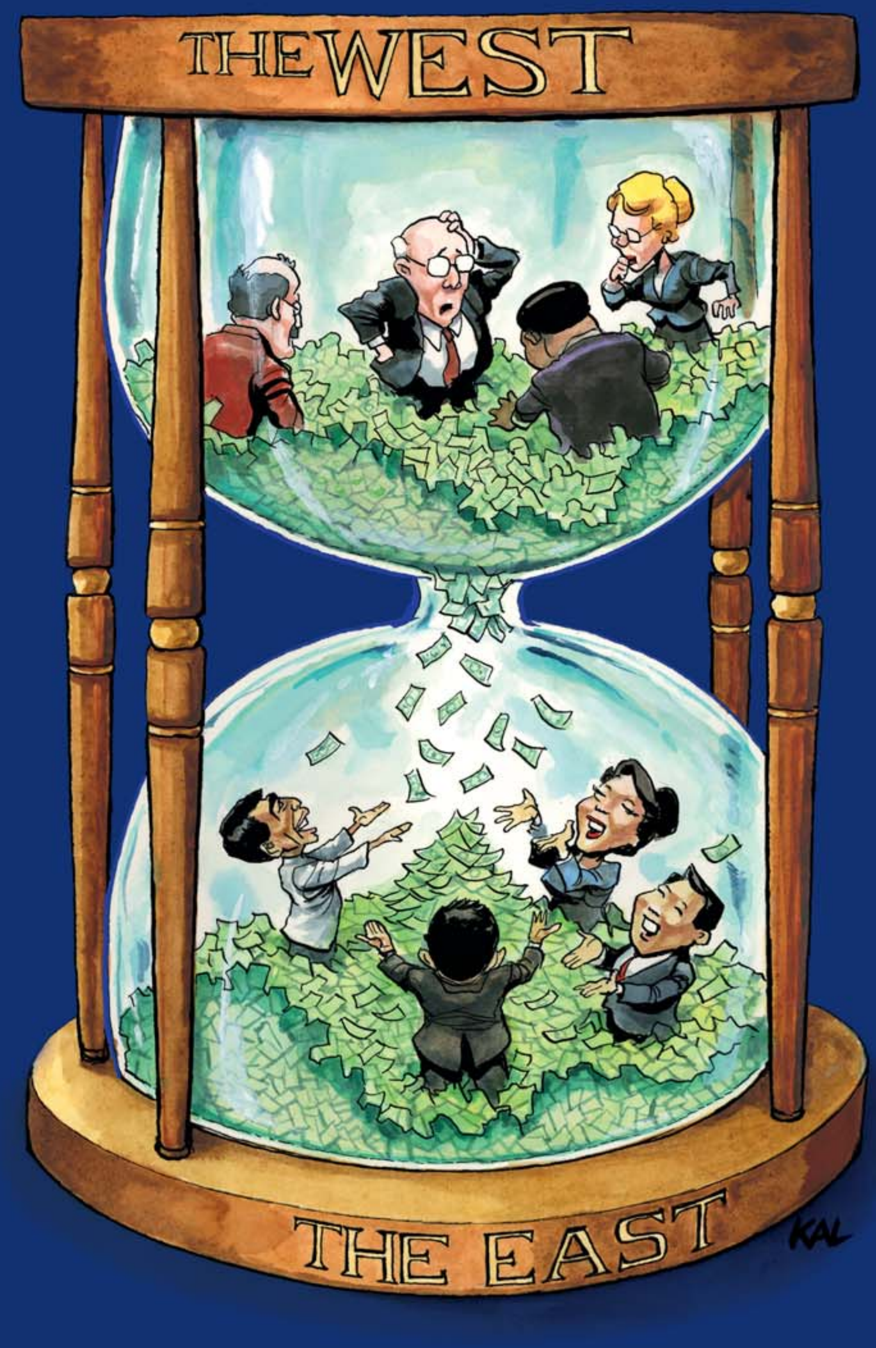
Economist Intelligence Unit

The Economist

The big tilt
The rise of the East and what it means for business

An Economist Intelligence Unit special report



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Preface

The big tilt: The rise of the East and what it means for business is an Economist Intelligence Unit special report. The Economist Intelligence Unit's editorial team executed the survey, conducted the interviews and wrote the report. Nigel Holloway was the editor and project supervisor. Bill Emmott, former Editor of *The Economist*, served as external consulting editor and Leo Abruzzese as internal consulting editor. Kim Andreasson managed the project team that included Dr Paul Kielstra and John Andrews (writers) and Laura Moustakerski (supporting editor). Brian Lee was in charge of survey execution. Mike Kenny designed the report and Kevin "Kal" Kallaugher created the cover image.

The quantitative findings presented in this report come from an online survey of 1,017 executives around the world—51% of whom describe themselves as board members or C-level executives—conducted by the Economist Intelligence Unit in August and September 2009. The survey asked respondents about the changing balance of global economic influence and their strategies in the face of it. To supplement the quantitative survey results, we conducted in-depth interviews with 19 senior executives and experts.

Our thanks are due to all survey respondents and interviewees for their time and insights.

February 2010

Foreword by Robin Bew

The global economic crisis and the return of "big government" have called into question the fundamental tenets of Western-style capitalism. Have financial markets become hopelessly dysfunctional, driven by greed and self-dealing? Will rising debt impoverish future generations? Does a new era of trade protectionism await? Or is all of this an exaggerated cyclical shock that will give way to smarter and better-regulated companies and markets?

The Economist Intelligence Unit's Industry and Management Research team in New York has embarked on the first special report on the future of capitalism.

The research draws on our core capabilities, including:

- A worldwide online survey of executives in our Global Executive Forum
- In-depth interviews with business leaders and experts
- Country forecasts in the form of macroeconomic projections as well as forward-looking assessments of the business environment

This special report looks at the changing global balance of economic power and the rise of Asia. It assesses whether the recession is accelerating a shift of economic influence from West to East and examines the factors causing this shift. It also looks at the implications for business decision-makers over the next ten years and explains what companies need to know in setting their long-term global strategy.

To provide additional insight, this report is supplemented by the following sources of information:

- A webcast featuring Bill Emmott, former Editor of *The Economist*; Sir Martin Sorrell, CEO of WPP Group; and Jim O'Neill, Head of Global Economic Research at Goldman Sachs, discussing the main findings of the report
- An interactive Excel dashboard that compares countries across key economic forecasts
- Complete survey results from the report

I hope you enjoy this special report and associated content.

Robin Bew
Editorial Director and Chief Economist
Economist Intelligence Unit

February 2010

List of interviewees

Gilles Andréani, Transatlantic Fellow, German Marshall Fund;
Adjunct Professor, Paris II Pantheon Assas University

Dr Léo Apotheker, CEO, SAP

Dominic Barton, Managing Director, McKinsey & Co

Andrew Brandler, CEO, CLP Group

Dan Brutto, President, UPS International

John Chambers, Chairman and CEO, Cisco

Dr Victor Fung Kwok-king, Group Chairman, Li & Fung Group

Ashok Goel, Vice-chairman and Managing Director, Essel Group

Kris Gopalakrishnan, CEO, Infosys

Ravi Kant, recently retired Managing Director, Tata Motors

Arthur Kroeber, Managing Director, Dragonomics

Sir David Li Kwok-po, Chairman, Bank of East Asia

Kishore Mahbubani, Dean, Lee Kuan Yew School of Public Policy

Jim O'Neill, Head of Global Economic Research, Goldman Sachs

Dr Stephen Roach, Chairman, Morgan Stanley Asia

Sir Martin Sorrell, CEO, WPP Group

Alvin Toffler, futurist and author

Dr Daniel Vasella, Chairman and CEO, Novartis

Ravi Venkatesan, Chairman, Microsoft India

Executive summary

The East has been rising since the 1950s, and its economic ascent is entering a new phase, following the Great Recession . There are likely to be a number of differences in its evolution in the next decade compared with the ones that preceded it. All have profound implications for global business. Companies large and small should develop their strategies by bearing in mind the following themes:

Economic leadership. Asia[1] is leading the world economy out of a deep, global recession; the region will comprise 45% of global economic growth in 2010, according to the Economist Intelligence Unit. China and India, the two most promising Asian economies, also have the world's largest populations.

Consumption. The old way for Asia to grow rapidly was to sell more to Western consumers, in particular to increasingly indebted American ones. In the future, Asian—and Western—firms will rely more on Asian consumers to do the heavy lifting. The European and North American markets will remain immense; in this decade, the Asian consumer market will become massive, too.

Savings. The heavily protected financial markets of China and India will slowly liberalise, leading to a more efficient allocation of capital. Full convertibility of their currencies is on the cards in the next decade. (The average estimate of our survey panellists for China is the year 2018 .) Even if it does not

1. For the purpose of this paper, Asia comprises all countries between Japan and India.

About the survey

In order to assess attitudes towards the changing balance of global economic influence, the Economist Intelligence Unit conducted an online survey of 1,017 executives around the world in August and September 2009. More than one-half (51%) of survey respondents describe themselves as board members or C-level executives; 303 are CEOs. Most are located in Europe (30%), Asia-Pacific (29%) and North America (28%), with the remainder in the Middle East and Africa (7%) and Latin America (6%). Twenty-two percent are located in the US , followed by India (9%), China (8%), the UK (8%) and Canada (6%). The organisations they represent are primarily headquartered in the US (29%), the UK (8%) , India (6%), Canada (5%) and China (4%).

One-half of survey respondents (50%) work for companies with global annual revenues exceeding US$500m. Nineteen different industries are represented in the survey sample, led by respondents from financial services (26%), professional services (14%), manufacturing (8%), information technology (IT) and technology (7%), and energy and natural resources (7%). Respondents also come from a wide variety of functions, including general management (46%), strategy and business development (42%), finance (26%), marketing and sales (20%), and operations and production (15%).

happen in the next ten years, Shanghai is likely to become a significant international financial centre in which companies from all over the world will be able to tap into China's impressive nest egg. The renminbi is likely to climb in value. As an inflation-dampener, it may need to.

Competition. Western and emerging Asian companies will increasingly compete directly against each other and buy control of each other. Cheap Asian component suppliers will continue to vie with one another for the favour of assemblers in the developed world. But in addition, Asian manufacturers will be making finished goods and competing against their European and US counterparts. In the process, Asian and Western companies will begin to resemble each other more than before.

National governance. India is a democracy but China's communist party shows little sign of sharing power. Politics and culture tincture economics. Asian brands of capitalism are different from the Anglo-Saxon variety. The Chinese state continues to own large swathes of corporate China. Apart from political interference and corruption, the main business risks in Asia are intellectual property theft, pollution and poor infrastructure.

Globalisation. The next decade may see the emergence of the first truly global corporations, possibly with headquarters located in more than one region and with executive suites comprising people who reflect the diverse markets that companies serve. Even if this does not happen, the trend is clear: more and more firms will tap global pools of talent and innovate all over the world. The biggest challenge is to develop a global corporate culture that may become the most important source of competitive advantage in the future.

One: Introduction

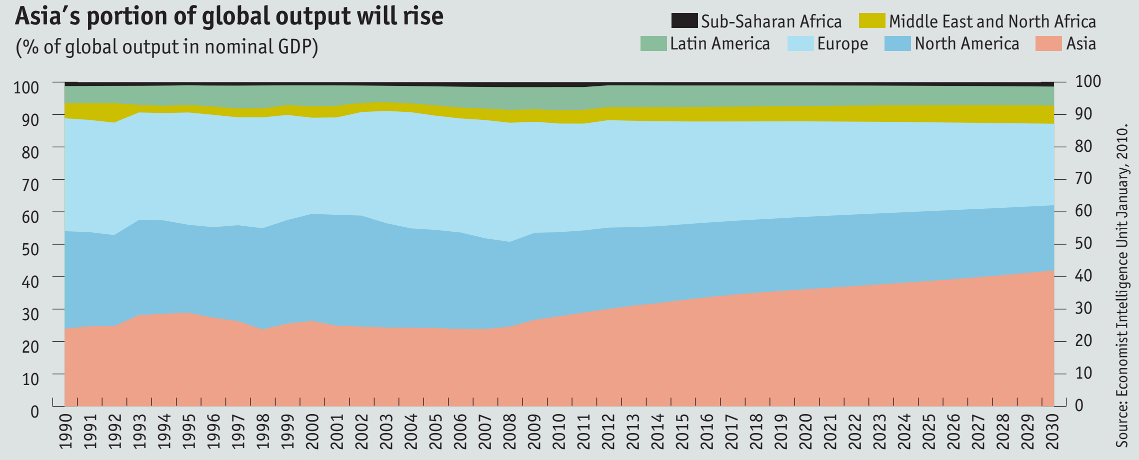
In February 2010, HSBC's CEO, Mike Geoghegan, relocated to Hong Kong from London, a move that was more than a symbolic return to the global bank's roots. The bank opened its doors in 1865 in Hong Kong and Shanghai and then moved the group's headquarters to London in 1993. Seventeen years later, the bank says it is taking advantage of "the shift in the world's centre of economic gravity from West to East".

The change in focus by one of the world's largest banks is part of a growing trend. As Asia leads the global economy out of a deep recession, corporate executives around the world are focusing more and more attention on Asian markets. The financial crisis of 2008-09 has shaken investors' confidence in the Anglo-Saxon business model exemplified by the US and the UK. It has caused companies to reassess their growth strategies towards emerging economies and China in particular. The financial rise of the East that began when Japan's economy took off in the 1950s seems to have entered a new phase.

This research paper will argue that the eastward shift in the centre of economic gravity is likely to accelerate in the coming decade and that companies need to prepare for it if they are to compete on a global scale. Much ink has been spilled about the big tilt in the global economy; the consensus among pundits is that the economic rise of Asia will continue. We agree with this view, although the process is unlikely to be smooth.

The report aims to cover new ground by examining the implications for global executives of this

Asia's portion of global output will rise
(% of global output in nominal GDP)



economic shift. What are the main trends they need to plan for in the coming decade and what practical steps should they take? In order to find out, we conducted a survey of 1,017 executives around the world in August and September 2009.

Almost two-thirds of respondents expect the eastward shift in global business to accelerate, but less than one in five say they are well prepared for competition from Asia (a little more than a quarter say they are prepared for competition from the West). In order to gain further insights, we then surveyed the one in five who said they had prepared for the tilt. Their answers and insights can be found throughout the paper.

Before delving into these findings, it is worth examining what is different about the eastward tilt today compared with the situation before the Great Recession. The economic rise of Asia began in the 1950s with the development of the Japanese economy. A milestone was reached in 1970 when Japan overtook (then West) Germany to become the second-largest economy after the US. In the 1980s, trans-Pacific commerce overtook trade across the Atlantic. In 1993, Asia surpassed Europe and North America as the world's largest economic region in purchasing power parity (PPP) terms—it is now 45% bigger than the latter and 70% larger than the former.

If you take a long-term view, the global economy appears to be reverting to the norm. By some estimates, China's and India's economies comprised more than one-half of global output between 1000 AD and 1820—until Western imperialism, inferior technology and internal wars ended their supremacy. "I do believe China and India were probably on the wrong side of history for 200 years," says Sir Martin Sorrell, CEO of WPP Group. One person who agrees is Kishore Mahbubani, dean of the Lee Kuan Yew School of Public Policy in Singapore. He says, "The simple reason why the rise of Asia is inevitable is because the last 200 years of world history have been an aberration... It took a massive amount of under-performance, let me stress under-performance, by the Asian societies for the less-populous European and American economies to dominate the world."

"Inevitable" is a tough word to swallow, especially in economics. Few people were talking about the rise of Asia in 1997-98, when one emerging Asian market after another saw its currency—and economy—collapse. And there's an eerie similarity between the situation today and the one that arose after the Wall Street crash in October 1987. Back then, Japan withstood the financial earthquake, leading some to forecast that the Japanese economy would soon overtake that of the US. Just over two years later, the bubble burst—and Japanese business has never fully recovered. Nobody talks about "Japan as number one" any more.

Could the same thing happen to China, now the world's second-largest economy in PPP terms? Certainly, it has the makings of a property bubble, and its banks—among the world's largest, just like Japan's in 1987—are replete with non-performing loans. Like Japan then, China has massive savings and a war chest of foreign reserves.

The possibility of a financial meltdown in China cannot be dismissed, and executives should make contingency plans. But the differences between Japan then and China now are considerable, too. China's currency is not fully convertible, so the economy is less vulnerable to external shocks. And China's economy is still growing at an annual rate of more than 8%, thanks in part to a US$586bn government stimulus.

Two: Economic leadership

Understanding Asia's economic growth

The following section looks at the pace of growth in Asia and advises global companies to:

- **Expect the economic growth of developing Asia to continue to outpace that of the West, as emerging markets pull out of the global recession faster**
- **Keep Asia's growth figures in perspective: the GDP of China and India are approaching those of developed markets in terms of PPP, but they are far smaller at market exchange rates**
- **Prepare for uneven growth in Asia and bursting property bubbles**

Expect the "growth gap" between Asia and the West to continue

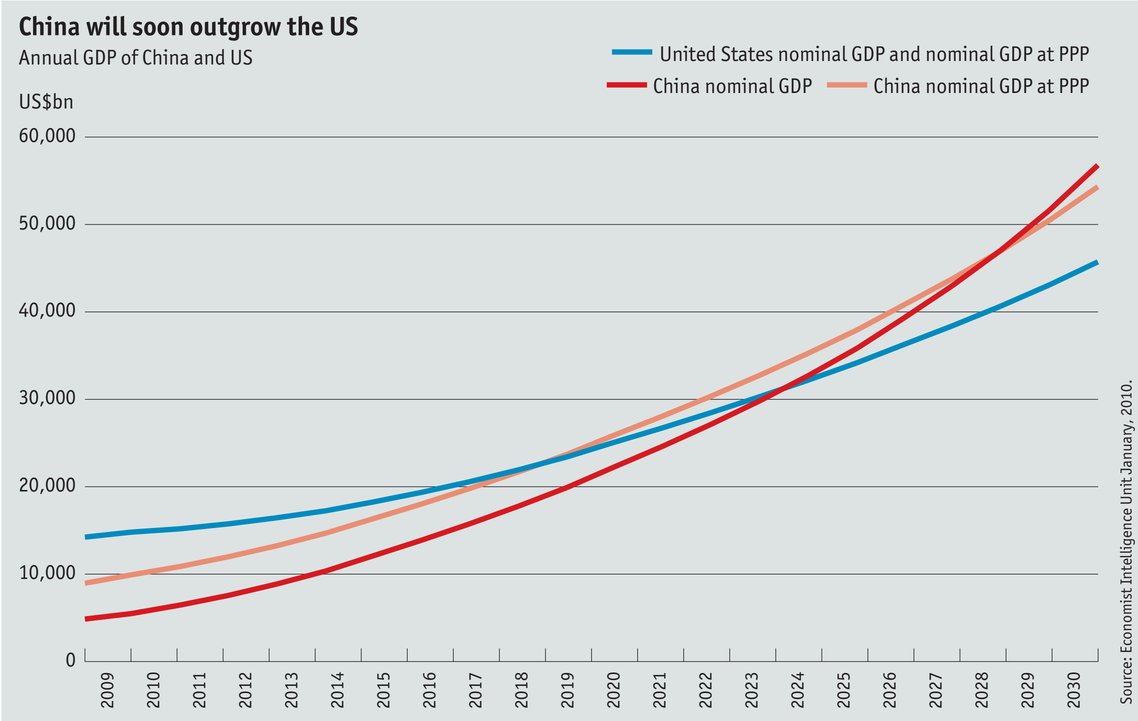
Many emerging markets have experienced dizzying growth rates over the past ten years. To jump ahead, they have taken advantage of existing technology, bulging foreign reserves and low-cost labour. And, even as the world recovers from the global recession of 2008-09, the gap in the rate of growth between leading emerging markets and developed ones is likely to remain wide. In the coming decade, the Economist Intelligence Unit forecasts that India and China will average GDP increases of 6.8% and 6.5% per year, respectively—among the world's fastest rates, and of course from a much higher base than ten years ago. This will far outstrip the United States at 2.5%, and the leading European economies.

Companies worldwide are excited by the prospects. And seeing is believing: our survey and interviews reveal that executives based in Asia tend to be even more positive about the region's potential than those outside. That's the effect of "drinking the Kool-Aid out here" (ie, caught up in the atmosphere), says Dominic Barton, worldwide managing director of McKinsey & Co, who is based in Singapore.

Keep growth figures in perspective

In terms of PPP, the leading emerging markets are gaining ground fast. The Economist Intelligence Unit expects China, the world's second-largest economy in PPP terms, to return to first place in 2020, after a two-century hiatus. India, meanwhile, will move from fourth place, with an economy about 90% the size of Japan's, to third, with a GDP roughly two-thirds greater than that of Japan by 2020.

However, global companies must keep these statistics in perspective. Emerging markets are not close to overtaking the largest developed economies when measured at market exchange rates. China's



economy may equal the US's in PPP terms by 2019, but in nominal GDP terms it is likely to be about 85% of the size of the US. India's will be 20%. For companies with shareholders concerned about bottom lines in dollars or euros, the opportunities represented by these emerging economies are substantial but perhaps not as overwhelming as some statistics suggest.

Prepare for uneven growth

While Asia's expansion is expected to be strong, it is unlikely to be steady. Companies must spread their risks and be prepared for ups and downs. Jim O'Neill, head of global economic research at Goldman Sachs

Purchasing power parity

Purchasing power parity (PPP) is a currency conversion rate that equalises the purchasing power of different currencies. It is based on periodic national pricing surveys carried out by international organisations such as the World Bank. Hence a basket of goods and services should cost the same across countries, once the exchange rate and different prices are taken into account. For example, at market exchange rates, income per capita in China is far lower than in the US. However, the difference is less stark in PPP terms, because goods cost less in China than in the US and PPP takes this into account. The reason for the wide divergence is that PPP adjusts for the lower cost of living in China; Chinese are better off than market exchange rates might suggest. The US dollar-denominated GDP forecasts in this report should be treated carefully because they take into account many indicators, including output growth, inflation and currency movements. It's hard enough for economists to predict business activity one year hence, let alone in ten years. Therefore executives should focus less on the exact numbers and more on the long-term trend of a narrowing gap between the size of the US and Chinese economies, as well as other fast-growing economies.

points out that it was "fashionable" in the 1980s to predict that Japan would overtake the US. Then Japan fell into an economic slump from which it has not recovered. Japan's troubles began in the banking sector, which had financed a real estate bubble. From 1992 to 2002, 180 deposit-taking institutions failed and the equivalent of 20% of one year's GDP went towards tidying up a large number of non-performing loans.

Astute business leaders learnt two lessons from Japan: never put all your eggs in one basket, and if something looks like a bubble, it probably is. Economists, including those advising China's central bank, warn that a property bubble may well be developing in China now.

The Economist Intelligence Unit forecasts that in the next decade China's GDP, in PPP terms, will rise by US$14.5trn, the equivalent of the US's entire economy today. India will add US$5.6trn to its GDP in PPP terms, which comfortably exceeds the whole of Japan's economy. But these gains will not come at an even pace. Says McKinsey's Mr Barton: "There are going to be quite a number of zigzags as we get there."

