be taken up throughout the region.

(Material relevant to these questions may be found in Callick, R. 2004, Income gap a reflection of culture, *Australian Financial Review*, 21 February, p. 29.)

FURTHER READING

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GRADUATE GLIMPSE

BEN DE BEYER

Ben de Beyer has a Bachelor of Commerce (Hons) from the University of Sydney, and a Master of Philosophy in management studies from Cambridge University. He is an industrial relations manager for Qantas Airways Limited.

What does your job entail?
My role as industrial relations manager involves providing strategic industrial advice to portfolio businesses, and acting as the primary interface between Qantas and relevant unions for portfolio businesses.

How have your university studies assisted you in your career?
My university studies have given me a solid grounding across a range of subjects that have been essential in my career—industrial relations, commercial law, accounting, finance and international human resource management. The further I progress in my career, the more evident it is to me that you need a range of competencies in order to remain adaptable in a work environment where the only constant is change.

What is an important management principle that you draw upon frequently in your role?
The work I reviewed for my honours and masters theses—particularly principles around how managers and organisations manage change, as well as the body of work on cultural management coming out of the UK and US in the mid-90s—have had a strong influence on how I seek to manage others and in the analysis of and response to the management styles of my colleagues, senior managers and union counterparts.

CLAIRE BESANVALLE

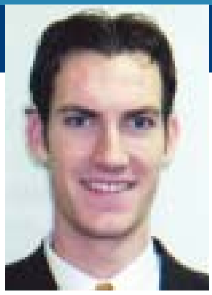
Claire Besanvalle has a Master of Human Resource Management from Monash University. She is a human resources advisor for Quix Convenience Stores.

What does your job entail?
I manage the recruitment process for the majority of Quix Convenience stores nationally. I also deal with any industrial relations and performance management issues.

How have your university studies assisted you in your career?
I gained valuable work experience at Network Recruitment Services while at university. I studied part-time and worked in recruitment as I felt I would gain the necessary skills for a career in human resources. The research skills I gained at university have allowed me to conduct research with my clients in recruitment, to develop relationships with those clients and to develop skills in strategic analysis. I also studied industrial relations, which is extremely pertinent for human resource professionals today and in my position at Quix.

What is an important management principle that you draw upon frequently in your role?
The most important management principle for me is change management. Organisations are constantly looking for an advantage in the workplace, and this necessitates constant change. My knowledge of change management allows me to guide my internal and external customers through the process of change.

GRADUATE GLIMPSE



JAMES GRAY

James Gray has a Bachelor of Commerce (Hons) in management from Monash University. He is a labour relations specialist for Ford of Australia Limited.

What does your job entail?
In general, the labour relations office is involved in negotiations with the unions regarding terms and conditions of employment for Ford's employees. My role involves close interaction with a range of stakeholders including senior management, union representatives, suppliers, contractors, and Ford employees at different levels of the organisation. This often requires an understanding of 'best practice' in the industry.

How have your university studies assisted you in your career?
My university studies taught me to be conscientious, hard working and eager to learn, and allowed me to build my presentation, team working, communication and negotiation skills. I have found that these attributes and skills have been essential to my role at Ford, and I continue to strive to strengthen these skills.

What is an important management principle that you draw upon frequently in your role?
My career so far has required an understanding of various facets of management, including change management, industrial relations, employee relations and industrial arbitration. In particular, my understanding of industrial relations (awards, enterprise bargaining, conciliation and arbitration) has been an essential requirement of my current role.