China's growth over the past 30 years has been steady, according to official data. It weathered a sharp drop in foreign investment after the Tiananmen Square massacre, but was not seriously affected by the Asian financial crisis of the 1990s. China's economy has grown in the face of environmental catastrophes, internal social unrest and international disputes and continued to grow strongly during the most recent global recession. But the smoothness of China's expansion is something of a mirage. The official data

Forecast for the automotive industry in Asia-Pacific

- Asia's car market has weathered the global recession better than other regions. New car registrations there grew 1.1% in 2009, even as they fell 14% globally. China and India led, more than making up for dismal performance in Japan, where a strong yen and a slump in export demand dragged down sales. China overtook the US as the world's largest car market in 2009.
- In addition to government subsidies, China's car market has been boosted by strong spending on public infrastructure, pent up domestic demand and little reliance on consumer credit (the banking crisis affected credit-dependent car markets much more severely). Unlike China, car buyers in India are already heavily dependent on finance. The industry there will rebound as credit eases.
- Carmakers will have to wait until 2013 before global car sales pass their 2007 peak. Until then, strong sales growth in China, India and Brazil will help to compensate for sagging sales elsewhere.
- The recession may prove to be a huge opportunity for carmakers in emerging Asia, where domestic carmakers are ambitious for international expansion and see the acquisition of a Western brand as a good starting point.

Passenger car registration

	2004[a]	2005[a]	2006[a]	2007[a]	2008[a]	2009[b]	2010[b]	2011[b]	2012[b]	2013[b]
Asia and Australasia	12.1m	13.1m	14.2m	15.6m	15.8m	16.0m	17.4m	18.8m	20.5m	22.6m
change year-on-year	9.4%	7.9%	8.3%	9.9%	1.4%	1.1%	9.1%	8.2%	9.0%	9.9%
World[c]	50.3m	52.0m	53.6m	56.4m	53.2m	45.7m	47.8m	51.1m	55.3m	59.9m
change year-on-year	4.4%	3.4%	3.1%	5.1%	-5.7%	-14.0%	4.7%	6.8%	8.3%	8.2%

a Estimates. b Forecasts. c Sum of 60 countries covered in the Economist Intelligence Unit's industry service.
Source: The Economist Intelligence Unit.

have often been massaged to even out politically inconvenient peaks and troughs in this increasingly decentralised economy. As market forces take greater hold, and as the country's economy becomes more transparent, fluctuations will become more apparent.

The unpredictability will bring both positive and negative surprises to global businesses. Two years ago, consumer research firm JD Power and Associates predicted that China would overtake the US as the world's largest car market in 2025. But in 2009, with car sales up 44%, China surpassed the US by volume. This is good news for automakers that poured investment into China. US-based automaker General Motors US$1bn plant in Shanghai, which appeared to some as a gamble when it was opened in 1999, now seems a smart investment, as GM leads the country's automotive market. GM now plans to team up with its Chinese partner, Shanghai Automotive Industry Corp, to tackle the Indian car market. For other companies, demand has risen more slowly than expected. According to a recent article in *The Economist*[2], for example, after a decade of efforts in China, less than 5% of P&G's total global sales come from the country.

2. *Impenetrable*, *The Economist*, October 15th, 2009.

Three: Consumption

In this section, we look at some of the unusual aspects of Asia's consumer markets and how companies are:

- **Shifting production and marketing towards domestic consumption, away from exports**
- **Preparing for new consumers by tailoring not only products—but distribution, marketing and pricing—to local conditions**
- **Finding it hard to turn a profit there, even though these markets are growing at a rapid pace**

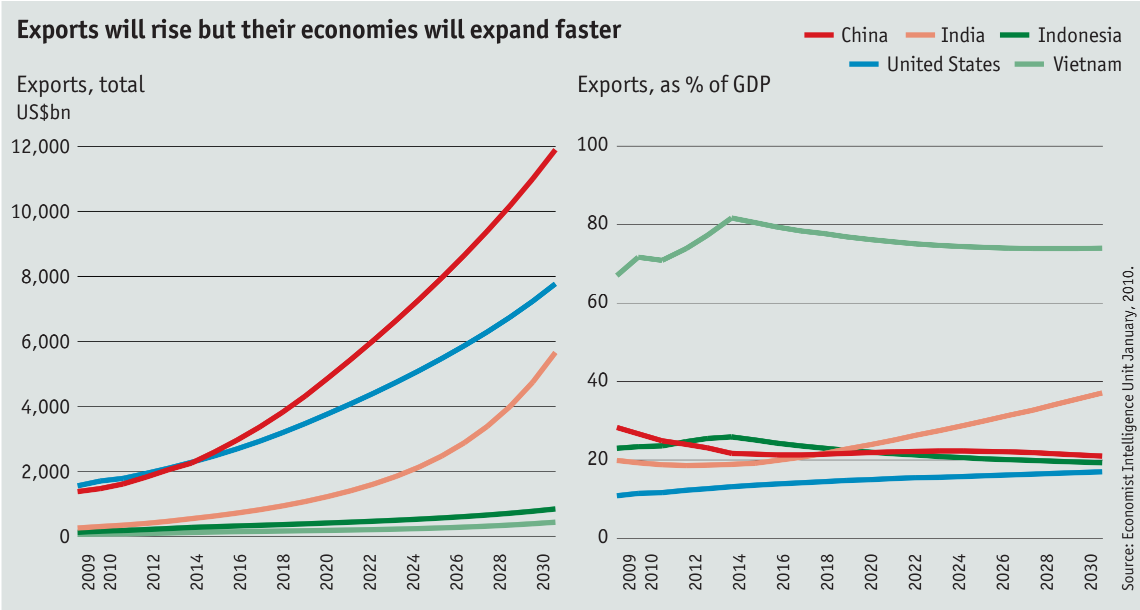
Focus more on the domestic market and less on exports

Rapid growth in Asia has been due largely to the region's successful export model, producing goods cheaply and selling them to the West. In recent years, China has played an increasingly central role. Arthur Kroeber, managing director at Dragonomics, a China-based consultancy, describes a "kind of Asian conveyor belt" of components and raw materials being produced across the region and shipped to China for final assembly. Finished products are then exported to developed countries. According to the Asian Development Bank, in the years running up to the global recession, 70% of intra-Asian exports were unfinished components, and 60% went to their final destination in the US, Europe or Japan. China thus became a leading purchaser of regional output.

China kept its currency weak through a dollar peg, which made its exports more attractive, particularly to US consumers. But buyers in the US spent beyond their means, financed by rising house prices while ignoring their growing debt. The recession has changed this relationship. "The financial tsunami proved that the decade-long 'Asia-saves, America-spends' model is no longer viable," says Sir David Li Kwok-po, chairman of the Bank of East Asia. Indebted Americans can no longer be the consumers of last resort. Indeed, the size of the debt has even begun to cause concern for previously happy lenders. When China's Premier Wen Jiabao referred to the size of US debt held by China in March 2009, he said, "To be honest, I'm a little bit worried."

China has already felt the pinch. Its exports fell by 16% in dollar terms in 2009. China is growing its way out of the global recession through stimulus spending—especially government spending on infrastructure—as well as revived exports .

But public spending on this scale cannot last forever. For China—and therefore much of developing Asia that exports to China—consumer demand within the region will have to make up for slowly growing markets in the West. According to the chairman of Morgan Stanley Asia, Dr Stephen Roach, the region "remains an export machine. It derives a highly disproportionate share of its economic growth from



Exports will rise but their economies will expand faster

exports." Without a shift to greater domestic consumption, there will be "real impediments to the so-called Asian growth miracle".

The shift is likely to happen, however. The Economist Intelligence Unit forecasts that over the next five years, private consumption in China as a proportion of GDP will rise only modestly, from 35% to 38%. Thereafter, it is predicted to take off, reaching 52% by 2020. As more and more people in China reach US$5,000 annual income per head, purchases of consumer goods will accelerate. "It's not a high bar," says McKinsey's Mr Barton. "But it's enough to be buying scooters, TVs and all sorts of different products. The sheer size of that is going to shift the power balance on the economic side."

Adjust strategy to local markets within large emerging markets

As local demand picks up, so will labour and input costs, making China less attractive as an export base for global companies. Takara Tomy, a Japanese toy company whose brands include Hasbro, in 2008 began shifting 30% of its Chinese production to Vietnam, where costs are lower. Even some Chinese manufacturers, such as Ever-Glory International, the first Chinese clothier to list on the New York stock exchange, are shifting production to other countries. Global companies will therefore have to adapt their operations in countries such as China and India to local demand.

For the next few years, economic growth will be distributed unevenly within each country. Accordingly, business opportunities will continue to vary. Victor Fung Kwok-king, group chairman of Li & Fung Group, a global trading group, urges Western companies to develop on-the-ground knowledge of regional and provincial differences in China's highly fragmented consumer market. "Preferred brands, shopping styles, distribution networks and, therefore, opportunities change as one moves around the country," he says. "Strategy must adjust."

In the next decade, what do you see as the main attractions of doing business in the following economies?
Select all that apply.

	China	Hong Kong	India	Indonesia	Vietnam
Low labour cost	67%	12%	63%	73%	80%
Market growth	69%	19%	60%	68%	62%
Market size	79%	7%	69%	68%	16%
Gaining foothold in a market of future importance	40%	19%	39%	51%	46%
Availability of skills/talent	20%	45%	51%	11%	29%
Openness to trade	15%	52%	14%	21%	29%
Low taxes	8%	31%	6%	15%	19%
Adequate infrastructure	14%	46%	4%	7%	4%
Favourable regulatory environment	6%	28%	6%	6%	16%
Improved product quality	19%	12%	12%	11%	18%
Level of innovation	10%	30%	18%	5%	7%
Cultural ties	4%	16%	6%	7%	4%
Political stability	11%	12%	10%	10%	13%
Stable economic environment	10%	24%	9%	3%	9%
Access to new/better materials	8%	9%	5%	11%	6%
Strong rule of law (eg, intellectual property protection)	2%	1%	5%	1%	1%

Asia's consumer markets are attractive, but profits scarce

Low labour costs are undoubtedly attractive for global businesses in emerging markets. But the size and growth potential of Asia's consumer markets are gradually becoming the bigger draw, particularly in populous countries (see table). McKinsey estimates that, within the next ten years, 900m people across Asia will enter the middle class, which the consulting firm defines as US$5,000 GDP per capita in PPP terms. China's average GDP per head already surpassed US$5,000 in PPP terms in 2005, and the Economist Intelligence Unit forecasts that India's will do so in 2013.

The challenge for global companies now is twofold: to turn potential customers into actual ones, and to do so profitably. Although 58% of survey respondents say investment in Asia has brought their company increased revenue in the past ten years, only 35% have seen increased profitability .

Dr Fung says the challenge for both Western and Asian companies will be to tap into Asia's new consumers while holding on to existing markets in developed countries. To do this, companies will have to adjust their approach in two ways. One is to view rising wages in emerging markets as a positive force rather than an impediment to business. After all, workers with more disposable income will be better consumers. The second is to grasp the difference between the spending power of "middle class" consumers in emerging markets and developed ones. China and India may boast per capita GDP of US$5,000 (PPP), but the figure is more than US$30,000 in OECD countries and US$45,000 in the US. Companies will not be able to sell the same products in the same way to both emerging and developed markets.

According to Ravi Venkatesan, chairman of Microsoft India, most multinationals mistakenly believe they can sell products already produced for developed countries to the small segments of Chinese and Indians that can afford them. Kris Gopalakrishnan, CEO of India-based Infosys, advises companies to think locally. “The demographics are different, the cultures are different, people’s aspirations are different, their tastes are different,” he says. “You probably will not be able to introduce the same product that you’re selling in developed markets.”

This is no minor adjustment. “In many cases, Western definitions of what a product is will almost surely need to be thrown away and new products developed for the middle class in these markets,” says Mr Barton of McKinsey. Companies must integrate the manufacture, distribution, marketing and selling of their products in local markets. The results can be rapid. After years of struggling, Kraft Foods, a candy, food and beverages company headquartered in the US, began focusing on local tastes in China in 2006. By making Oreo cookies less sweet, introducing local flavours and selling in smaller packages, that single product now boasts 7% of China’s entire cookie market. Dr Fung notes that Asian consumers behave “radically differently from those in the West”. Asians tend to examine products more closely, both

Forecast for the retail and consumer goods industries in Asia-Pacific

- Growth in global retail sales (in volume terms) slowed to an estimated 0.6% in 2008. Falling sales in North America and Western Europe have led to a contraction of 2.2% in 2009.
- Only two regions,Asia and the Middle East & Africa, achieved growth in 2009. Retail sales are projected to have risen particularly strongly in Vietnam (10.1), China (7.6%), Brazil (5.1%) and India (4.0%) during 2009, although for many countries this still represents a sharp slowdown on 2008, when China saw retail sales rise by 17.2%.
- Asian economies, notably China and India, will continue to grow, albeit at a slower rate than in recent years. This will lead to a modest return to global growth in 2010 and a return to pre-2008 trends by 2013.
- There will need to be a structural shift as companies move their focus from the US market to emerging markets as the main source of growth. Global players with deep pockets such as Wal-Mart (US), Metro (Germany) and Tesco (UK) have already done this to some extent, exploiting the weakness of rivals or acquisition targets to position themselves for growth.
- Opportunities for consolidation in mature markets will emerge as weaker firms are forced to sell off assets. The focus for M&A, however, will be on emerging markets.

Global and regional retail markets[a]
Retail sales (US$trn)

	2005[b]	2006[b]	2007[b]	2008[b]	2009[c]	2010[c]	2011[c]	2012[c]	2013[c]	2014[c]
Asia and Australasia	3.15	3.36	3.76	4.41	4.59	5.07	5.51	6.05	6.74	7.50
% change (volume)	4.5	4.6	5.0	5.4	2.6	3.7	4.0	4.7	5.1	5.1
World[c]	11.26	12.03	13.25	14.47	13.76	14.59	15.39	16.52	17.91	19.43
% change (volume)	3.1	3.1	2.8	0.6	-2.2	1.6	2.3	2.9	3.6	3.6

a Sum of 60 countries covered in the Economist Intelligence Unit’s industry service. b Estimates. c Forecasts.
Source: The Economist Intelligence Unit.

to ensure good value and because they want purchases to reflect their lifestyle and aspirations. This is particularly true of the newly wealthy, says Dr Fung. “They don’t mind spending to acquire an image they want to project.”

Leveraging innovation to meet lower price points will benefit consumers everywhere. As Mr Venkatesan points out, “When you have a large emerging middle class and are trying to serve them, you produce interesting innovations,” which can be sold all over the world. GE Healthcare has begun to benefit from this process, which it calls “reverse innovation”. It is now selling in the US a US$1,000 hand-held electrocardiogram device developed in India for the local market and a US$15,000 ultrasound machine developed in China.

Some companies will have to find ways to enter emerging markets with low prices. As Daniel Vasella, chairman and CEO of Novartis, a Swiss life sciences company, notes, China faces many of the same healthcare issues as Western nations: an ageing population; increasing incidence of cancer, cardiovascular and degenerative diseases; and growing heathcare costs. The Chinese government has announced plans to invest US$124bn in healthcare over three years, opening new opportunities for drug makers. Novartis is making sure to focus on selling not only brand-name drugs in China, but also generics because they comprise more than half of the country’s pharmaceuticals market (and domestic manufacturing standards are not always rigorous).

Nokia of Finland controls more than half of India’s mobile-phone market of 500m subscribers, the fastest-growing market in the world. Competitors rarely exceed a 10% share. Its success is largely due to a focus on products that meet India’s needs, notably the low-end Nokia 1100. Its built-in flashlight proved so popular in a country with frequent power outages that it is now a standard feature on Indian phones. But Nokia is also offering its more affluent Indian consumers advanced entertainment products and services, as they increasingly use phones for e-mailing and web-surfing. D Shivakumar, managing director and vice-president of Nokia India, says, “In fact, India is a bi-polar market. There is enough value at the top end, and there is enough volume at the masses.”[3]

Among our survey respondents from non-Asian companies who say they are “well prepared” for competition in Asia, 45% employ sales and marketing strategies in Asia that differ substantially from those of their home market; only 30% say there is little or no difference between their Asian and home-market strategies.

Well-known Western brands often enjoy an advantage in Asia, where middle-class consumers show “a distinct preference for brands, perhaps even more than Western counterparts, and derive emotional satisfaction from them,” says Mr Barton. But it is often hard to take advantage of this preference.

McDonald’s, the largest chain of hamburger fast-food restaurants worldwide—and one of the world’s most recognisable and unified brands—has learnt to localise. In 2004, the company rolled out a common set of packaging across its entire global operation. But four years later, it revised its strategy to allow for flexibility for local cultures. This makes sense considering that few global brands capture the same demographic group across multiple countries. In China, McDonald’s appeals to the middle class—it is not inexpensive by local standards. But in the US, McDonald’s attraction is its low prices. In China some multinationals are introducing their core products as premium ones, and then producing local variants, sometimes under a different brand.

3. “Leadership in Times of Crisis: Staying Ahead”, *Businessworld*, 24 April 2009.

As companies try to service Asia's newest consumers while retaining existing ones in developed markets, branding will become a three-dimensional game. Global companies will strive to maintain consistency, balancing the benefits of recognisable traits and values at a global level with the need to appeal to highly divergent market segments at the local level.

There will also be new opportunities. Dr Fung notes that, with fast growth in Asian consumer markets, "Building brand value does not take generations," and new companies can gain global prominence quickly. Since 2000, China Mobile, the state-owned Chinese mobile-phone company, has built a brand worth US$61bn. This rendered it the seventh most valuable brand in the world in 2009, according to WPP research agency Millward Brown Optimor's annual BrandZ *Top 100 Most Valuable Global Brands* report 2009.

Four: Savings

In this section, we look at the other side of the coin: if consumption is to rise, then savings will have to fall. This is likely to happen, and to coincide with financial reforms. The main points to watch:

- **High rates of household savings are often blamed for stunted consumer spending in Asia, but corporate savings are the bigger culprit**
- **Reforms—including improved corporate governance and more-developed financial markets—are needed so that companies can more easily raise capital, and save less. But there must also be a change in attitude: companies and individuals in Asia must become less risk-averse for growth in consumption to take off**
- **The biggest financial reform for China and India would be to allow their currencies to be freely traded**

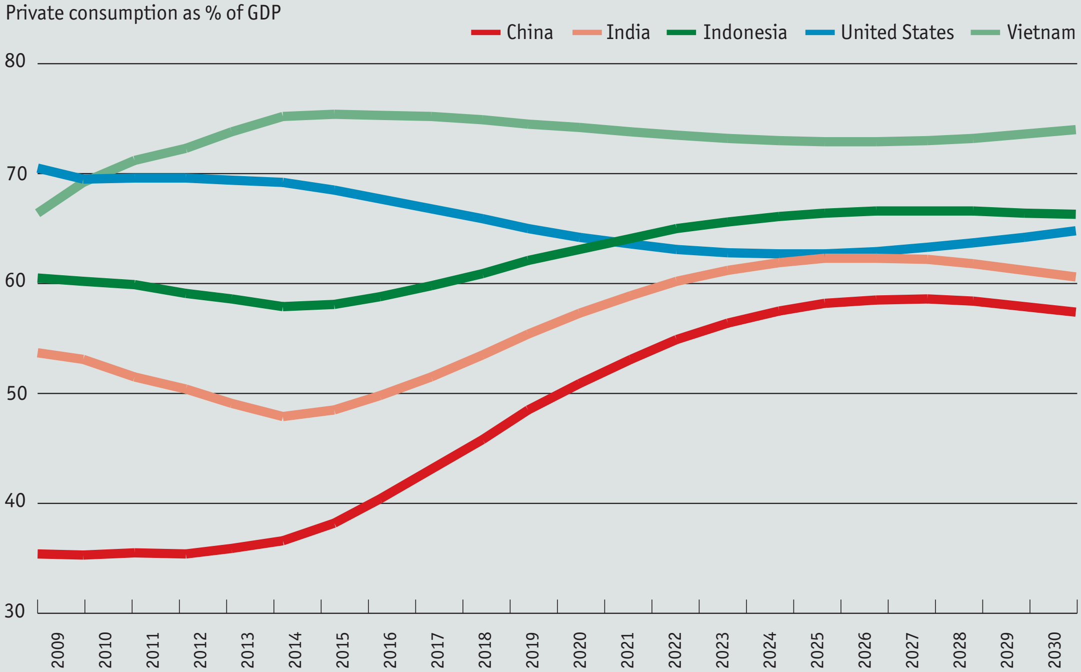
Household and corporate savings depress spending

One reason global companies have fared so poorly selling to the Chinese is the country's "ridiculously high savings rate", as Mr O'Neill of Goldman Sachs puts it. In 2009, China's gross national savings rate is forecast to be just over 50%—about ten times that of the US. Some of this is precautionary savings by households in a country where the social safety net is inadequate. In 2008, individuals held nearly US$3trn in savings, while loans (including those for housing) amounted to only about US$500bn . The Chinese government is taking steps to shore up public welfare programmes and thereby encourage individual investors to assume greater financial risk—10% of the proceeds from the sale of shares in major state companies go into a National Social Security Fund, for example. Behavioural change on a grand scale will take time, however.

The greater culprit is corporate savings. In a presentation to a British parliamentary group in 2009,[4] Professor Fan Gang of the Monetary Policy Committee of the People's Bank of China, the central bank, estimates that more than half of all savings in the country are held by companies, compared with 30% by households, with the remainder in the hands of the government. Chinese firms, he contends, are able to retain their profits because many are state-owned monopolies that do not have to pay out dividends. In the next few years, the renminbi is likely to rise further in international value, thereby constraining the growth of corporate profits (and thus savings) in China.

4. http://portal2.nottingham.ac.uk/cpi/News_and_Events/event_reports/APPCG_June_2009/Fan_Gang_Transcript.pdf

China's consumer boom will bring it closer to other economies
Private consumption as % of GDP



Source: Economist Intelligence Unit January, 2010.

Tap into freer-flowing capital

A recent IMF study[5] found that the problem of excessive saving is not limited to China: across Asia publicly and privately owned firms are stockpiling cash—7% of the world's savings are now held by companies from emerging Asia. These companies save because they cannot easily raise capital in the public equity or debt markets. Opening up the value in private firms, the IMF argues, would require better corporate governance (investors want to be able to see clearly the finances of firms whose shares they may consider buying) and more-developed financial markets (so firms would not have to hoard cash).

In the West, such a level of corporate saving tends to boost consumer spending, as investors rely on the expected growth of their equity holdings to build their nest eggs and spend more of their disposable income. But in Asia, the data suggest, companies and individuals are traditionally more risk-averse, and it will take a change in attitude for both to trade savings for faster, riskier growth.

Asia's emerging markets retain a number of restrictions that are rarely found in the West. India and China still have capital account controls, restricting the transfer of money into and out of the country. In addition, most banks in China are state-owned and face pressure to lend (often wastefully) to government-owned enterprises.

Financial reform could mean an important new source of capital for companies, as China's huge savings are put to work. It would also open up business opportunities for financial services companies from the developed world. Executives are certainly hoping as much. When survey respondents were asked to predict what would be the leading financial centre in 2020, New York and London came out on top,

5. "Regional Economic Outlook: Asia and Pacific Building a Sustained Recovery", October 2009, pp. 55-70.

followed by Shanghai, Beijing and Hong Kong. In anticipation of reforms that would allow them to tap into local capital, HSBC and the Bank of East Asia intend to list on the Shanghai exchange in 2010.

One reform that is on the cards is the full convertibility of China's currency; this would certainly be a sign of financial maturity. In principle, China has already committed itself to full convertibility[6], and has taken several steps in that direction—for example, the settlement of bilateral trade with Hong Kong in renminbi and the decision by China's Ministry of Finance to issue renminbi debt in Hong Kong. But the global financial crisis of 2008-09 has rattled nerves, and Asians remember well the currency crisis of ten years earlier when local banks toppled after many withdrew their savings and stashed them overseas. In China's case, a freely traded currency would likely lead to a rise in the renminbi, something its exporters don't want.

The real question for China is whether convertibility will give it less control over its domestic economy or more, by freeing up monetary policy from targeting the currency, as now, to targeting inflation. Dr Roach of Morgan Stanley Asia says, "Within the next ten years there's a darn good chance the renminbi could become fully convertible. If China's dead serious about reforming its financial system, about Shanghai, for example, emerging as a global financial centre, it needs a fully convertible currency." Survey respondents agree: on average they predict the renminbi will become convertible in 2018.

A convertible currency would make Chinese foreign aid money more powerful and increase the purchasing power of Chinese overseas investors. Moreover, if the bubble-theorists are right, China's next danger might be inflation, and a rising currency would help control that. Full convertibility would mean a more efficient allocation of capital, both domestic and foreign. This would go hand-in-hand with a more transparent financial system and would help develop a better-balanced economy—more dependent on domestic demand and less on exports. In short, a convertible currency would finally bring China, still nominally a centrally planned socialist country, more into line with Western norms.

6. "China is committed to pushing forward its currency reform but has no timetable for the full convertibility of renminbi, said Zhou Xiaochuan, governor of the People's Bank of China," People's Daily online, 22 September 2007.

Five: Competition

In this section, we consider how companies are preparing to meet the heightened competition we expect in the coming decade. Among the key points:

- **Expect a flatter global playing field as Asian and Western firms become more similar**
- **Western companies will become more formidable competitors in Asia by cutting their costs and continuing to innovate**
- **Asian firms will learn how to become more innovative**
- **Firms that have not prepared for the big global economic shift can catch up. All is not lost, by any means**
- **The number of cross-regional mergers will rise, particularly when Asian firms are doing the acquiring**

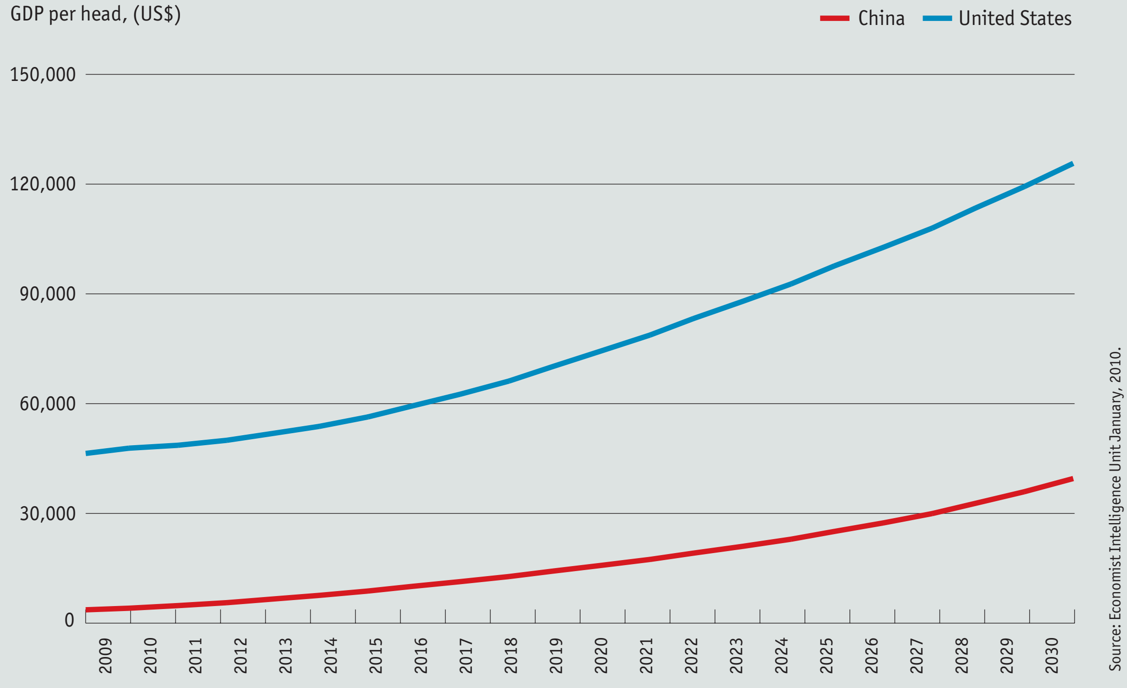
Globalisation has accelerated, and benefited from, a division of labour between Asian and Western firms. The former have exploited their lower costs to supply components to the latter and Western firms have applied their know-how to sell the finished goods to consumers. Nike, a US maker of sportswear, is a case in point. For years, it designed running shoes in Beaverton, Oregon, and then manufactured them in countries such as China and Vietnam before marketing them around the world.

But the corporate asymmetry that has served both sides well will not last. As it fades away in the coming decade, Asian and Western firms will find themselves increasingly in direct competition with each other. Asian companies will lose their cost advantage and Western companies will be chasing after new middle-class Asian consumers.

Sir David Li of the Bank of East Asia predicts that Chinese companies “will develop their own intellectual property and marketing expertise in the huge and highly competitive domestic market, and will be able to capture a much higher percentage of the value of the products they produce, not only domestically, but also abroad.” In fact, many Asian companies have not waited for the shift. Professor Clayton Christensen, in *The Innovator’s Prescription*, describes how ASUSTeK Computer Inc of Taiwan transformed its expertise in motherboard production and supply chain management for large Western companies into launching its own brand of netbook and notebook computers in October 2007. The company expects to have sold 11m-13m branded portable computers in 2009, in addition to continued parts sales to other major brands.

It is safe to assume that corporate success in the next decade will depend on the ability of Eastern and Western firms to build on their capabilities and adapt to this shift. In our survey, executives in Asian-based companies most often said that to compete in the future, they would need to increase the rate of

The income gap will widen
GDP per head, (US$)



innovation and produce higher-quality products—two areas in which Western companies are considered to have the edge. By comparison, survey respondents from Western-based firms regard innovation as the most important way of keeping Asian firms at bay, but then point to the need to lower their cost structures and expand to new markets, no doubt by going on the offensive in Asia.

For many firms, this will mean a much deeper involvement in emerging markets. As Léo Apotheker, CEO of multinational software developer SAP, based in Germany, explains it, "As a global company you… have to be an integral part of the local economy…We are trying to come to a point where a Brazilian or an Indian business executive or government executive would consider SAP India or SAP Brazil in the same way as they would look at a local software company." Others are aiming to combine the best of both worlds. Ashok Goel, vice-president and managing director of India-based Essel Propack, the world's largest maker of laminated tubes for packaging, says his company tries to use its operations in both the developed and developing world "to marry cost competitiveness with innovation".

India's Tata Motors is "a good example where changes in both directions are happening", says Ravi Kant, the firm's recently retired managing director. Its Tata-branded operations "cannot survive on just low costs; we have to be innovative." It has thus set up innovation centres in Europe and Asia that work with vendors and designers in such countries as Italy to build the low-cost Nano. By contrast, the company's Jaguar and Land Rover operations are focusing on ways "to reduce costs and outsource much more" to Asia and elsewhere.

Firms such as Essel and Tata are in a small minority, however. Only 19% of our survey respondents said they are "well prepared" for the shift in economic gravity towards Asia. And among those that are

well prepared, only a small number have been preparing for this business tilt for a long time. Some 30% of non-Western companies in this elite category have been preparing for Western competition for more than 15 years. Only 18% of firms from outside Asia have prepared this long for Asian competition. The remainder of the well prepared have been getting ready for competition for only four years and two months on average. The business lesson here is that although it may seem daunting to prepare for the big global shift, many firms are in the same boat. And those that consider themselves well prepared often became so in a short time. So there's hope for the laggards: they can catch up if they start now and focus on the task.

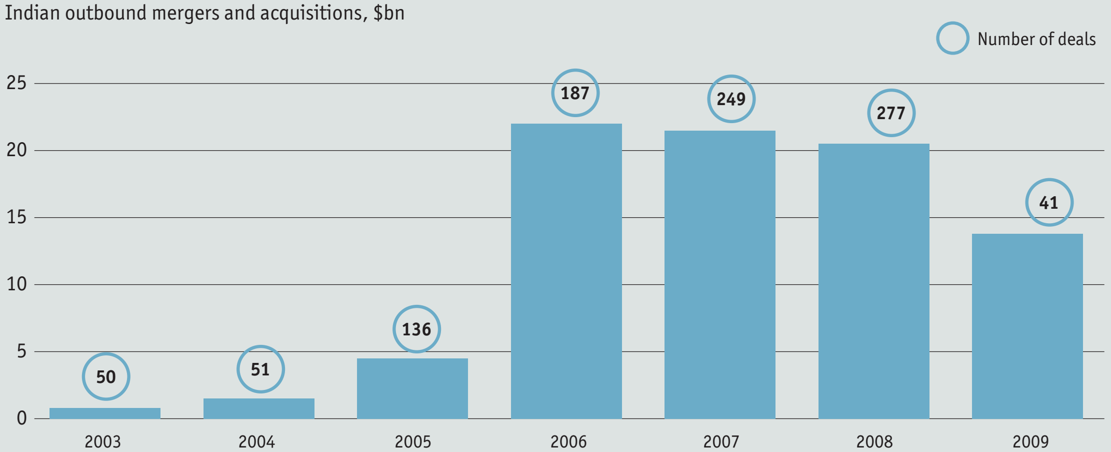
To do so, the laggards will need to lower their cost structures and offer higher-quality products. And they will have to innovate if they are to achieve these goals simultaneously. These are the options most commonly chosen in our survey. Indeed, the priorities were similar for companies of every origin and wherever they were operating, suggesting that firms from the East and West will increasingly resemble each other as they compete against each other.

The growing urge to merge

When firms gain a stronger foothold far from home shores, there is a good chance that more international corporate mergers will follow. Until recently, the acquirer was likely to be a global firm headquartered in a developed market such as the US and the quarry a company in developing Asia. But there are increasing signs the tide is turning. In 2004, Chinese computer maker Lenovo paid IBM US$1.75bn for its PC manufacturing business. Four years later, Tata Motors of India bought Jaguar and Land Rover from Ford for US$2.4bn. In November 2009, Reliance Industries, India's largest listed company, bid US$13.5bn for a Dutch chemical company, LyondellBasell, which is currently in Chapter 11 administration in the US.

These transactions are likely to be the thin end of a fat wedge. Our survey respondents certainly think so: 86% foresee a rise in Asian purchases of Western businesses in the next ten years, compared with

Corporate India looking for deals
Indian outbound mergers and acquisitions, $bn



Source: Dealogic

40% who expect an increase in Western acquisitions of Asian companies. And many more anticipate a rise in intra-Asian mergers and acquisitions (M&A) than in intra-Western acquisitions. The increase in M&A should come as no surprise: as Andrew Brandler, CEO of CLP Group, a Hong Kong utility company, says, “It is a natural effect of globalisation.” One reason seems clear: Asian companies will increasingly have the motivation and the wherewithal to buy Western firms. As was noted earlier, in China, a large proportion of total private savings are held by companies and the same is true elsewhere in Asia.

The US will continue to be the world’s biggest foreign direct investor. The Economist Intelligence Unit estimates that total outward direct investment from the US will total US$310bn in 2014. But this forecast is 18% lower than in pre-recession 2007. By contrast, the Economist Intelligence Unit says that China’s outward investment will soar from US$17bn to US$120bn in the same period, and India’s will go from US$22bn to US$30bn.

Increased wealth and self-confidence among Asian companies is only part of the story. In many cases, the acquisitory motive is to control vital resources, such as oil supplies. State-owned Sinopec of China has undertaken a number of deals to secure crude, such as its purchase of Addax Petroleum of Canada for US$7.2bn in June 2009. The move is a sign of increased boldness after a fallow period following China National Offshore Oil Corporation’s abandonment of its US$18.5bn bid for oil supplier Unocal, in the face of US political pressure.

As companies from emerging Asia take their place among the world’s multinationals, they will seek not just basic assets but other advantages that Western firms can give them. Mr Brandler says, “These acquisitions give companies from developing countries access to markets, technology, know-how and an established brand.” These intangibles can be particularly important when the skills of companies from developing countries are not fully appreciated. Ashok Goel, vice-chairman and managing director of Essel Group, says that even though his company is a global leader in its field, “being an Indian company, it is a challenge to convince new customers from the developed world about its capability.”

By the same token, companies from the developed world will continue to buy Asian firms to gain market access and the ability to produce products cheaply. One such case is the purchase by the Japanese pharmaceutical company Daiichi Sankyo of Ranbaxy Laboratories, India’s best-known firm in the industry, for US$4.6bn in 2008. The following year Daiichi Sankyo said it would use Ranbaxy’s presence in Africa to market and distribute its anti-hypertensive medicine there.

The attractions of cross-regional acquisitions are likely to grow, but not necessarily the ability to integrate the purchased company into the global operation. Most mergers fail to live up to their promise wherever they take place, and the farther apart the acquirer and the acquired, the bigger the risk. In 2007, Europe’s second-largest steel company, Corus, was acquired for more than US$12bn by Tata Steel of India. Weak demand for Corus’s products, however, dragged Tata into the red in 2009.

Six: National governance

In this section, we look at a number of factors that pose special challenges to companies doing business in Asia: state interference and environmental degradation. Among the key points:

- **Capitalism in Asia is attended by greater government intervention than in the West. This will remain true, even as the region develops economically**
- **As a result, global companies wishing to do business in Asia must learn to manage relations with government officials**
- **State intervention often breeds corruption. Global companies must guard against shady dealings even in countries where corruption is endemic, to minimise global risks to the brand**
- **Emerging markets face enormous environmental problems. Global companies should take into account the potential reputational risk and healthcare costs of doing business in degraded environments**

State intervention is here to stay

Japan's post-war economic rise set the modern pattern of state-directed capitalism that has since been adopted broadly throughout Asia. As Mr Brandler of CLP puts it, "There is no country in Asia that is ideologically driven towards free markets. China certainly isn't. India certainly isn't. Southeast Asia isn't either. Aspects of their economies are free, but there's heavy state intervention everywhere."

Until recently, many Western analysts thought this was a temporary aberration. During the 1997 Asian crisis, the IMF prescribed liberalisation for the region. But Asian governments took away the opposite lesson, ie the need for greater state involvement to regulate capital flows and avoid running up huge debts. Many see the global recession of 2009, which affected the West more strongly than Asia, as vindication of that approach and an indictment of unregulated financial markets. According to Mr Mahbubani of the Lee Kuan Yew School of Public Policy, regional governments no longer wish to imitate the West. "They now believe that the state should continue to be judiciously interventionist," he says. And their citizens seem to agree. While bailouts of banks and other industries were controversial in the US and Europe, there are fewer qualms about such measures in Asia. Mr Barton of McKinsey says it is a "distinct advantage" for the region that, while state intervention in developed markets creates friction, "throughout Asia it's just a fact of life."

Work with the government, not against it

State participation in the economy will not disappear in emerging markets and may well increase elsewhere. The implication for global businesses is clear: learn to work with governments in the region. Good relations do not develop overnight. Speaking of his experience in China, Dan Brutto, president of UPS International, says, "You have to spend a lot of time with officials on every level—local, provincial and also Beijing. Most companies underestimate the amount of time that it takes to establish relationships with the key government officials." While establishing UPS's new intra-Asia hub in Shenzhen, Mr Brutto met with the city's mayor and deputy mayor in person about a dozen times.

Unfortunately, state intervention is not always effective, and it is sometimes counterproductive to business. Many companies lament the poor intellectual property (IP) protections and political interference they have encountered in Asia. Survey respondents consider "weak rule of law" to be China's top impediment to economic growth (see table).

In such an environment companies should strive to come to a clear agreement with officials. The willingness of Novartis to invest in emerging markets depends on getting "a good mutual understanding with the government of what our expectations are", says Dr Vasella. "Obviously, if intellectual property rights are not being respected, we cannot and will not invest. If we are discriminated against as a non-national company in tenders, we cannot invest." This attitude helps explain the company's reluctance to spend further on research and development (R&D) in India until its concerns over patents are addressed.

In the next decade, which obstacles will hamper China's and India's economic growth prospects the most?
Select three in each country.

	China	India
Weak rule of law (eg, intellectual property concerns)	57 %	25 %
Environmental concerns	51 %	36 %
Rising labour costs	46 %	39 %
Low product quality	31 %	23 %
Difficult regulatory conditions	29 %	34 %
Protectionism	28 %	25 %
Cultural differences	25 %	21 %
Political instability	24 %	27 %
National security concerns	20 %	24 %
Weak infrastructure	17 %	64 %
Lack of innovation	17 %	12 %
Lack of skills/talent	12 %	9 %
Volatile economic environment	10 %	15 %
Lack of new/better materials	9 %	12 %
Heavy taxes	5 %	12 %
Other, please specify	3 %	2 %
Don't know	1 %	1 %

Sometimes such an understanding may not be possible, as Google, a US Internet giant, recently experienced first hand. In January 2010, it said it might have to pull out of China because of alleged attacks by hackers in the country on its e-mail service and a tightening of China's restrictions on free speech on the Internet.

Play fair

Asian companies seeking to expand into Western markets may find it difficult to adjust as well. Mr Kroeber of Dragonomics gives the example of Chinese firms: while they need to spend time establishing relationships with government officials, their regulatory burden is low once these ties are made. "When they move into developed countries, then they are moving into formal regulatory burdens that are very high and they have to learn that," says Mr Kroeber. The Chinese firm NucTech, a producer of airport X-ray scanners that was until recently run by President Hu Jintao's son, learnt this the hard way. It is under investigation in the EU for illegally undercutting competitors.

In countries where governments intervene in the market, companies have little choice but to work with officials. However, government intervention often leads to corruption. Among the 180 countries ranked in Transparency International's Corruption Perception Index, China rates 79th and India, 84th. The central government is trying to address the matter, issuing harsh penalties (including death) to officials found to be corrupt. In a July 2009 study, The Beijing University Research Centre for Clean Government Construction found that in the past ten years, more than 10,000 corrupt officials had fled to Europe or North America with their proceeds.

Global companies must be careful to avoid shady dealings, even in countries where they seem commonplace. The reputational risks to a global brand are high, and the legal risks far reaching. In 2008, Europe's engineering conglomerate Siemens agreed to pay US$1.3bn in penalties to German and US authorities to settle a wide-ranging corruption investigation in countries including Russia, Bangladesh and China—a case that led to the replacement of one-half of the company's senior executives. Over time, corruption will be increasingly less tolerated in emerging markets. Companies—be they domestic or foreign—that can manage relationships while still playing by the rules will fare best.

Factor in environmental risks

Rapid growth frequently exacts an environmental toll. According to the International Energy Agency, China is now the world's largest carbon emitter—with 6 gigatonnes (GT) per year. India, which emits 1.3 GT, comes in fourth. In its latest report, China's environment ministry warned of serious water pollution, acid rain and urban air pollution across the country. Twenty percent of China's drinking water sources failed to meet national standards, leaving 90m people without potable water. India faces similar problems. In its 2009 State of the Environment Report, the environment ministry rated nearly half the country's land as degraded and noted that there were water shortages in many cities. The ministry blames uncontrolled urbanisation for rapid environmental degradation.

Both the Indian and Chinese governments are starting to address these issues, agreeing to carbon-intensity reductions as part of the Copenhagen process. These are likely to lead to substantially lower

emissions per unit of GDP, but total emissions will probably increase with the rapid growth of these economies. Thus the current state of the environment in China—and in other emerging markets—presents challenges to global businesses.

The first challenge is to minimise reputational risks. Coca-Cola, for example, has faced repeated accusations (which it denies) of depleting groundwater in the Indian states of Kerala and Uttar Pradesh to supply its bottling plants. Global companies with an allegedly poor environmental performance in one country may encounter public relations problems worldwide. They must factor this into risk assessments and ensure that their environmental record, as well as that of significant suppliers, can withstand scrutiny.

The second challenge is to prepare for the health costs of environmental degradation. The World Health Organisation (WHO) reports that China has the highest rate of environmentally induced chronic obstructive pulmonary disease. Public healthcare is inadequate in many emerging markets, and companies doing business there must expect employees to face increasing rates of respiratory disease, lead poisoning and cancer, among other illnesses. Companies must take account of substantial healthcare costs.

Third, companies must update their investment strategies to account for changing environmental regulations. In years past, Western companies were enticed to relocate polluting manufacturing plants to emerging markets, partly because these countries had laxer environmental rules and less well-organised citizens. As China and India tighten environmental regulation, however, and as their people more vocally protest the harms of pollution, they will not remain the best places in which to locate polluting industries. Indeed, many companies will find significant business opportunities in green industry: In 2009, China overtook the US to become the world's largest wind turbine market. Over the next decade or so, the Chinese government aims to increase wind energy production from the current 20GW capacity to around 150 GW.

Partner locally to mitigate protectionism

Protectionism may increase in both emerging markets and the developed ones in the coming months and years. As Dr Fung of Li & Fung points out, during the Great Depression of the 1930s it was not the initial financial meltdown, but rather unemployment that sparked self-defeating trade wars. Unemployment, a lagging indicator, remains high in the US and Europe.

Greater protectionism will hinder global companies trying to enter already cocooned consumer markets such as China's. Multinationals in China have long been hampered by subsidised domestic competitors, restricted access and arbitrary regulation. Among survey respondents, 27% say their companies have faced local-company favouritism in Asia over the past decade and 24% have faced political interference. If protectionism intensifies, it will hurt all countries, including China and India, which have relied on global trade to flourish. Mr Brandler of CLP shared the opinion of many interviewees: "Protectionism with teeth—as opposed to just political rhetoric—I think that's the biggest threat that the global economy faces."

To mitigate the risk of protectionism, global companies should consider traditional strategies: indirect investment through private equity funds and partnering with local companies through joint ventures or other alliances. A 2006 report by the Economist Intelligence Unit[7] found that strategic alliances (cited by 50% of respondents) and joint ventures (41%) were the leading techniques for overcoming trade and investment protection in particular markets. Airline alliances are an example of numerous companies working together when investment restrictions would impede mergers. Global companies may also ally with local ones around common economic interests. Mr Kroeber of Dragonomics cites anti-dumping cases in China as disputes where often “the battle lines are not between the foreigners and the domestic firms” but opposing alliances of both types of company, sharing mutual interests. More than one-quarter of our survey respondents that identified themselves as being “well prepared for competition in Asia” have used partnerships in their strategies.

Take advantage of India’s infrastructure boom

Each country in Asia faces its own difficulties for businesspeople. In India, poor infrastructure remains the fundamental problem for many global firms. Sixty-four percent of survey respondents cited this as a leading challenge in the country, nearly twice as many as those who mentioned the next most common challenge, rising wages. Mr Brutto of UPS says Indian infrastructure is “two generations behind China”. Companies should expect inefficiency in the supply and distribution chain.