END-OF-PART CASE: GOING GLOBAL

Smart move for Motorola

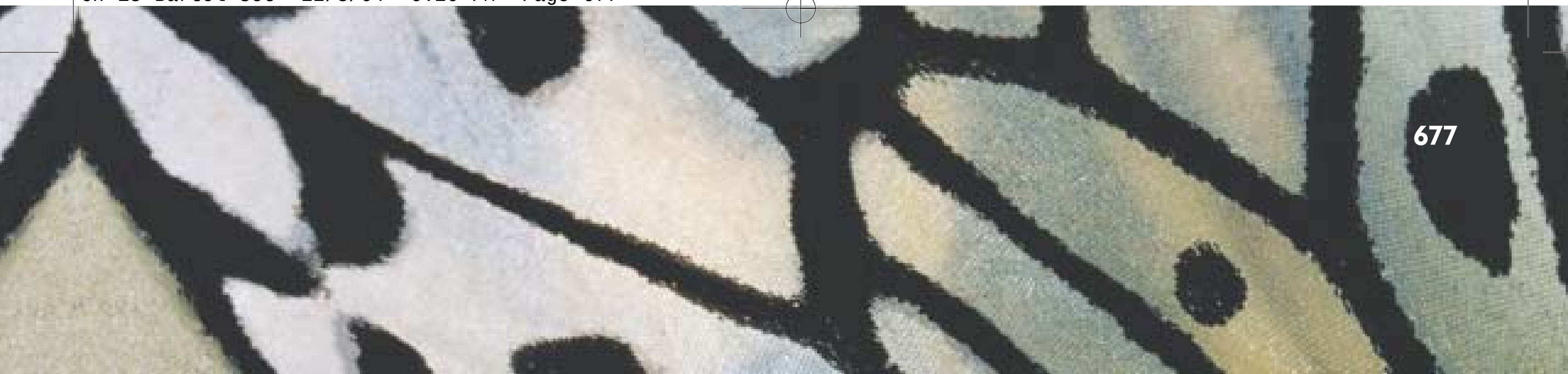
In September 1999, Motorola Inc and Nanjing Public Transit IC Card Co Ltd signed a cooperative agreement to design and implement an integrated smart card system called the Nanjing Public Transit Automated Fare Collection (AFC) project. This was to be Phase 1 of a multiphased effort to implement smart cards as a form of payment for the entire public transport network in Nanjing, including buses, ferries and the metro subway system. Phase 1 of the project was intended to enhance bus services in the city by providing a cutting-edge smart card as a convenient and easy way for users to pay for public transport. With the new system, riders would buy and reload their smart cards at stationary ticketing machines located around the city. Nanjing Public Transit funded the system in an effort to improve the way its riders pay for public transport and in order to consolidate and improve the efficiencies of its fare collection system. 'We are making an effort to help Nanjing residents enjoy a better life', said Zhu Qiang, director of the Nanjing Public Utility Bureau. 'We expect that our public utility will grow vigorously in the twenty-first century and we believe that cooperation with Motorola is a good beginning.'

Smart cards, like memory cards, are based on a chip: a microprocessor chip rather than a memory-only chip. A smart card is a computer and contains an operating system, a central processing unit and an internal memory. They are, however, inert; they operate only after a special read/write device provides them with power and exchanges coded commands with their operating systems. Information stored in smart cards is highly secure. The smart card industry is relatively young but growing rapidly. In 1992 worldwide production amounted to 400 million cards, worth US$266 million. Memory card production was expected to grow 34 per cent over the four years from 1991 to 1994 in the European market. Some industry analysts foresaw one smart card per person in Europe by 2000.

Four French companies had a combined world market share of 60 per cent: Gemplus, Schlumberger, Sligas and Bull. Also competing in this growing market are two German, one British, one American and three Japanese producers. Motorola was an aggressive player in this industry. It saw China as a rapidly growing market for public transport applications of smart cards. With a population of 1.3 billion people and a rapidly emerging middle class in its coastal cities, China cannot contemplate car ownership at the same rate as America's 1.7 persons per car. Issues of fuel supplies, air quality, congestion, parking and road infrastructure all mean that the majority of Chinese will use public transport. This requires highly efficient mass transit systems that are safe and reliable, and can move vast numbers of people in the shortest possible time. In order to achieve rapid station throughput of people, a system of fast fare validation is necessary. Hong Kong's Mass Transit Authority (MTA) and Singapore's Mass Rapid Transit (MRT) are among the best models in the world. They use a smart card developed by ERG Company in Perth, Western Australia. These stored-value cards can simply be waved over the turnstile sensor to gain admission, even if buried deep within a handbag, purse or wallet.

During Phase 1 of the Nanjing project, Motorola designed and implemented a smart card system for all three bus companies operating in Nanjing, providing more than 2000 bus validators and issuing 400 000 Motorola M-Smart Mercury contactless smart cards to riders. Once the system was implemented, riders waved their cards in front of a validator to board the bus. The system design, integration, implementation, training and system maintenance was managed on behalf of Motorola by Huamin Smart Card Systems Co Ltd—a joint venture established by Motorola and Huaxu Golden Card Co Ltd.