Some firms will sense opportunity, as the private sector plays an increasingly important role in the development of infrastructure. Bangalore’s new international airport is partly owned by a consortium led by Siemens, Zurich Airport and Larsen and Toubro. More broadly, as part of its current five-year plan, the Indian government aims to attract more than US$150bn in private-sector investment for infrastructure, much of it from overseas firms.

Create a comprehensive IP protection strategy in China

In China, the rule of law, in particular intellectual property (IP) protection, is cited by 57% of survey respondents as a leading issue. One solution is to avoid conducting sensitive research in the country. A survey published in 2006 of more than 240 multinationals, most headquartered in the US or Western Europe, for the US National Academy of Sciences found that 45% of their efforts in developed countries focus on new science—rich in potential—compared with only 22% of their research in developing countries.[8] Alternatively, companies can defend their intellectual property if they address the issue in a comprehensive way. Philips, a Dutch electronics company, began its current IP protection strategy in China in 2001. It now has about 50 IP lawyers, mostly Chinese citizens whom it trains in the Netherlands, and has patented some 1,500 inventions made in the country. Beyond protecting its own IP, the company seeks to raise the profile of the issue and improve enforcement. It has created three IP academies at leading universities, and conducts seminars at others. Meanwhile, Bayer, a German chemical and pharmaceutical company, trains its employees in understanding the value of IP, and gives them financial rewards for sales arising from the intellectual property they create, which provides an incentive to protect it.

7. *Barriers to entry: Coping with protectionism*.

8. Jerry and Marie Thursby, *Here Or There? A Survey of Factors in Multinational R&D Location Report to the Government-University-Industry Research Roundtable*, National Academy of Sciences, 2006.

Include political tensions in risk analysis

Local knowledge of risks is also important. Rapid economic development can bring social upheaval, as some people benefit more than others. The Chinese and Indian governments face myriad security problems. Terrorism has been a steadily growing problem in India—even affecting Mumbai, the financial capital—for nearly a decade. Many terrorist groups there describe themselves in Marxist terms and point to the growing disparity between rich and poor. In China recent violence in Tibet and Xinjiang illustrates unresolved tensions between the government and minority ethnic groups. Mr Mahbubani of the Lee Kuan Yew School of Public Policy says, "Chinese leaders are very, very sensitive about internal political stability because that's what they see is the biggest challenge for China." Similarly, Indian Prime Minister Manmohan Singh has pointed to terrorism as the country's primary internal security threat. The potential for serious localised violence is something every company should take into account.

Seven: Globalisation

The next decade may see the emergence of the first truly global corporations, with a global corporate culture. Among their characteristics:

- **Headquarters located in more than one region**
- **Executive suites and boards of directors comprise people who reflect the diverse markets that the company serves**
- **Workforce drawn from global pool of talent**
- **Innovation efforts spread all over the world**
- **Competitive advantage over less-globalised peers**

Cultural challenges are the most important to overcome

Cultural differences are among the biggest difficulties to doing business globally. Companies that are able to overcome these will gain an important competitive advantage. Among surveyed companies investing in Asia, cultural differences were the biggest business challenge over the past decade (cited by 31% of respondents as being one of the top two challenges). Mr Goel of Essel Propak believes an understanding of local cultures will be even more important in the future. “The technological and cost competitiveness gaps will slowly come down between companies from the emerging and developed worlds,” he says. “And

When doing business abroad, what are the most important cultural issues your company has to overcome?
Select up to two.

	Non-Asian companies in Asia	Non-Western companies in the West
Work style (eg, ways of taking decisions)	44%	35%
Regulations	39%	36%
Language barriers	33%	13%
Economic system (eg, style of capitalism)	25%	14%
Work ethic	21%	21%
Serving customers	16%	24%
Family attitudes	15%	6%
Educational backgrounds	8%	11%

cultural understanding will be a key element one needs to take into account in both."

To find out which cultural issues have the biggest impact on business, we asked the companies that identified themselves as "very well prepared" for the big shift to choose from among eight different attributes [see chart on previous page]. For firms entering either Asia or the West or both, the top two issues were styles of work and official regulations.

Be attuned to cultural expectations

Corporate culture varies greatly from company to company—it differs even more from country to country. Western companies are generally more collaborative in decision-making, while Asian firms tend to follow a top-down approach. When managing foreign operations, both should be conscious of corporate culture and best practice in the local market.

With regard to regulations, Mr Kroeber of Dragonomics says companies expanding into new markets, whether in the West or in Asia, "have to recognise that the rules of the road are different in different places". Cultural factors determine how business rules are written and interpreted. But they also shape the unwritten rules of business, such as where a company should open shop: in 2007, Starbucks, an international coffeehouse chain, closed its outlet in Beijing's Forbidden City, following seven years of protest from proponents of traditional Chinese culture.

Our interviews suggest that many firms underestimate their social obligations when investing in Asia. McKinsey's Mr Barton says that in Asia, "You can't just be a businessperson. You have to think about the government and you have to think about the social sector." Mr Brutto of UPS agrees. In China, he says, companies must be involved with the local communities, "to become very much part of the fabric of the society".

Companies in the West, particularly in the US, support community programmes in their home markets. But in Asia, corporate philanthropy is often further reaching. Aditya Birla, one of India's largest conglomerates, has a rural development programme that operates in 3,700 villages. The programme focuses on healthcare, education, sustainable livelihoods, infrastructure and social causes. Foreign firms are unlikely to play such a broad role in Asia, but governments in the region closely monitor foreign investors' social as well as business commitments.

Our survey results reveal a linguistic challenge in Asia. One in three Western survey takers operating in Asia who say they are "well prepared" for the global tilt cited language as one of their top two cultural barriers, compared with one in eight non-Western respondents operating in the West. The problem seems clear: executives from outside the continent generally don't speak Asian languages, while many of the world's executives speak the global language of business—English. In order to communicate with customers and suppliers, there needs to be a greater emphasis on learning local languages. The English language does not suffice in every Western country. Mr Goel explains that Essel Propak has done better in the US and China than in Europe, in part because of the latter's diversity of languages and culture. He says that many consider Europe a single geography, "but culturally it is different across countries," and its markets can be difficult to bridge.

Localise leadership, staff and innovation

Survey respondents operating abroad in both the West and Asia cite efforts to improve their understanding of the business culture abroad through training (see chart). Localising the leadership of a firm's operations is another strategy—a critical one, in the experience of Mr Brutto. In China, for example, he says companies should turn management over to locals: "A lot of Western companies want to put their own people in and never move through the local people. The Chinese certainly see that." Companies should draw from the local labour pool as much as possible. Some US firms have tried to "localise" by putting in place US-born Chinese managers, who sometimes struggle to earn the respect of indigenous staff.

What steps does your company take to understand the business culture abroad?
Select all that apply.

	Non-Asian Companies in Asia	Non-Western Companies in the West
Include cultural awareness in training	52%	42%
C-suite executives visit the area on a regular basis	46%	45%
Consciously promote executives from within the region	46%	36%
Recruit talent from universities within the region	44%	38%
Rotate senior executives to work in the area	31%	33%
Link remuneration to efforts to increase understanding of the area (eg, learning the local language)	15%	14%

Although fewer outside companies in the West say that they "consciously promote executives from within the region" than outsiders in Asia, they must be doing so unconsciously: non-Western companies in the West say that 61% of senior executives are of local origin, compared with only 41% of senior executives at non-Asian companies in Asia.

One possible explanation for this result is a shortage of management talent in Asia. In our broader survey, 55% of respondents indicate that Western companies have better management overall, against just 8% who say Asian companies do. Some respondents blame poor management for the paucity of successful acquisitions of Western companies by private Chinese firms. Whatever the reason, Asian executives see the importance of local leadership. Mr Brandler of CLP says, "Power generation and distribution being a local business, it is important to employ local talent," be it in China, India or Australia. Mr Goel says, "Local management understands local customers and local employees better than an expat."

Even more important than localising operations, the survey suggests, is increasing senior executives' knowledge of the region. This helps top management keep up with constantly changing economic risks and opportunities. Mr Mahbubani of the Lee Kuan Yew School of Public Policy warns that CEOs of major global corporations can no longer manage Asian operations from New York or London. "You have to come here and live physically to understand the pace of change in this region." Mr Barton recommends that every CEO be sufficiently familiar with Asia to have formed acquaintances with at least 25 peers across the region.

Many "well-prepared" companies are sending C-suite executives abroad regularly—an effort that requires substantial resources. Mr Brutto, who oversees UPS's entire international operation, goes to China more than six times a year. "A lot of companies aren't prepared because they don't realise how much time you've got to spend," he says. The nature of business relationships is different in China: "I can meet a German manufacturer and, within two meetings, we can essentially have a deal," he says. "In China, you might have dinner twice and understand about a person's family, but you're not going to do any business deals in two meetings." The common practice among multinationals of rotating senior staff through positions about every 18 months makes relationship-building difficult.

Some companies are going a step further: rather than rotating senior executives through Asia, they are relocating them to newly established headquarters in the region. Having senior executives on the ground helps meet many of the challenges raised in this study—from tracking Asia's economic swings, to recognising the opportunities in diverse emerging markets, to understanding cultural differences across the region. HSBC and Cisco are among those sending C-level executives to operate from Asia. "The emerging Asian markets require a new approach, which is why we have focused resources on getting closer to the growth, innovation and talent that is coming out of this part of the world," says John Chambers, Chairman and CEO of Cisco.

For large multinationals, the next step in globalising is to create truly international boards of directors and C-suites. Some have begun to do this. Sony made headlines in 2005 when it appointed a Welsh-American, Sir Howard Stringer, as its CEO; a year later PepsiCo gave the same position to an Indian, Indra Nooyi. But these are exceptions. A study published in 2007 found that, of the world's 80 largest multinationals, only 9% had boards in which over half of the members were non-nationals of the country in which the company was based; 25% had no foreigners at all on the board. An investigation of the largest companies in the EU found that an average of just 15% of executive committee members were foreign, and a majority of these (58%) were from other European countries. It also revealed that the presence of foreigners was often a result of M&A activity rather than a policy of seeking talent from abroad. Globally competitive companies must shift their thinking. LG Electronics of Korea, for example, has made a strategic decision to recruit global talent to its C-suite, and now has five officers from abroad.

But further down the corporate hierarchy, the story is different. Only 20% of our survey respondents regard China's base of skilled workers as a major draw. This compares unfavourably with India, where 51% of survey respondents view talent as a major attraction, a discrepancy that may be explained by the concentration of IT industry in India, which draws on the country's huge pool of engineers. China has not filled a niche so neatly.

Both countries will have to make large strides in higher education to meet the demands of global business. Minxin Pei, a political scientist at Claremont McKenna College in California, says, "Asia is

In the next decade, what do you see as the main attractions of doing business in the following economies?
Select all that apply.

	China	Hong Kong	India	Indonesia	Pakistan	Philippines	Thailand	Vietnam
Availability of skills/ talent	20%	45%	51%	11%	37%	41%	18%	29%

pouring money into higher education. But Asian universities will not become the world's leading centres of learning and research any time soon." He points out that although China is producing 600,000 engineering graduates per year and India another 350,000, a McKinsey Global Institute survey of multinational employers found that they considered only 10% of China's engineers, and a quarter of India's, employable. Thus the number of high-quality engineers is of the same order of magnitude as in the US, where only 70,000 engineers graduate per year but 81% are deemed employable.[9]

Survey respondents agree that higher education in Asia is not of high quality. Sixty percent of respondents expect the US to lead the world in university education in ten years' time; only 20% expect China to take the pole position. Among respondents based in Asia, the gap is even wider (70% and 14%). Talent scarcity is pushing up wages among white-collar workers in Asia and is encouraging job-hopping.

Finding the home-grown talent in Asia requires an approach that is similar to finding the best customers: developing a deep understanding of local markets. Companies should build ties with the best universities. As the region develops, the brain drain to the West will diminish and more top students will remain in their home countries or return there after finishing school in the West. Mr Barton says, "There has been a very big shift, in literally the last three years, of students moving from the West to Asia. There are going to be benefits from that. Many of those students will stay in Asia and participate in the growth."

While Asia's education system has room to improve, the sheer number of graduates has ensured a large supply of trained scientists and technicians. Companies are tapping into local talent by locating R&D facilities in places where skills are concentrated. In doing so, they are also moving nearer to target customers. Anglo-Dutch food giant Unilever has six global R&D centres; one of them is in Bangalore, India's software capital, and another is in Shanghai, China's biggest city. Rival Kraft Foods of the US has established what it says is Asia's largest biscuit R&D facility in Suzhou, near Shanghai. According to our survey, nearly two in five companies that consider themselves well prepared for competition in Asia have set up R&D centres in the region. The same proportion of firms prepared for competition in the West has established local R&D facilities in the region.

Low cost seems to be less important than proximity to high-quality researchers. In November 2009 Novartis said that it would invest US$1bn in a new institute of biomedical research in Shanghai and US$250m in a technical R&D facility in nearby Changshu. Dr Vasella explains, "They have a pool of scientists that is very interesting in numbers and in quality. And they have university institutions we would like to collaborate with." More than one-third of well-prepared companies operating in Asia have links with local universities. One example is Cadbury India's agreement with Tamil Nadu Agricultural University to develop cocoa crops suitable for local conditions.

Localising R&D not only allows companies to tap into global talent pools, it also helps them develop products that cater to local consumers. This encourages innovation that may carry over to the company's other markets. Nokia's Product Creation Centre in Beijing began in 1999 as a facility to localise products for the Chinese and Asian markets. By 2006, its designs were included in 40% of Nokia phones shipped worldwide.

9. Minxin Pei, "Think Again: Asia's Rise", *Foreign Policy*, July/August 2009.
Mr Pei was citing D. Farrell, M. Laboissière, J. Rosenfeld, S. Stürze, and F. Umezawa. *The emerging global labor market: Part II—the supply of offshore talent*. San Francisco, 2005.

How to take advantage of the big tilt

In August and September 2009, the Economist Intelligence Unit surveyed 1,017 executives around the world to find out whether they thought the Great Recession had accelerated a shift eastward in the centre of global economic gravity. The Economist Intelligence Unit then surveyed 180 senior executives from the original survey who said they were "well prepared" for the shift at home or abroad. Four insights emerge from the second survey.

1. When defending home markets, focus on costs and customers. Four strategies were most common when preparing for competition at home from foreign companies: lower costs; higher quality; greater understanding of customers; and increased innovation [see table 1]. When asked which single item had the greatest positive impact on their business, the most important were cost reduction and understanding customers. The proportion of respondents pursuing a given strategy who say it provides the greatest benefit—the combined score—makes this message even clearer.

2. When penetrating foreign markets, the strategies with the most impact vary by geography. Foreign companies are pursuing similar strategies in preparing for competition in Asia and in the West—many of which they are also using at home [see table 2]. The biggest difference is that fewer outside firms are relocating senior executives to the West.

A slightly different story emerges, however, when considering which strategy has had the most impact [see table 3].

For outsiders working in Asia, the strategies yielding the greatest impact were relocating senior executives to Asia and exploiting new market opportunities. For those going to the West, lowering costs was the most successful approach, followed by relocating executives to the West. In fact, perhaps the strongest message is that if a company wants to penetrate a foreign market, it should transfer some of its top people there.

3. Develop new products and services with local help. Well-prepared companies in foreign markets are most likely to work with local customers (52%) as a way to innovate successfully in foreign markets. Nearly as many (48%) are also partnering with local firms. Local knowledge of market conditions appears to override the risk of intellectual property theft.

4. With greater knowledge comes cultural understanding. Among well-prepared companies operating in foreign markets, a little under half (46%) train their employees to understand cultural differences in other markets. A similar number (45%) send executives to their foreign operations to see things for themselves. When operating abroad, 41% recruit from local universities and 40% promote executives from the region in which they operate. Moreover, more than half (52%) of the senior leadership of foreign operations comes from the local country itself.

Table 1 Strategy	What companies are doing in home markets to prepare for outside competition	Companies for which it provided the greatest benefit	Combined score*
Lower cost structures	55%	20%	32%
Higher quality	49%	10%	18%
Deeper customer understanding	48%	18%	33%
Increased innovation	47%	14%	27%

Table 2 Strategy	Strategies pursued by non-Asian companies in Asia	Strategies pursued by non-Western companies in the West
Lower cost structures	48%	45%
Exploited new market opportunities	46%	38%
Higher quality	46%	46%
Deeper customer understanding	45%	37%
Put local people in charge	41%	32%
Increased innovation	38%	42%
Relocated senior executives to targeted region	38%	15%

Table 3 Combined score*	Foreign companies operating in Asia	Foreign companies operating in the West
Relocated senior executives to targeted region	38%	36%
Exploited new market opportunities	31%	21%
Lower cost structures	22%	50%
Deeper customer understanding	20%	18%
Increased innovation	19%	34%
Put local people in charge	13%	8%
Higher quality	4%	9%

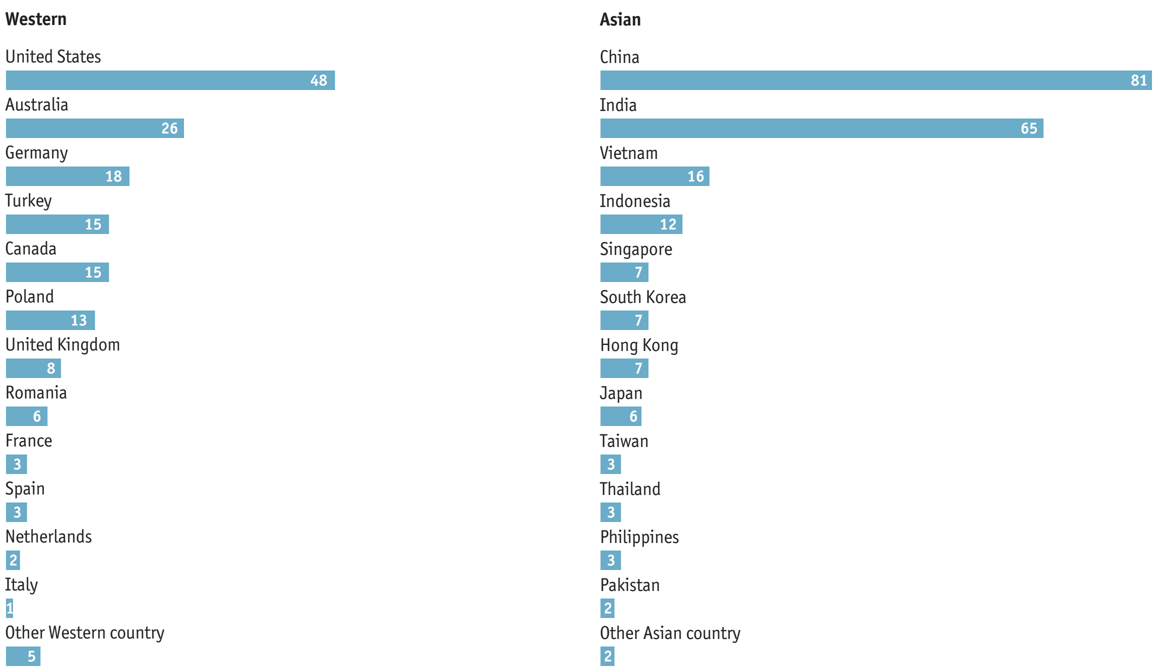
* The combined score is derived from the absolute numbers of those who found a particular strategy successful divided by the overall number who had tried that strategy.

Appendix I
Original survey results

In order to assess attitudes towards the changing balance of global economic influence, the Economist Intelligence Unit conducted an online survey of 1,017 executives around the world in August and September 2009. This appendix provides the aggregate findings as well as the survey demographics.

Percentages may not add up to 100% due to rounding or the ability of respondents to choose multiple responses.

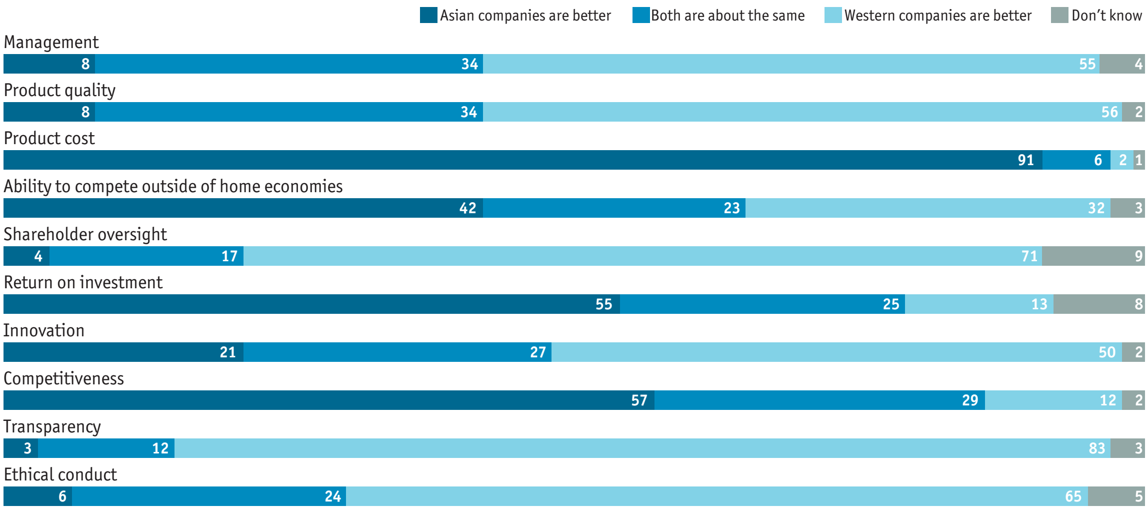
In your opinion, which Western and Asian economies are likely to offer the greatest business opportunities in the next ten years?
Select four from the entire list of both Western and Asian economies.
(% respondents)



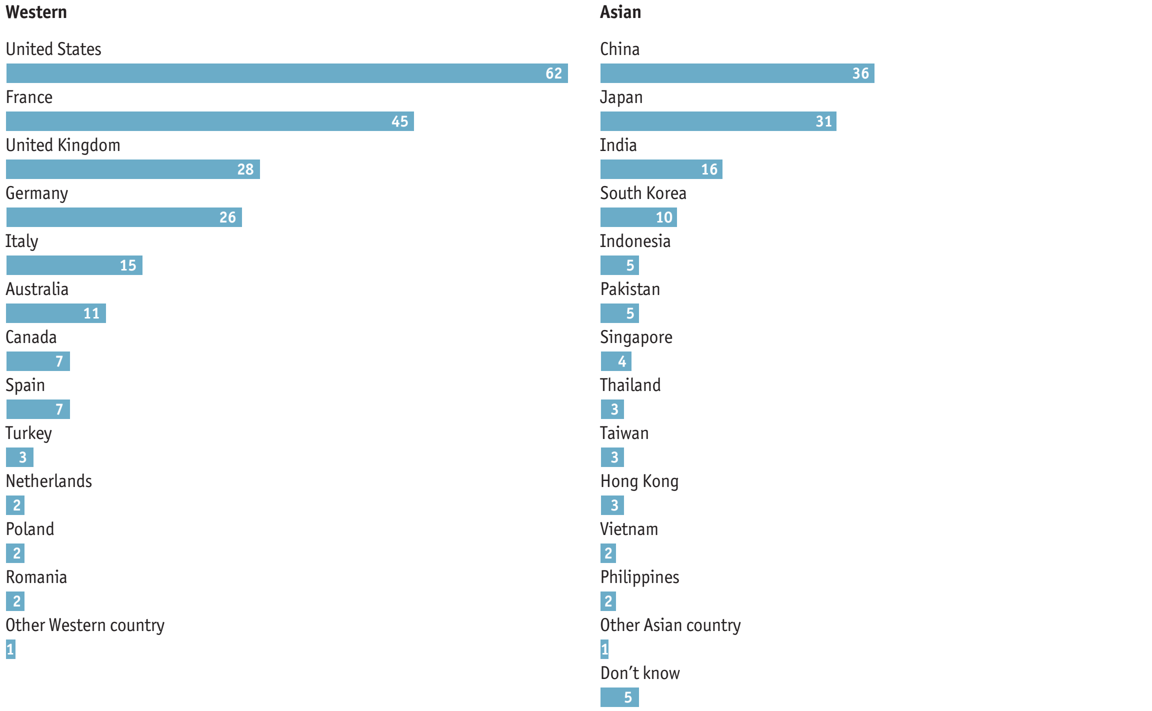
In the next decade, what do you see as the main attractions of doing business in the following economies compared with others? Select all that apply.
(% respondents)

	Australia	Canada	France	Germany	Italy	Netherlands	Poland	Romania	Spain	Turkey	United Kingdom	United States	Other Western country	China	Hong Kong	India	Indonesia	Japan	Pakistan	Philippines	Singapore	South Korea	Taiwan	Thailand	Vietnam	Other Asian country
Openness to trade	41	36	15	21	45	47	33	25	22	32	38	27	31	15	52	14	21	18	32	38	57	38	47	42	29	25
Adequate infrastructure	33	41	52	40	36	53	20	10	37	17	51	34	18	14	46	4	7	52	5	10	37	35	41	27	4	10
Strong rule of law (eg, intellectual property protection)	39	38	27	41	36	47	5	2	19	3	47	49	11	2	1	5	1	19	5	3	25	15	9	6	1	10
Low labour cost	1	2	0	1	18	16	43	66	11	48	4	1	29	67	12	63	73	5	68	69	12	16	35	76	80	60
Stable economic environment	53	45	55	42	9	58	23	10	30	13	47	24	27	10	24	9	3	27	0	10	43	20	12	6	9	15
Market growth	17	8	3	6	18	11	52	46	22	56	13	15	45	69	19	60	68	18	42	45	18	28	21	58	62	55
Market size	7	7	15	20	27	5	26	20	11	40	19	53	38	79	7	69	68	24	47	10	8	12	9	18	16	20
Political stability	56	52	42	32	18	26	31	31	19	13	42	35	31	11	12	10	10	26	5	7	39	18	18	3	13	10
Cultural ties	17	16	27	9	27	11	18	16	19	22	30	11	11	4	16	6	7	13	21	14	8	8	12	9	4	15
Availability of skills/talent	31	35	36	43	45	32	42	38	41	27	26	39	44	20	45	51	11	47	37	41	29	55	56	18	29	30
Access to new/better materials	18	20	12	16	9	5	4	2	11	8	3	12	5	8	9	5	11	13	5	10	7	7	12	6	6	10
Level of innovation	15	22	30	42	9	11	5	8	37	4	14	51	18	10	30	18	5	52	5	14	25	41	35	6	7	15
Gaining foothold in a market of future importance	10	11	9	5	36	5	32	34	30	44	5	5	33	40	19	39	51	11	37	38	8	16	15	21	46	45
Improved product quality	6	5	24	43	9	11	17	13	30	18	6	8	16	19	12	12	11	31	0	14	12	31	26	18	18	15
Favourable regulatory environment	26	27	9	13	18	21	12	13	30	7	21	14	11	6	28	6	6	10	16	17	22	5	3	15	16	5
Low taxes	6	3	6	1	9	5	13	16	11	7	8	4	11	8	31	6	15	0	21	10	26	5	12	15	19	20
Other	6	3	0	1	0	0	2	7	0	1	3	1	7	1	4	1	4	3	5	0	1	1	3	3	1	5
Don't know	0	1	3	0	0	5	0	0	0	1	0	1	0	1	0	1	1	2	0	0	0	0	0	6	1	0

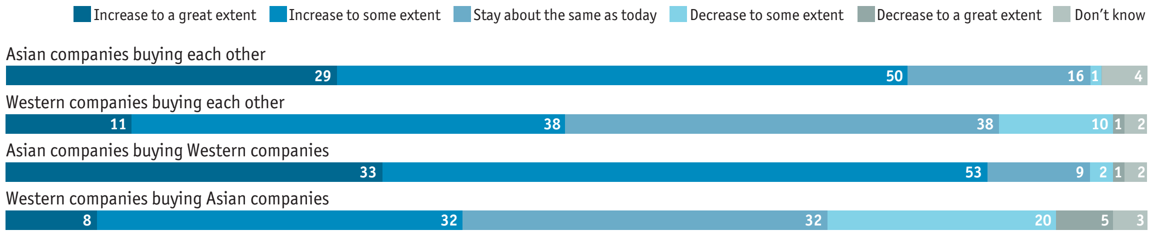
How do Asian companies compare with their Western competitors today? Select one in each row.
(% respondents)



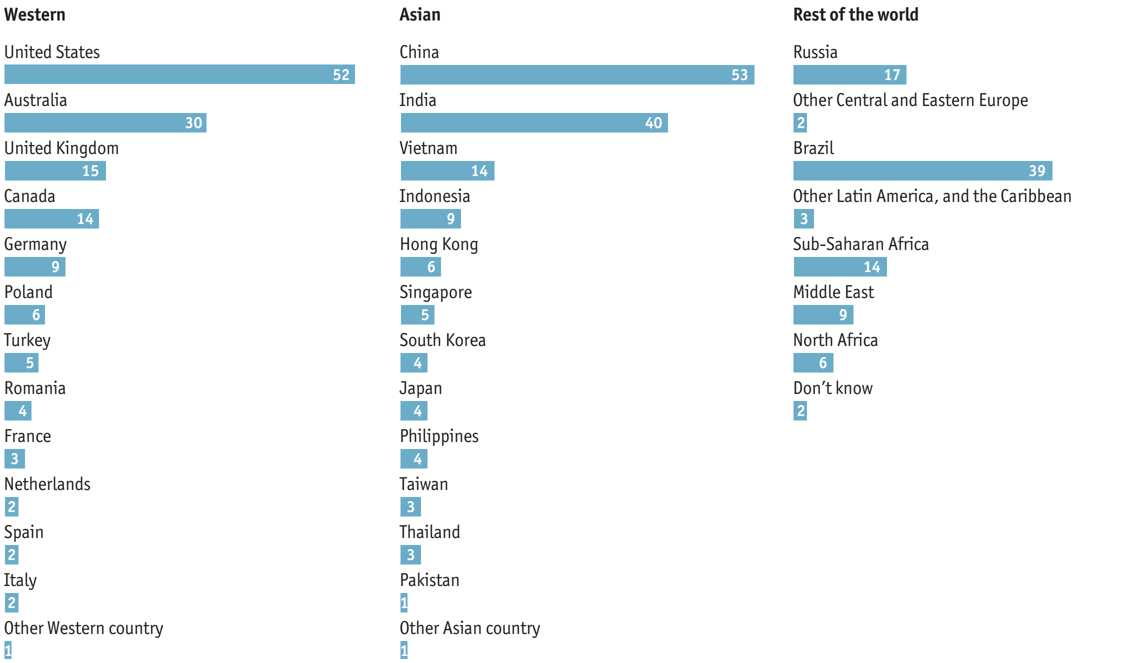
Which of the following economies are most likely to increase their level of formal or informal protectionism in the next ten years?
Select up to four.
(% respondents)



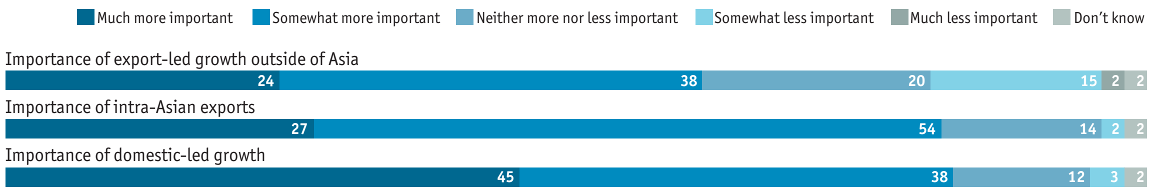
Compared with today, to what extent will the following types of acquisitions increase in the next decade? Select one in each row.
(% respondents)



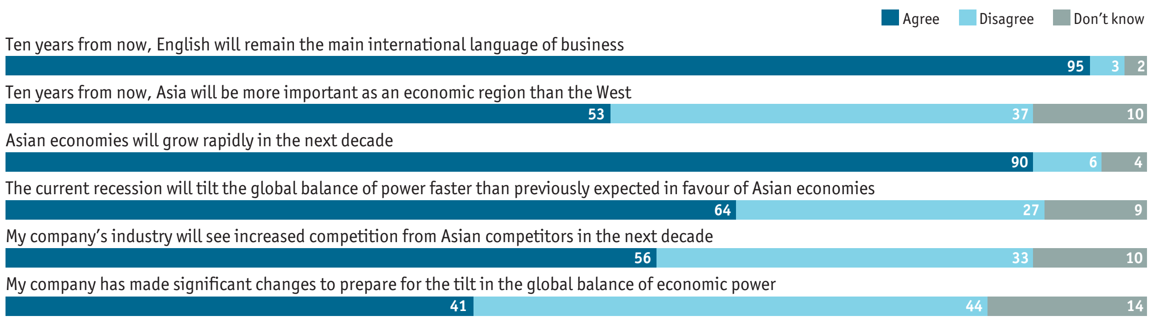
In your opinion, which economies will be the most heavily favoured investment destinations for Asian businesses ten years from now, regardless of their country of headquarters? Select four from the entire list.
(% respondents)



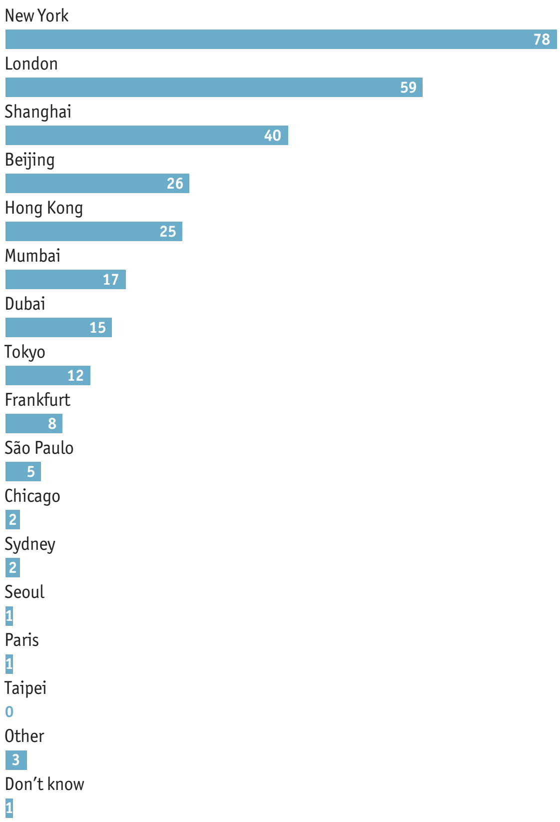
Compared with today, how important will export-led growth from Asia to the rest of the world be to Asian economies ten years from now? How important will intra-Asian exports be to Asian economies in the same period? And how important will domestic-led growth be in the next decade? Select one in each row.
(% respondents)



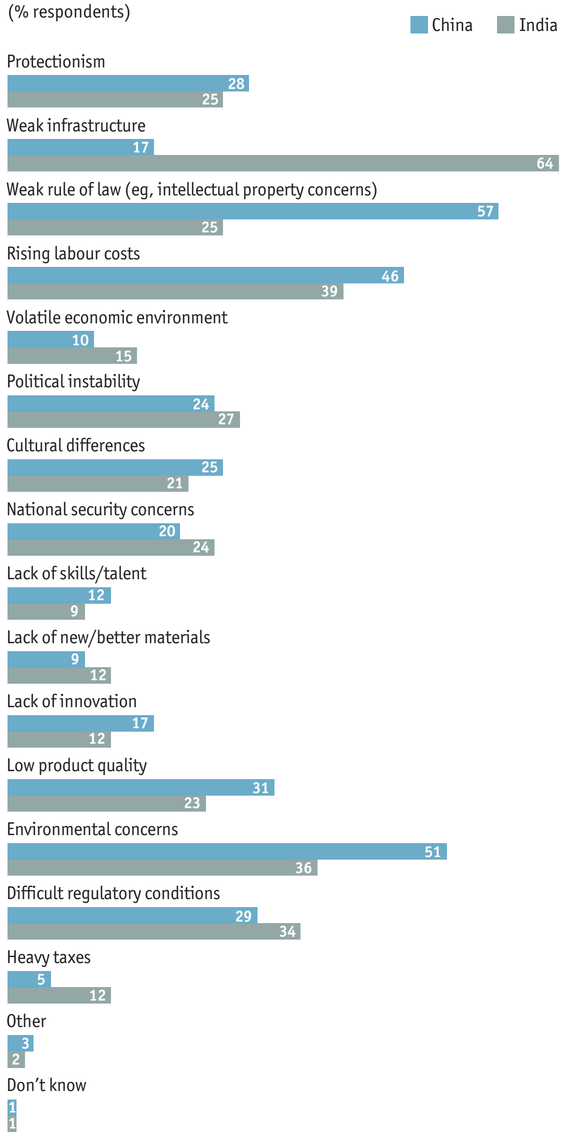
Do you agree or disagree with the following statements:
(% respondents)



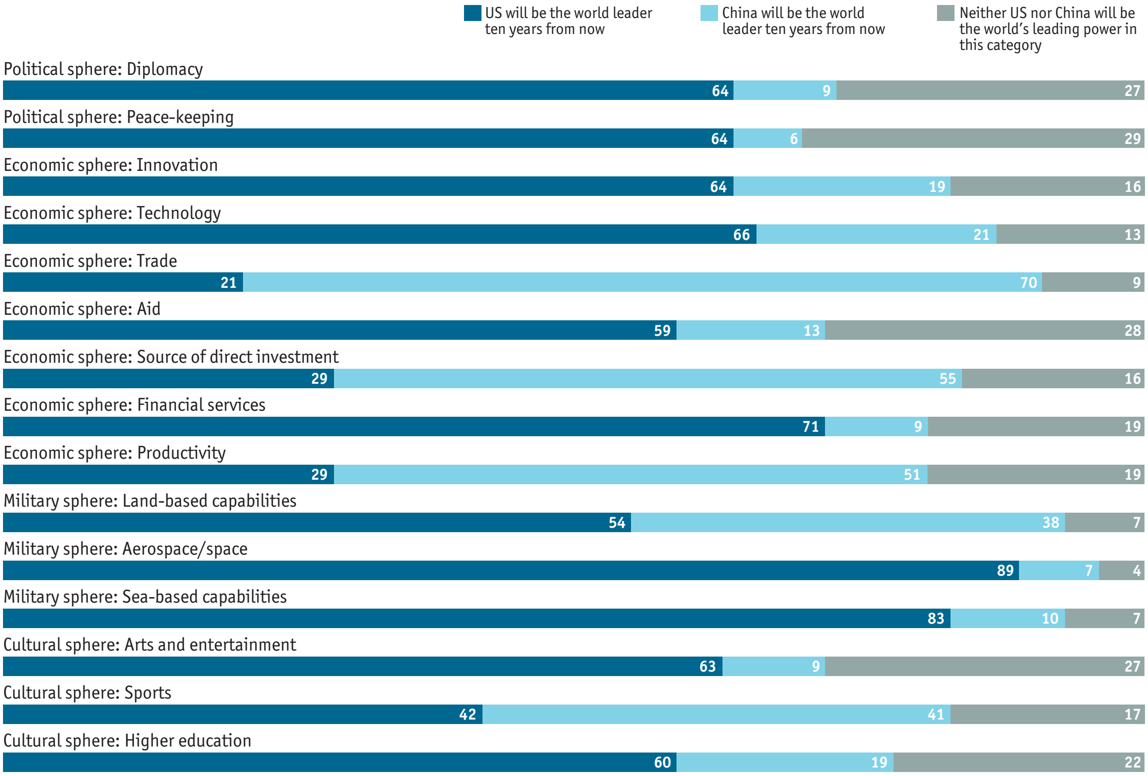
What will be the world's three most important financial centres ten years from now? Select three.
(% respondents)



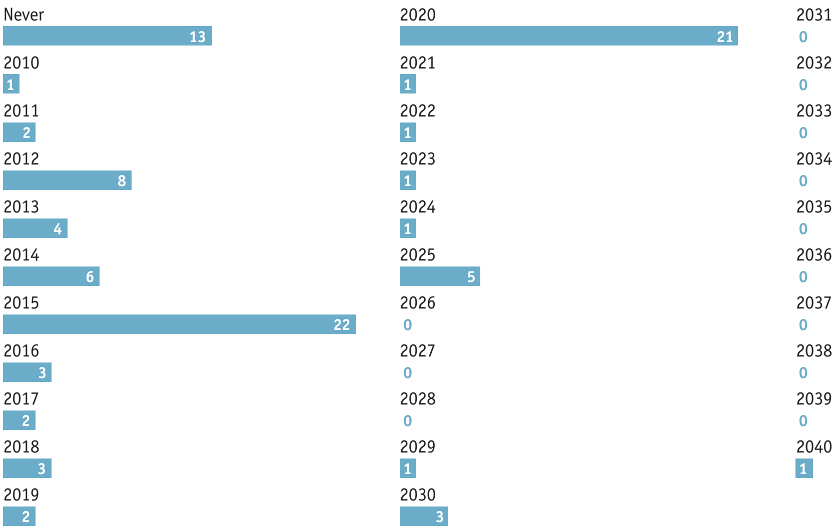
In the next decade, which obstacles will hamper China's and India's economic growth prospects the most?
Select three in each country.
(% respondents)



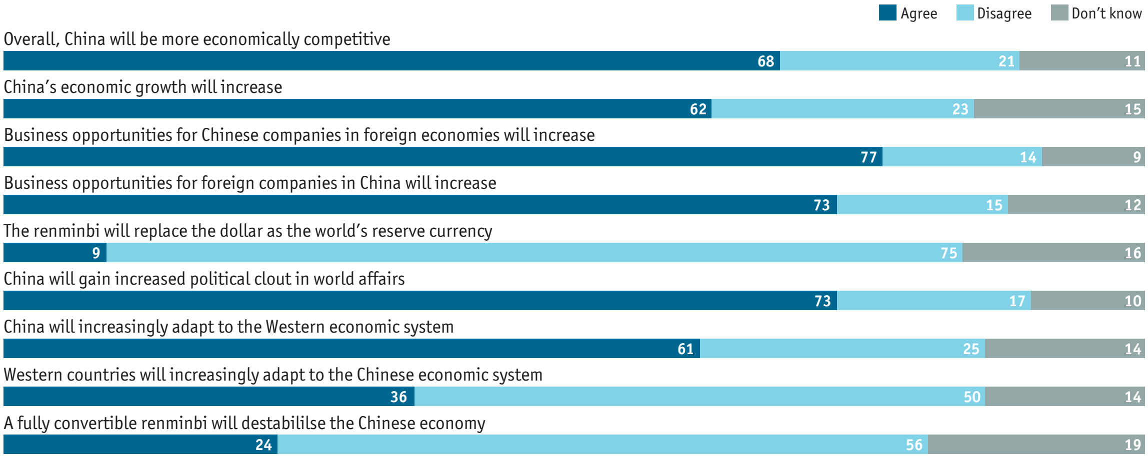
In which of the following areas do you think the US will be the world's leading power ten years from now? And in which of the following areas do you think China will be the world's leading power ten years from now? Select one in each row.
(% respondents)



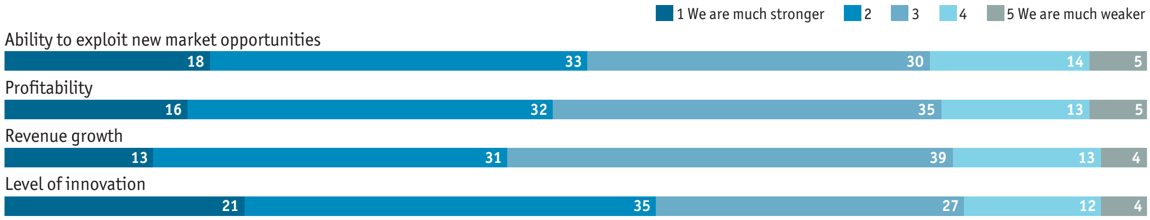
When do you expect the renminbi—the Chinese currency—to become fully convertible?
(% respondents)



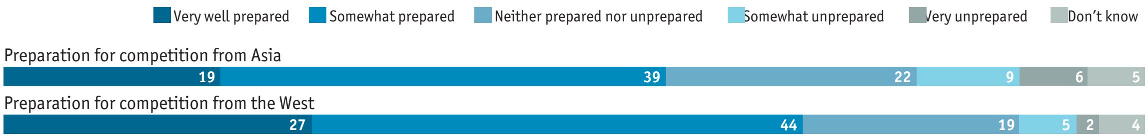
If the renminbi—the Chinese currency—becomes fully convertible, do you agree or disagree with the following potential consequences? Select one in each row.
(% respondents)



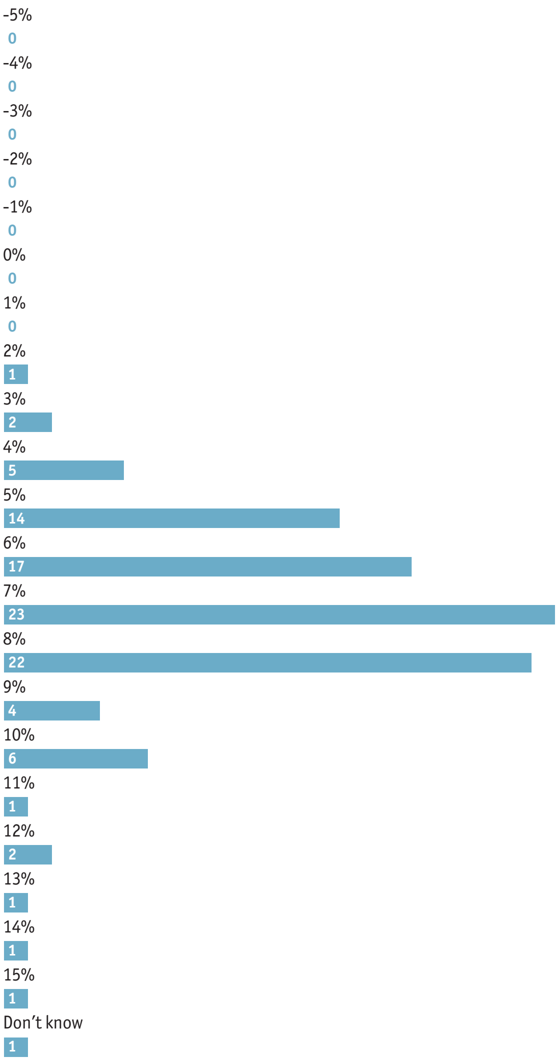
In your opinion, how does your company compare with its closest competitors in the following areas?
Rate on a scale of 1 to 5, where 1=We are much stronger and 5=We are much weaker.
(% respondents)