Motorola is a global leader in providing integrated communication solutions and embedded electronic solutions. Sales in 1998 were US$29.4 billion. Motorola's Worldwide Smart Card Solutions Division is a global leader in providing complete smart card solutions, including smart card systems,



products and application development, systems integration and smart and operations management capability. Its M-Smart smart card product platforms of cards, card operating systems, readers and application development workbenches allow organisations to quickly deploy and build value-added smart card applications in such areas as transport, access control, government identification and healthcare. Smart cards are only one aspect of Motorola's business activities in China. Motorola China's previous four-point strategy helped it to become the largest foreign investor in China's electronics industry. Sales reached US$4.9 billion in 2001, replacing Germany's Volkswagen as No. 1 among the top 500 foreign-invested companies in China for the first time in nine years. In 2002, Motorola China had total sales of US$ 5.7 billion; total exports of US$ 3.6 billion; local sourcing of US$ 2.6 billion; total employment of $12 000. It received awards for the largest foreign investor in China's electronics industry; largest foreign company in China, in terms of sales; best in long-term commitment; most innovative; best adapted to the Chinese market; and best employer in China. Motorola's handset business enjoyed the No. 1 position for three consecutive years. Its Global System for Mobile Communications (GSM) and Code Division Multiple Access (CDMA) infrastructure has expanded strongly in China. Its two-way radios and networks set up the first Social Emergency System and established the first iDEN trunking system in Shanghai. It was also active in software, semiconductors and broadband.

Great changes in the business and social environment have taken place since China's entry into the World Trade Organisation, Beijing's successful bid for the 2008 Olympics and the successful reforms of China Telecom and China Netcom. These macro developments spurred Motorola China's management to adopt a new five-year, 2+3+3 strategy in June 2002. The '2' in this strategy refers to building China into a worldwide manufacturing and R&D base. The first '3' refers to three new growth areas (semiconductors, broadband and digital trunking systems). The second '3' refers to three US$10 billion goals: annual production value to reach US$10 billion by 2006; accumulated inputs in China to reach US$10 billion by 2006; and local purchasing to reach US$10 billion in China within the next five years. Motorola's total investment in China in 2001 was RMB238 billion (US$35.6 billion), with China enjoying an annual growth rate of 100 per cent in the mobile phone network and paging market. Measures have been taken by all sectors to implement the 2+3+3 strategy. Motorola has adjusted its worldwide manufacturing capacity and has shifted some production to China. The company also decided to hire 4000 more engineers and researchers, and add US$1 billion in R&D to the existing 18 R&D centres. A new software centre was completed in Chengdu in May 2002. The energy systems group plans to establish its Asian design and procurement headquarters in Shanghai.

Motorola has made major commitments for investment in research, development and manufacturing in China. It clearly sees China as a significant centre for research and manufacturing, as well as a growing market.

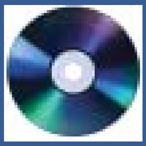
Source: Contributed by John Krasnostein (details of sources are listed on p. 738).

Activities for discussion, analysis and further research

1. What macro (country) and micro (specific industry/sector) political risks does Motorola face in China? What strategies can the company use to manage these risks? How can effective international negotiating skills be of value to the company in reducing its political risk and increasing its competitive advantage in China?
2. In groups of three or four, undertake the following project. Visit the China site in the CIA world factbook at the website: www.odci.gov/cia/publications/factbook/ch.html. This site provides a comprehensive overview of the political and economic environment in China. Browse through this site and determine if the

information provided changes your view on the viability of a Western company successfully doing business in China.

3. Analysts expect that the US spy plane incident in 2001 will be only one of a number of crises and conflicts between China and the United States. Explain how the aftermath of tension between the two governments could impact directly on strategy formulation and implementation at Motorola. How much risk does Motorola face because of industry or sectoral sensitivity (communications and electronic technology)? Now develop several scenarios for Motorola, in terms of its options, responses, alternatives and decisions if various political developments were to occur. For example, if the US and China went to war over Taiwan, or if China moved to control the internet or mobile phone industries, what steps should Motorola take to protect its assets, technology and employees?



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