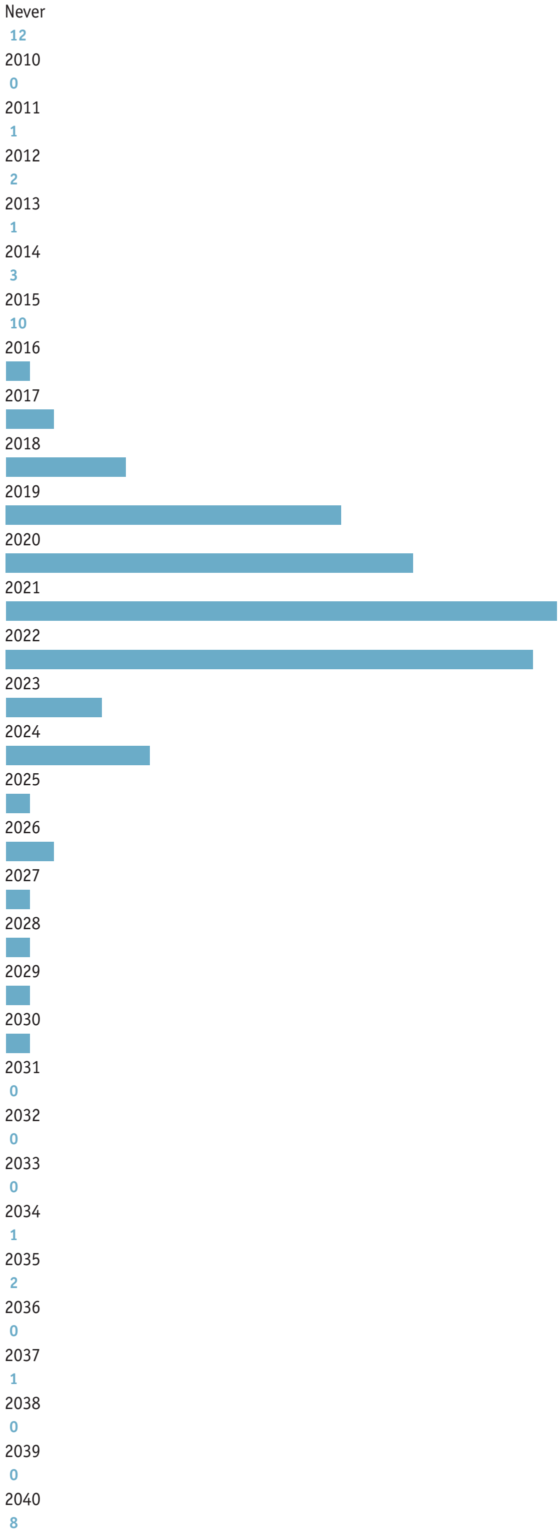
How well prepared is your company for competition from Asia? And how prepared is your company for competition from the West?
Select one in each row.
(% respondents)



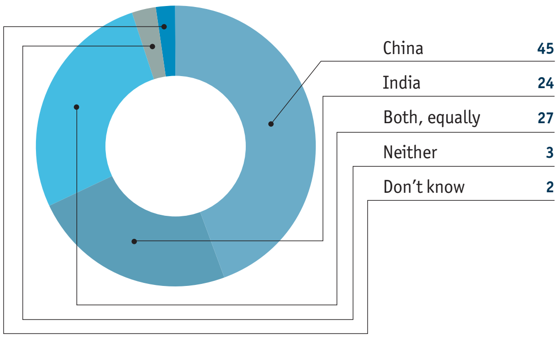
China grew by 10% a year in the past decade. What is your estimation of China's average annual growth rate over the next ten years?
(% respondents)



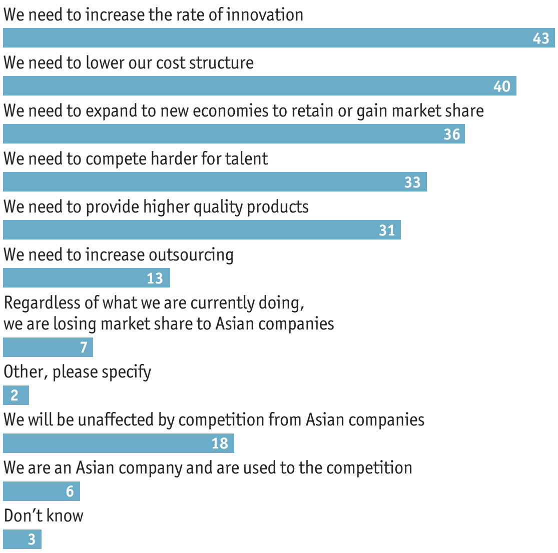
When will China overtake the US as the world's largest economy?
(% respondents)



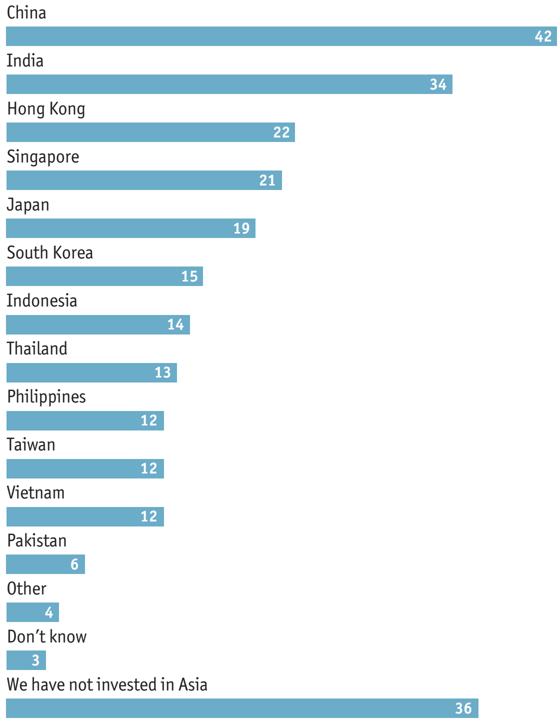
In your opinion, will India or China be the most heavily favoured Asian investment destination for Western businesses ten years from now? Select one.
(% respondents)



How will increased competition from Asian companies affect your business? Select all that apply.
(% respondents)

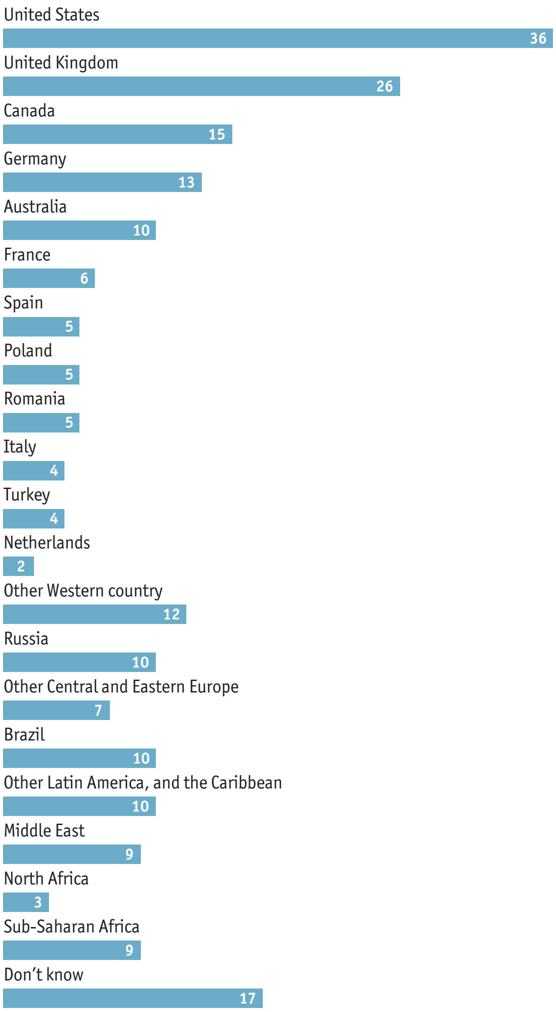


Has your company made investments in any of the following Asian economies? Select all that apply.
(% respondents)

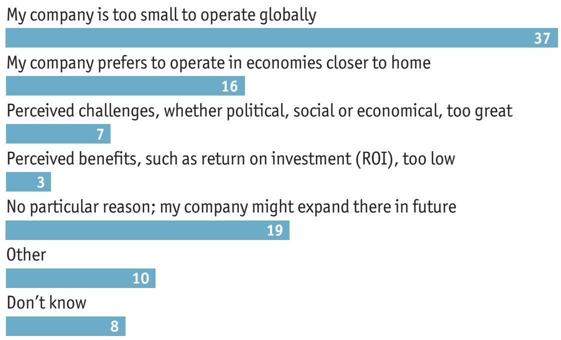


Companies that have not invested in Asia

What are the top three investment destinations for your company today, including your home economy? Select four from the entire list.
(% respondents)

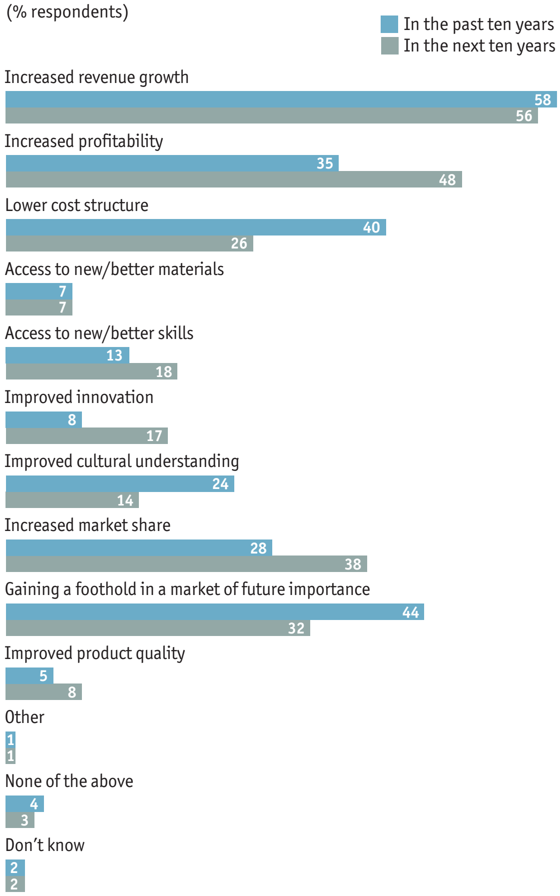


What is the primary reason your company does not invest in Asia? Select one.
(% respondents)

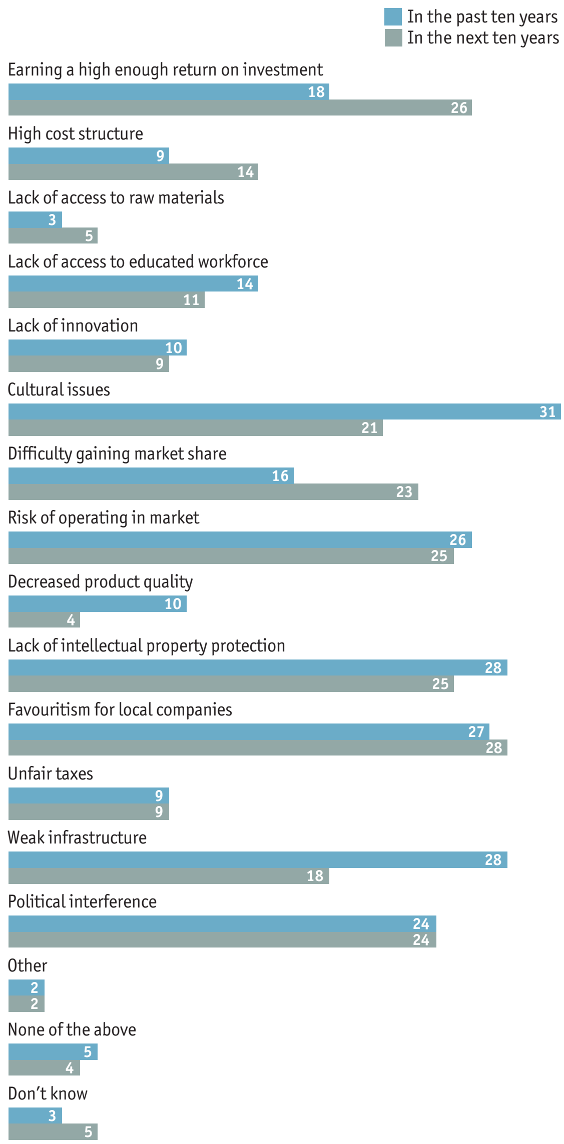


Companies that have invested in Asia

What benefits has your company gained from having invested in Asia in the past ten years, and what benefits does your company expect to gain in the next ten years? Select all that apply in each column.
(% respondents)

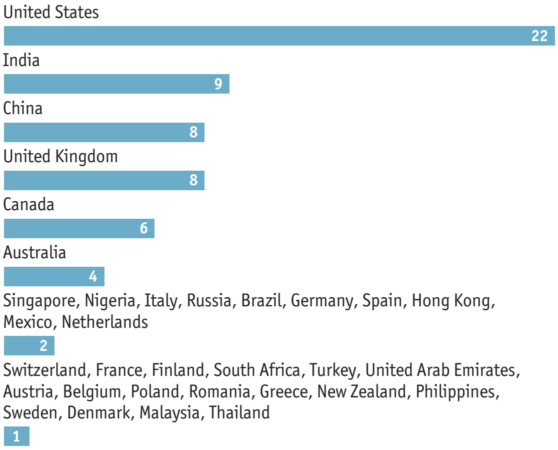


What challenges has your company faced by investing in Asia in the past ten years and what challenges does it expect in the next ten years? Select all that apply in each column.
(% respondents)

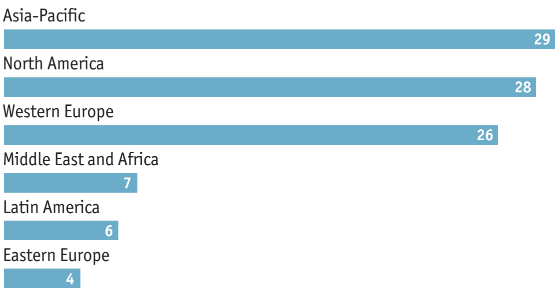


Demographics

In which country are you personally located?
(% respondents)

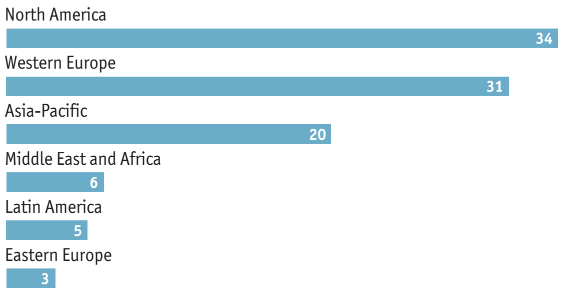


In which region are you personally based?
(% respondents)

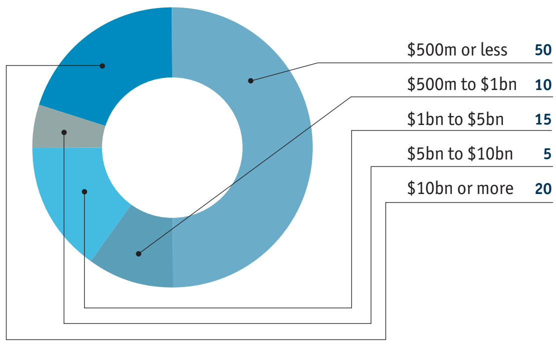


In which country is your company headquarters located?
(% respondents)

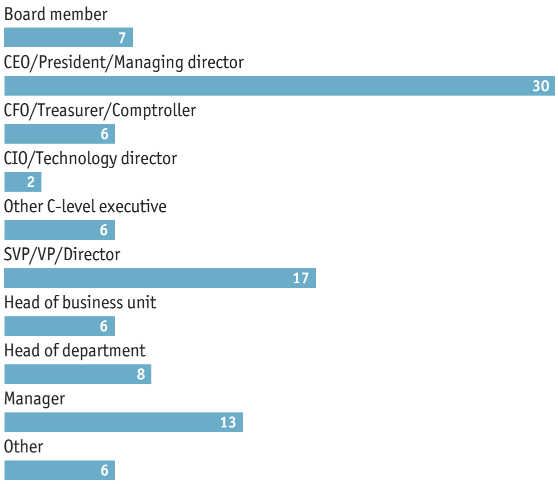
In which region is your company headquarters located?
(% respondents)



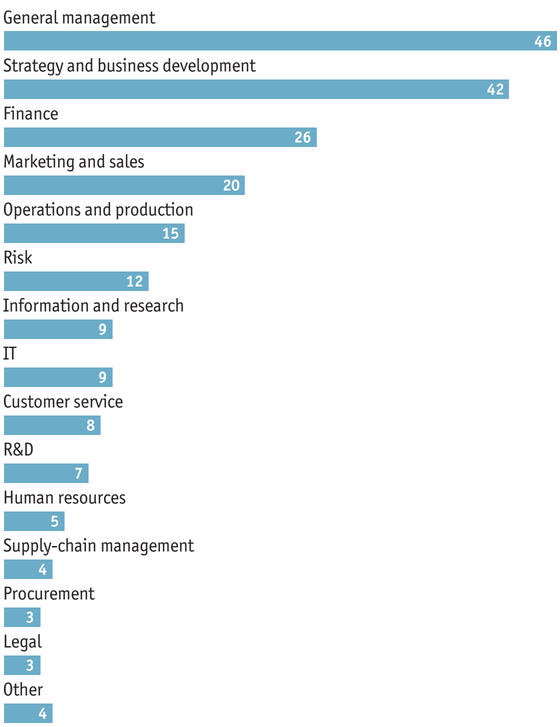
What are your company's global annual revenues in US dollars?
(% respondents)



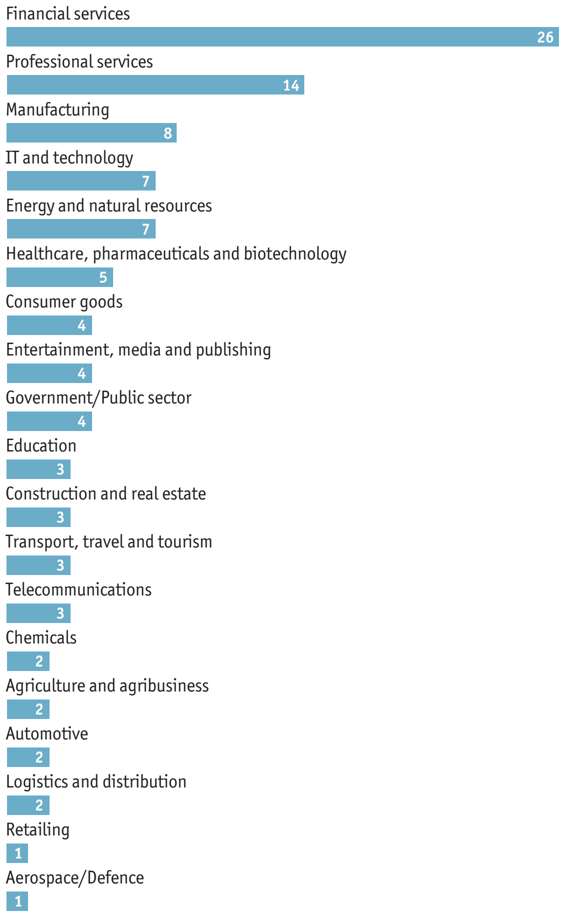
Which of the following best describes your title?
(% respondents)



What are your main functional roles? Select up to three.
(% respondents)



What is your primary industry?
(% respondents)



Appendix II
Follow-up survey

In order to assess attitudes towards the changing balance of global economic influence, the Economist Intelligence Unit conducted an online survey of 1,017 executives around the world in August and September 2009. In this survey 190 respondents said they are "very well prepared" for competition from Asia; 274 said they are "very well prepared" for competition from the West. The specific breakdown was:

1. Respondents very well prepared for competition from Asia, but not very well prepared for competition from the West: 80
2. Respondents very well prepared for competition from the West, but not very well prepared for competition from Asia: 164
3. Respondents very well prepared for competition from Asia, and very well prepared for competition from the West: 111

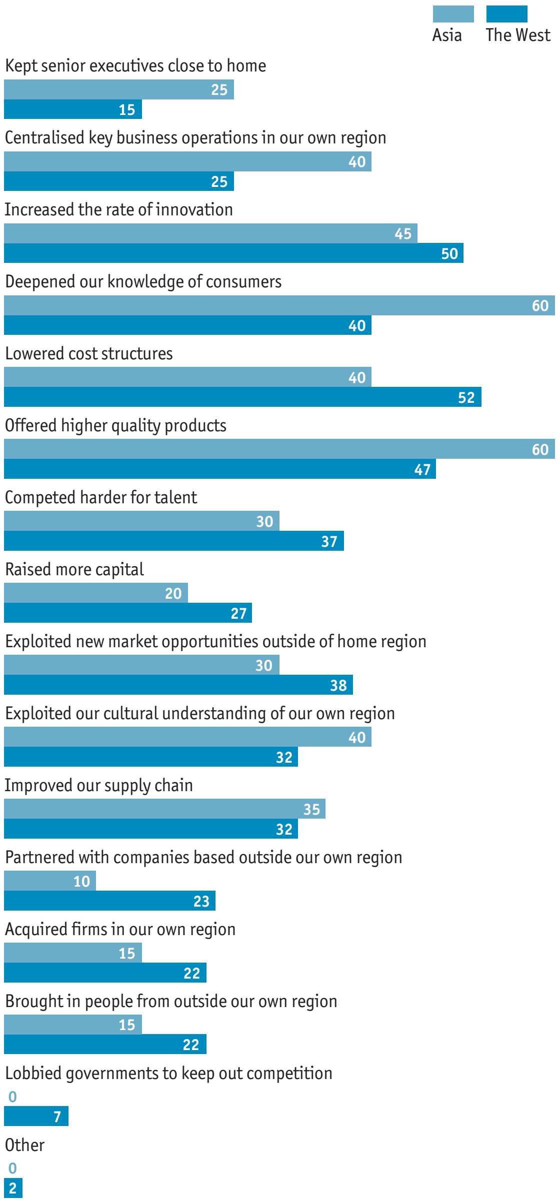
In December 2009, the Economist Intelligence Unit conducted a follow-up survey of these 355 unique respondents, 180 of whom responded:

1. Respondents very well prepared for competition from Asia, but not very well prepared for competition from the West: 35
2. Respondents very well prepared for competition from the West, but not very well prepared for competition from Asia: 84
3. Respondents very well prepared for competition from Asia, and very well prepared for competition from the West: 61 (labelled in the appendix as "Combined Asia and the West")

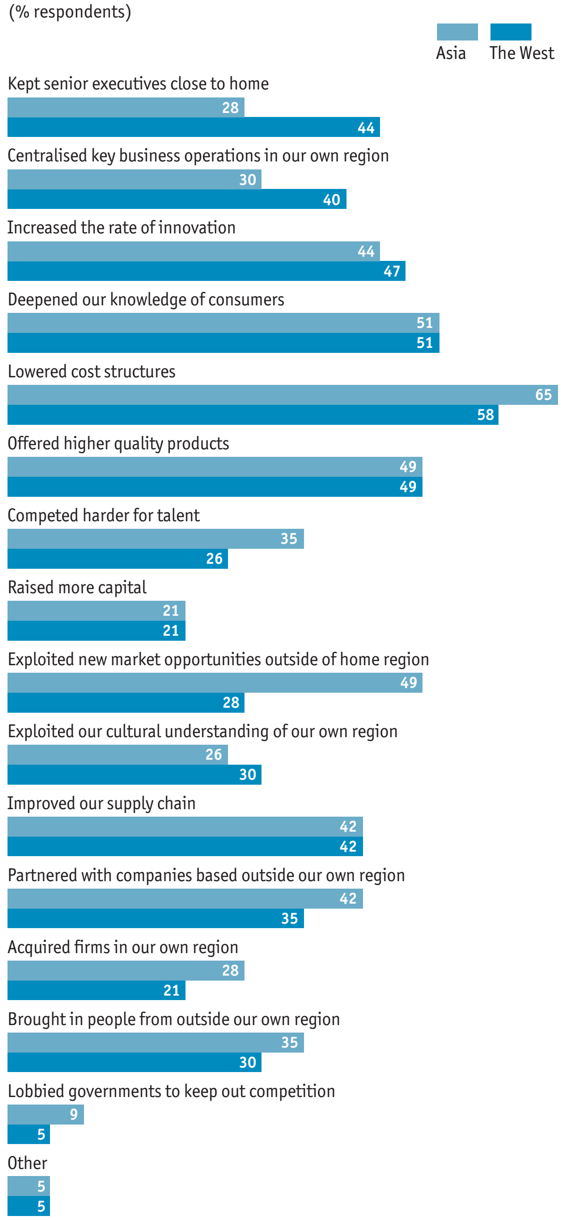
This appendix provides the aggregate findings of the follow-up survey according to the market for which they are "very well prepared" for competition.

Percentages may not add up to 100% due to rounding or the ability of respondents to choose multiple responses.

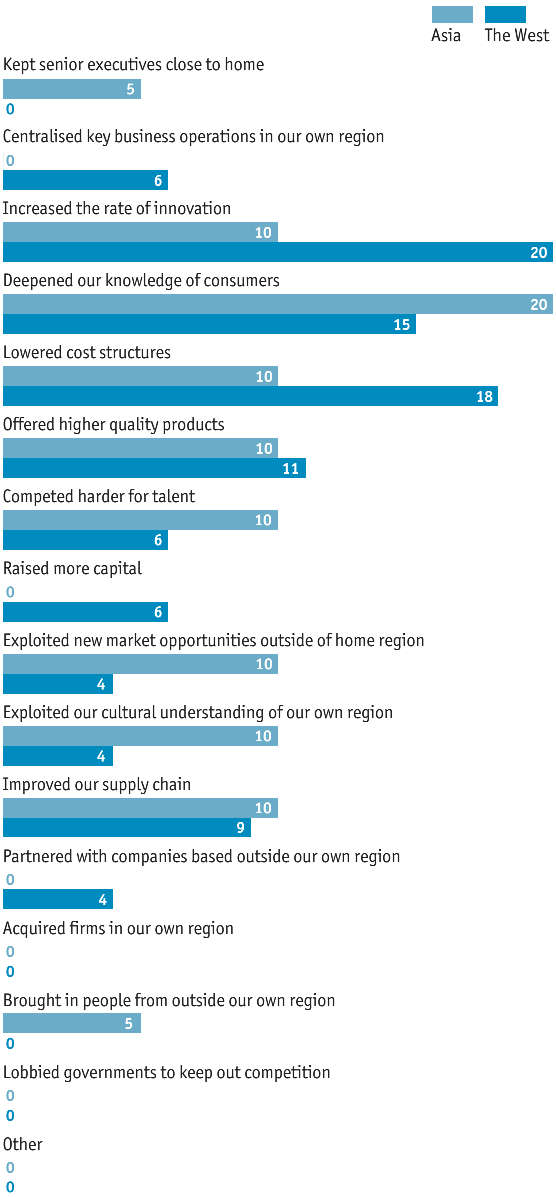
How has your company prepared for competition from Asia/the West in your own region?
Select all that apply.
(% respondents)



Combined Asia and the West
How has your company prepared for competition from Asia and the West in your own region?
Select all that apply.
(% respondents)

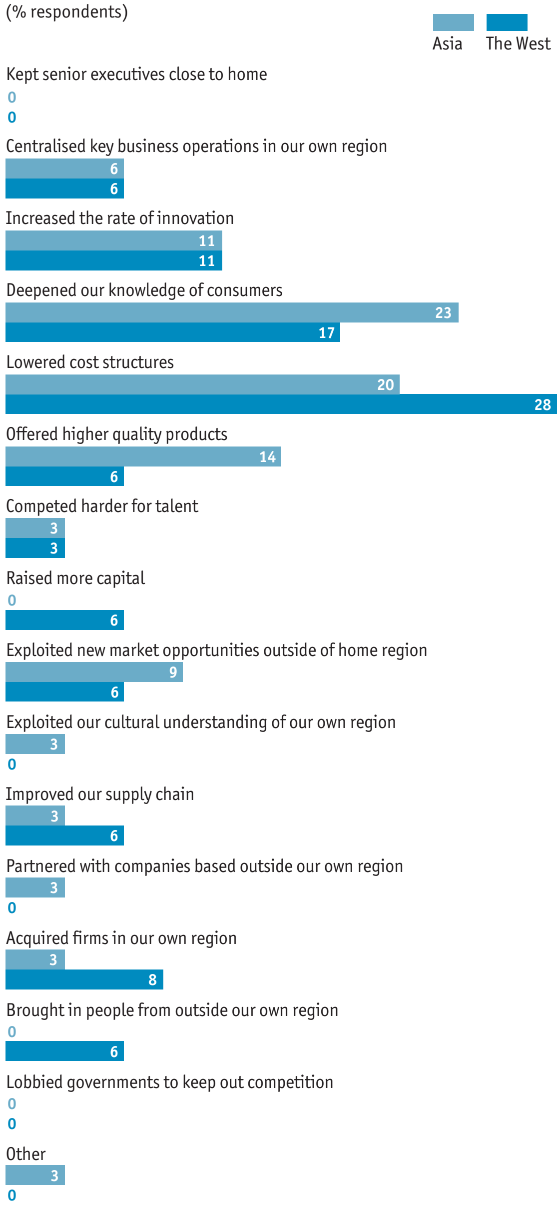


Based on your selections in the prior question, which action has had the most significant positive impact on your company?
(% respondents)

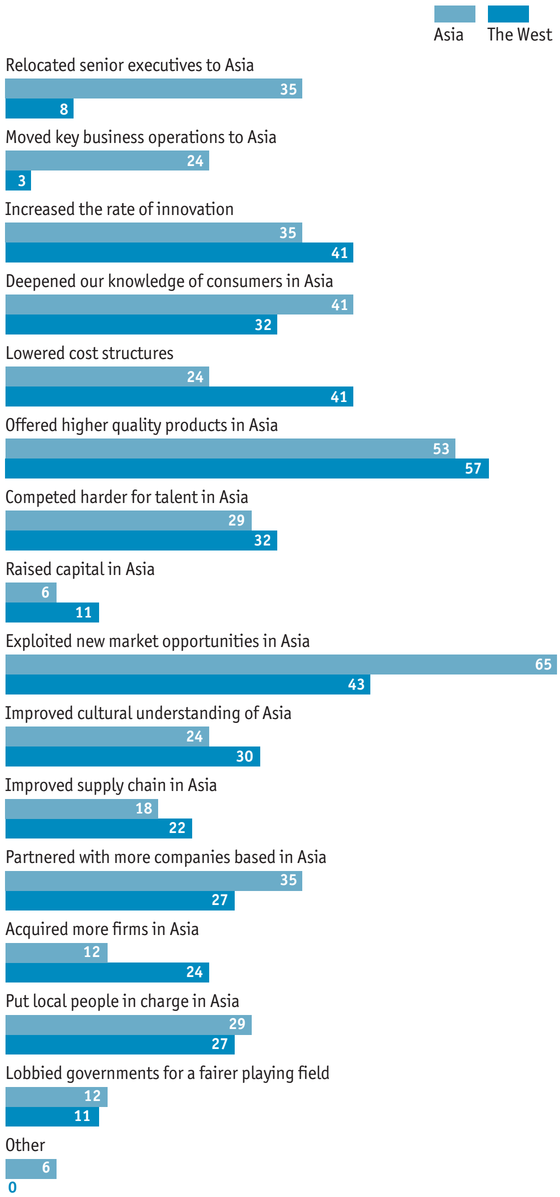


Combined Asia and the West

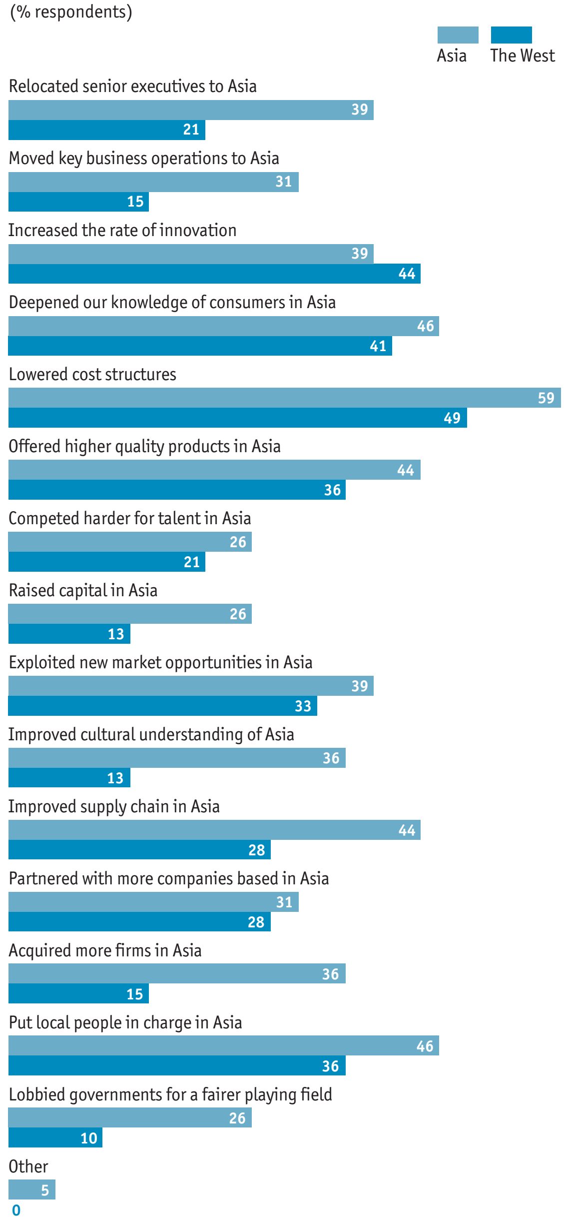
Based on your selections in the prior question, which action has had the most significant positive impact on your company?
(% respondents)



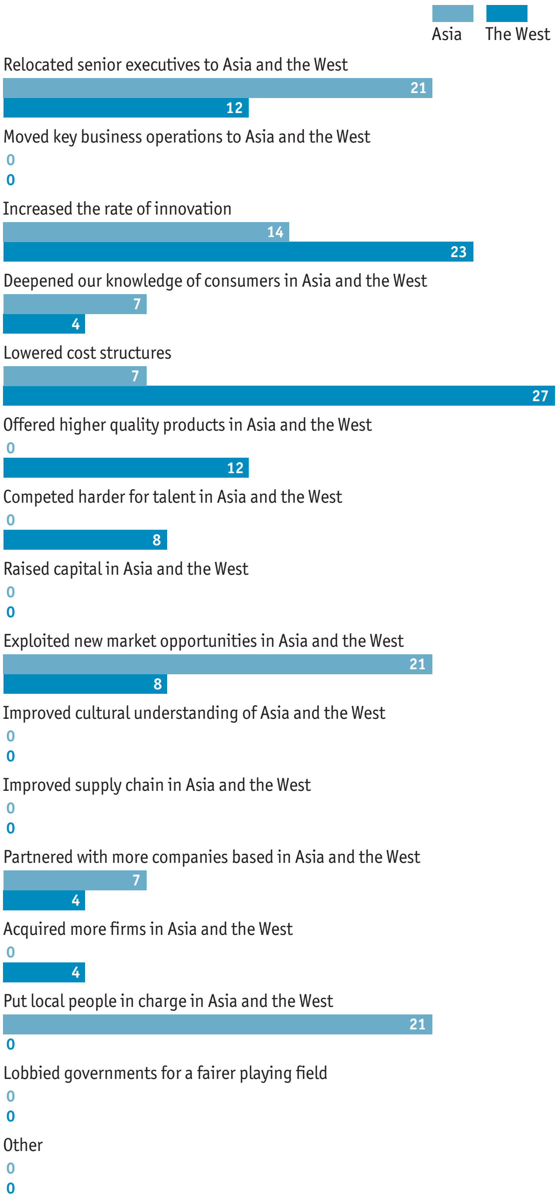
How has your company prepared for competition from Asia and the West in Asia?
Select all that apply.
(% respondents)



Combined Asia and the West
How has your company prepared for competition from Asia and the West in Asia?
Select all that apply.
(% respondents)

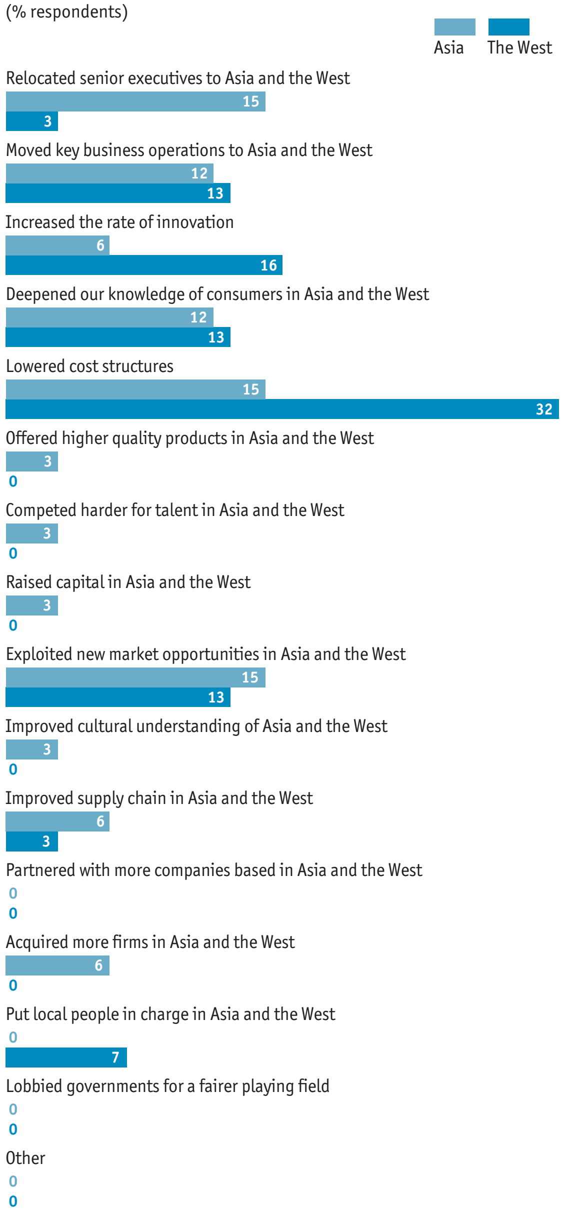


Based on your selections in the prior question, which action has had the most significant positive impact on your company?
(% respondents)

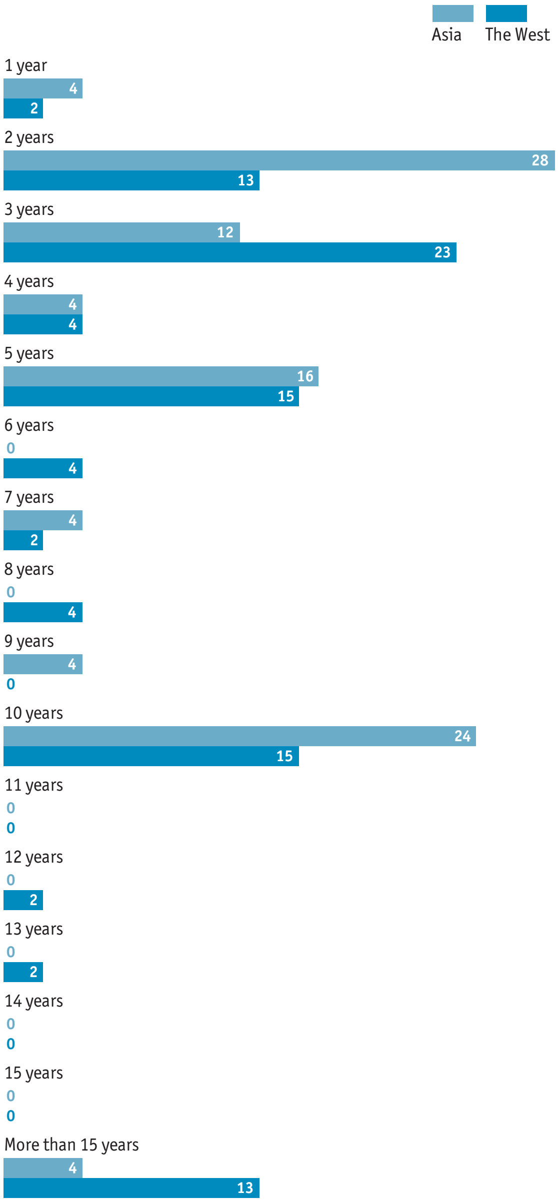


Combined Asia and the West

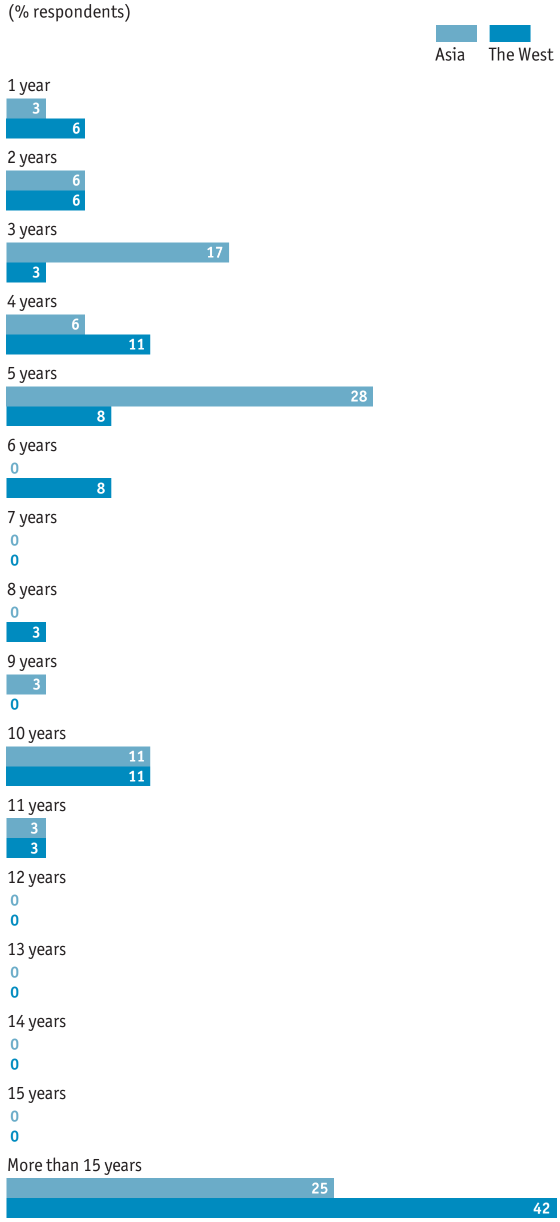
Based on your selections in the prior question, which action has had the most significant positive impact on your company in Asia?
(% respondents)



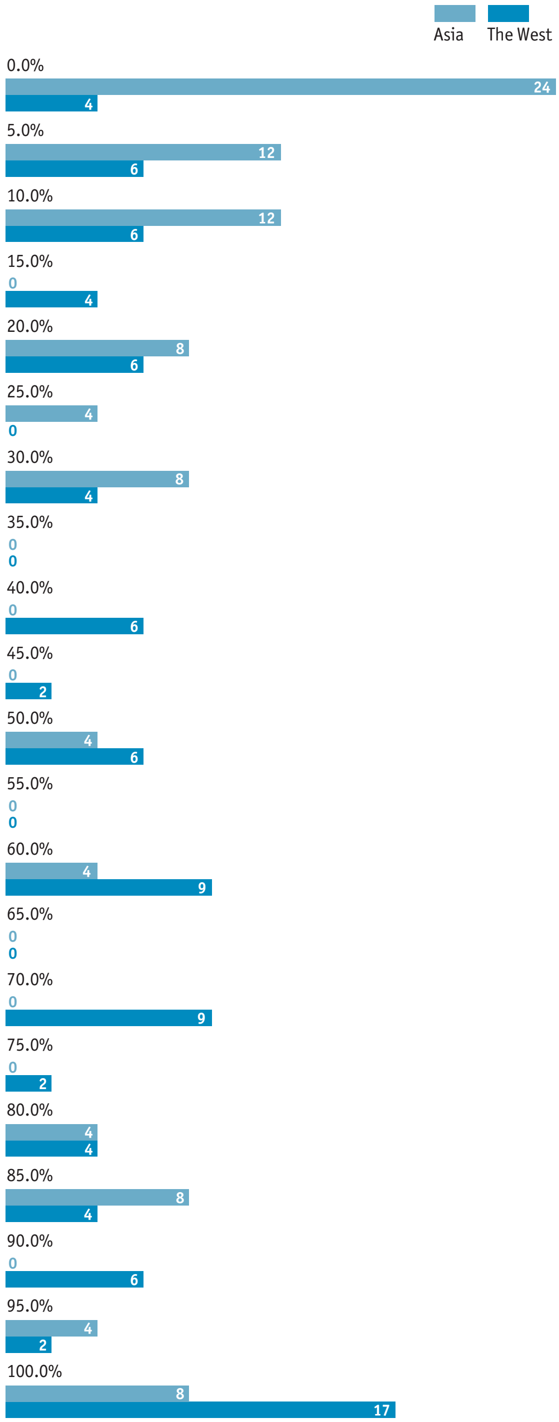
Approximately how long has your company been preparing for competition from Asia and the West?
(% respondents)



Combined Asia and the West
Approximately how long has your company been preparing for competition from Asia and the West?
(% respondents)

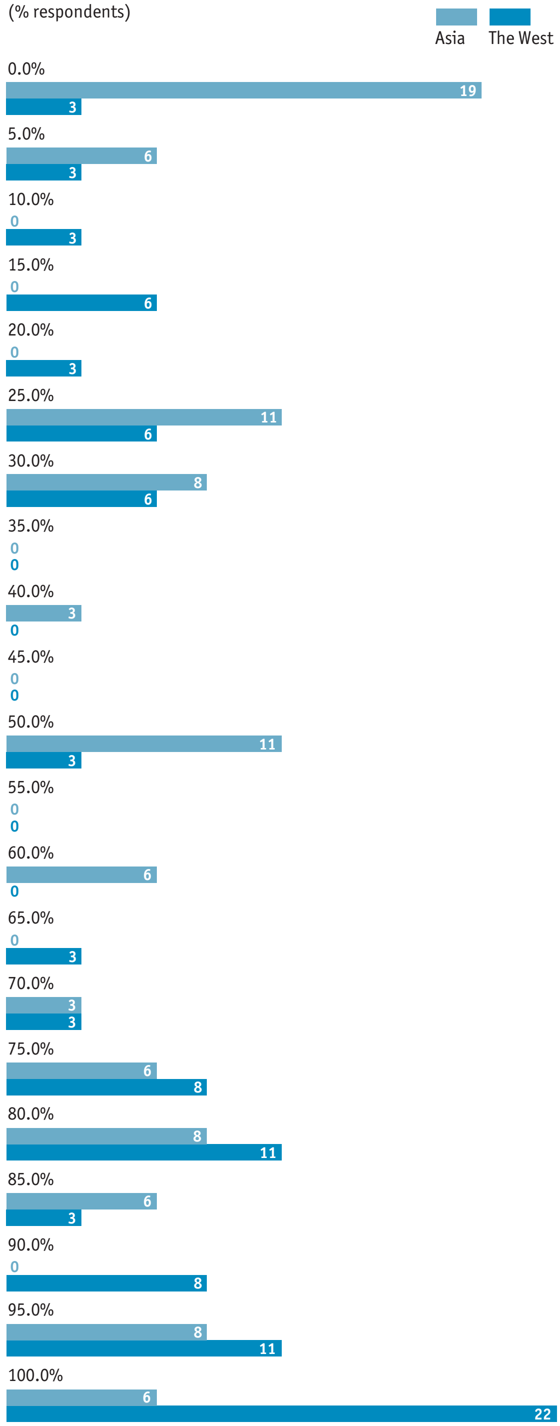


With respect to your company's operations in Asia/the West, approximately what percentage of the senior leadership there is from the country of operations?
(% respondents)

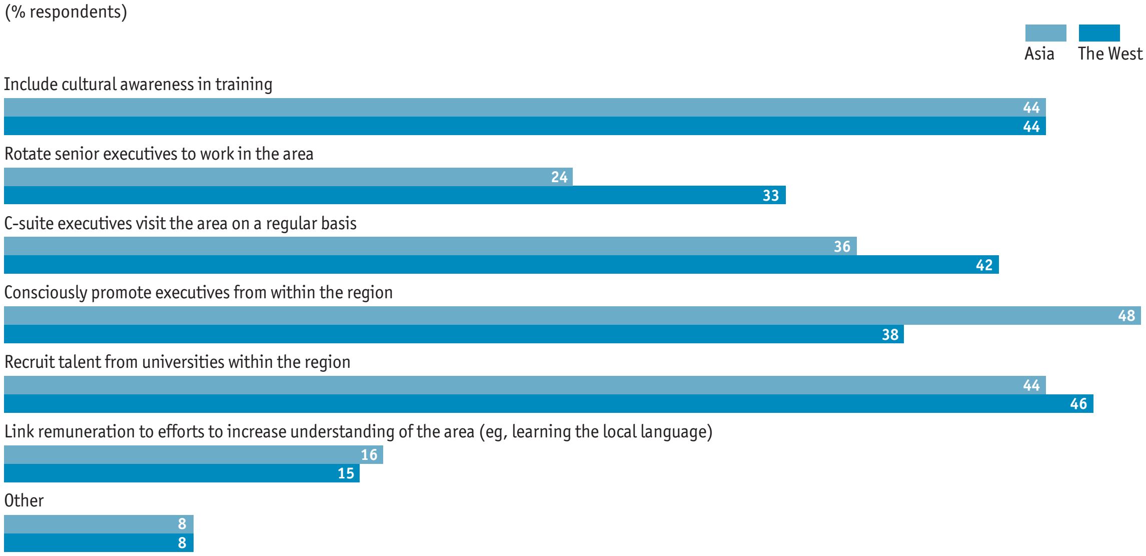


Combined Asia and the West

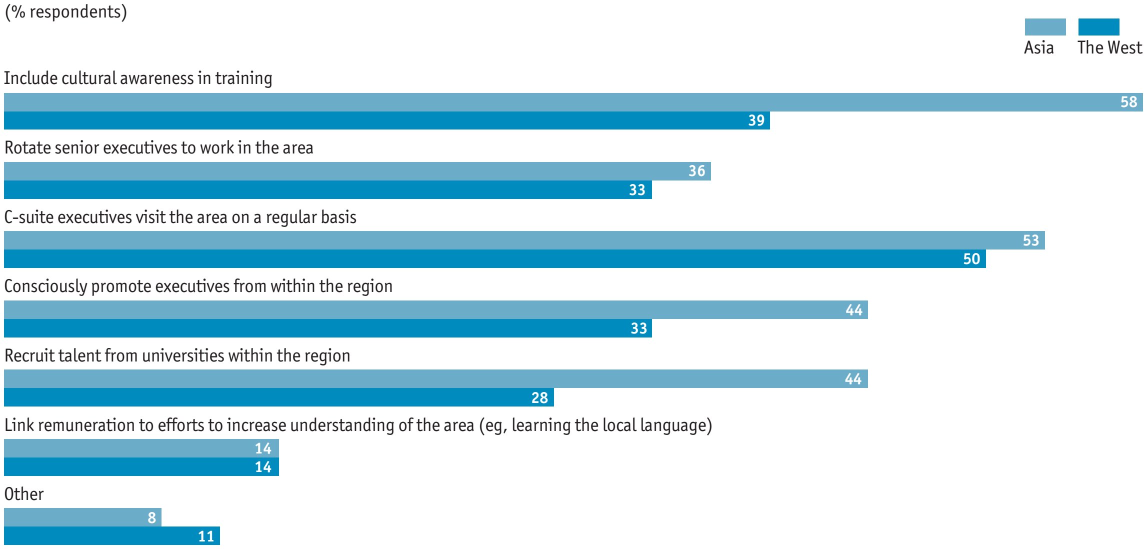
With respect to your company's operation in Asia/the West, approximately what percentage of the senior leadership there is from the country of operations?
(% respondents)



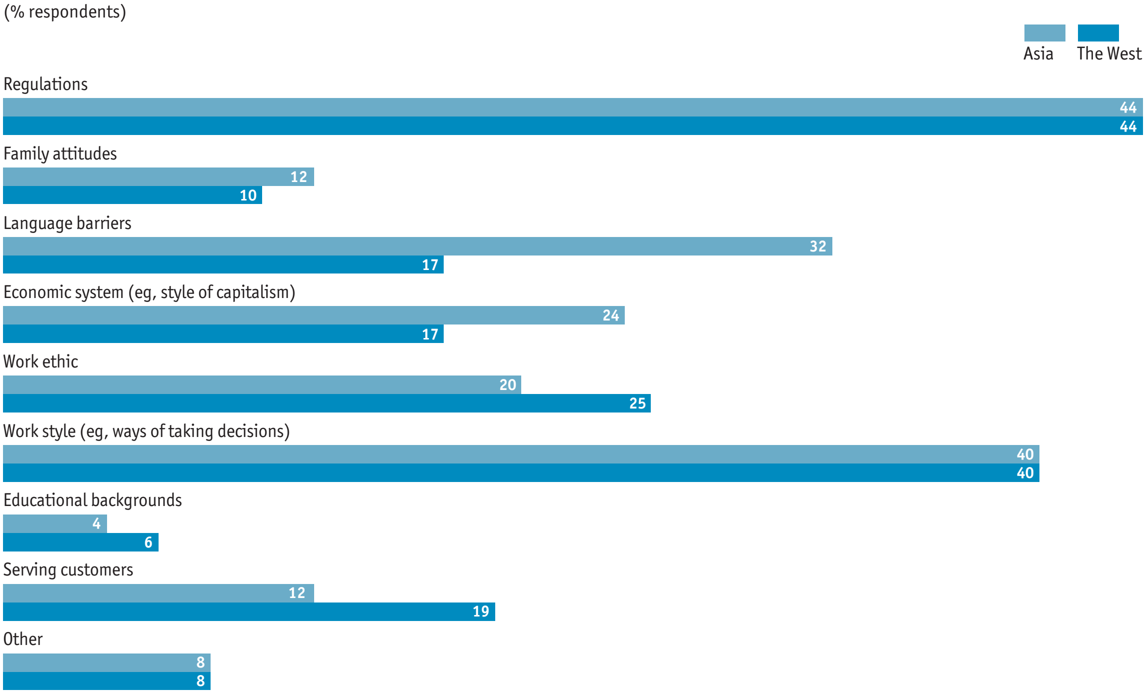
What steps does your company take to understand the business culture of Asia and the West?
(% respondents)



Combined Asia and the West
What steps does your company take to understand the business culture of Asia and the West?
(% respondents)

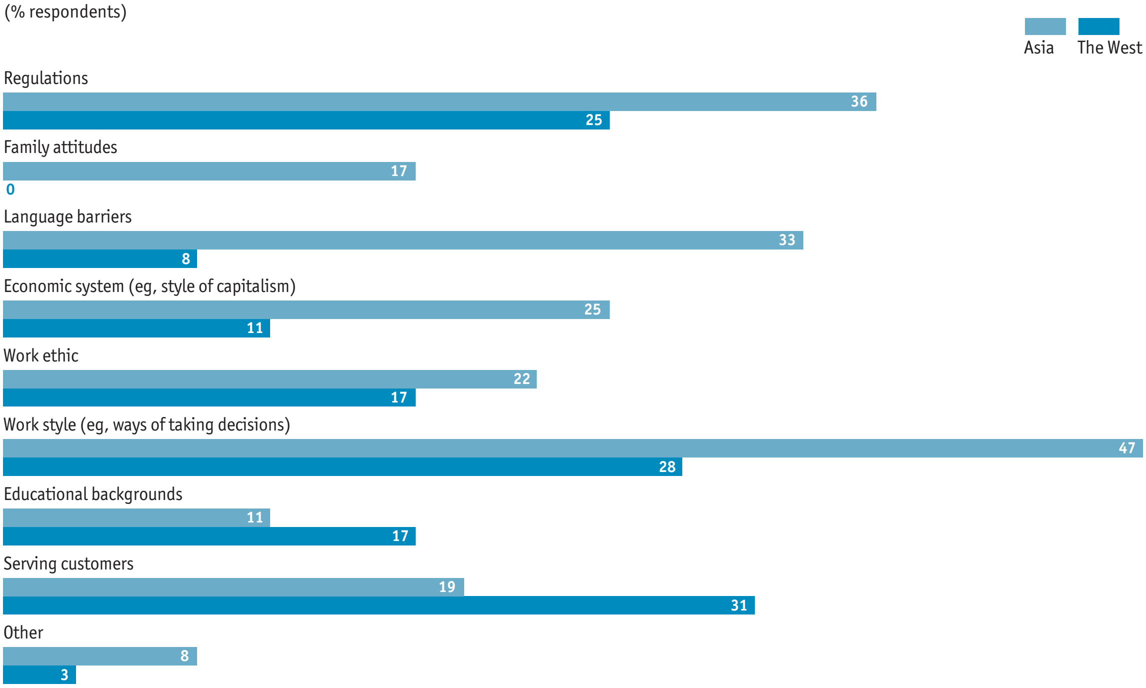


When doing business in Asia and the West, what are the most important cultural issues your company has to overcome?
(% respondents)

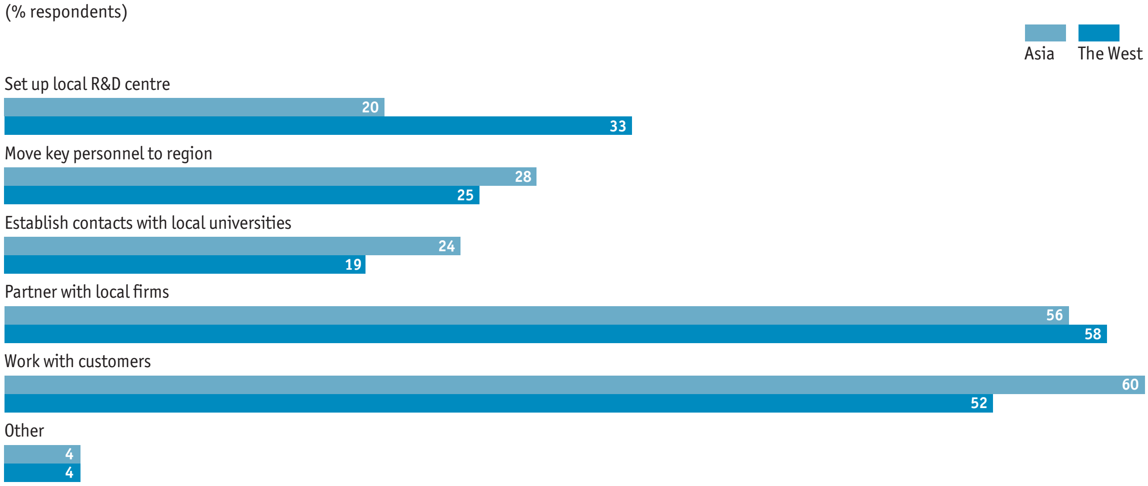


Combined Asia and the West

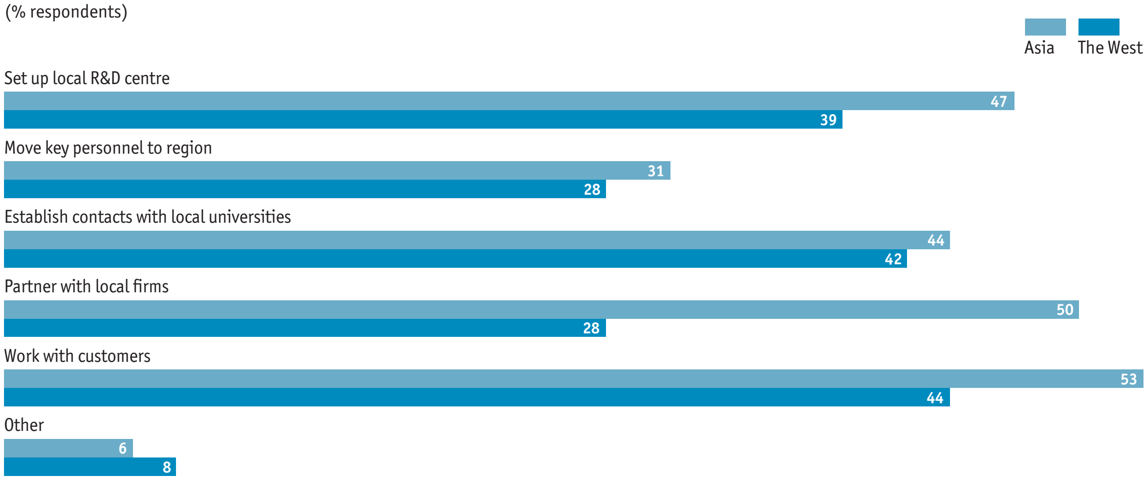
When doing business in Asia and the West, what are the most important cultural issues your company has to overcome?
(% respondents)



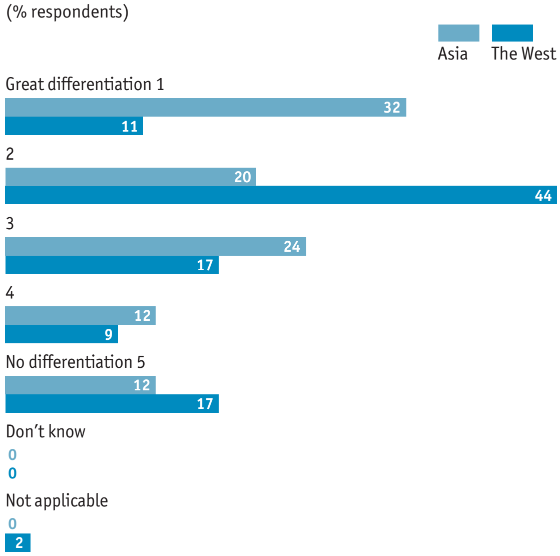
How does your company promote innovation in Asia and the West?
(% respondents)



Combined Asia and the West
How does your company promote innovation in Asia and the West?
(% respondents)



How differentiated would you say are the following between your home market and Asia/the West for sales and marketing?
Please rate on a scale of 1 to 5 where 1 = Great differentiation and 5 = No differentiation.
(% respondents)



Combined Asia and the West responses
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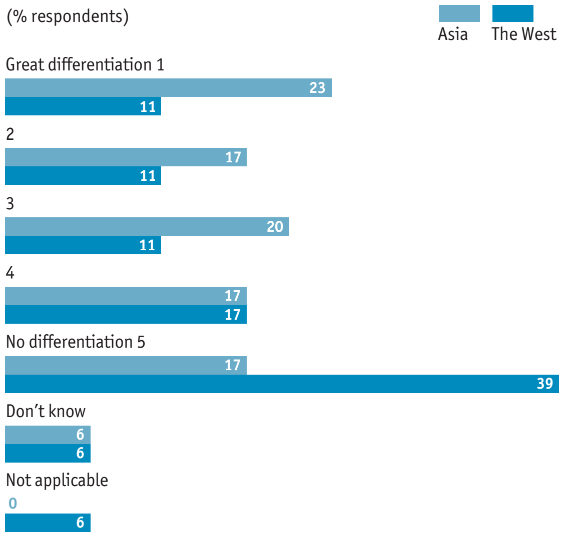
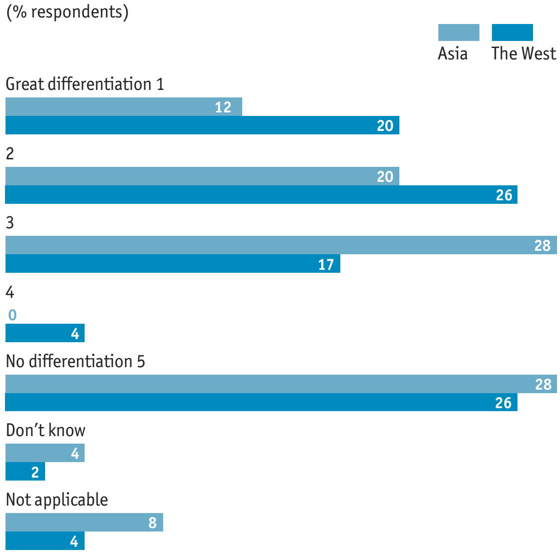
(% respondents)



How differentiated would you say are the following between your home market and Asia/the West for branding?
Please rate on a scale of 1 to 5 where 1 = Great differentiation and 5 = No differentiation.
(% respondents)



Combined Asia and the West responses
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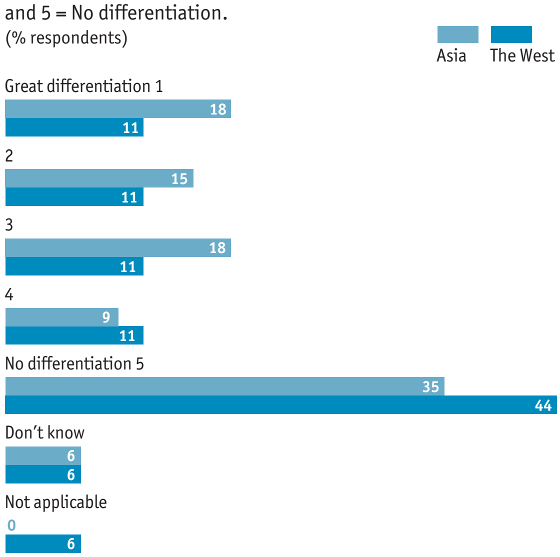
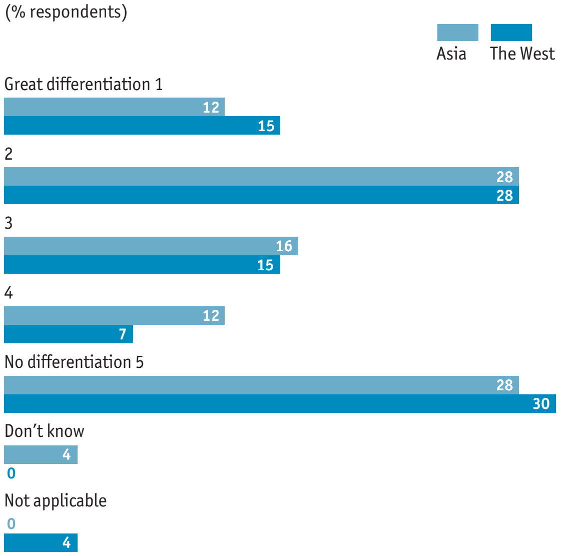
Please rate on a scale of 1 to 5 where 1 = Great differentiation and 5 = No differentiation.
(% respondents)



How differentiated would you say are the following between your home market and Asia/the West for recruitment of talent?
Please rate on a scale of 1 to 5 where 1 = Great differentiation and 5 = No differentiation.
(% respondents)



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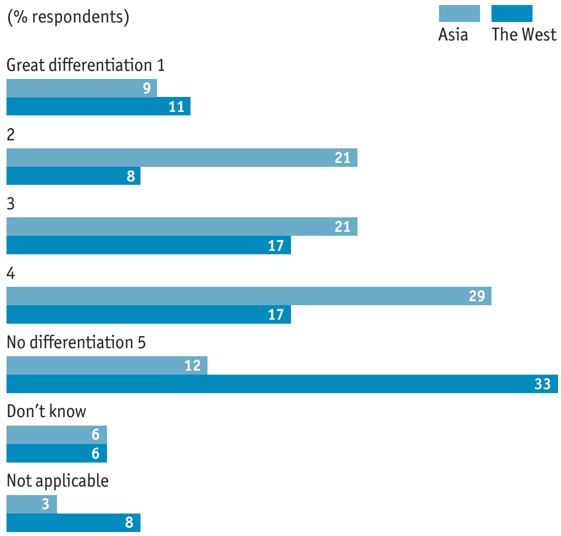
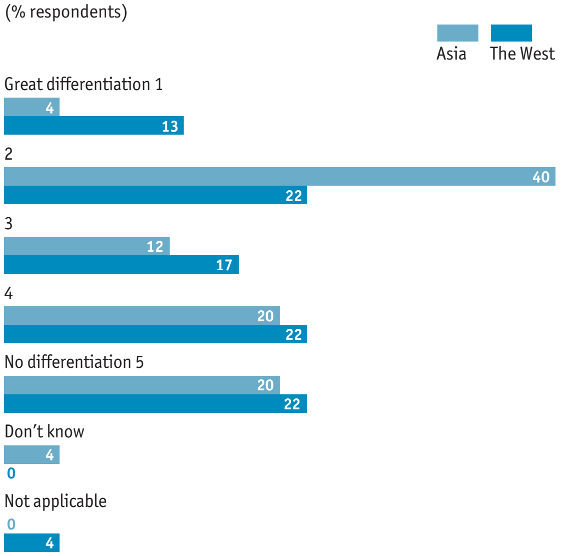
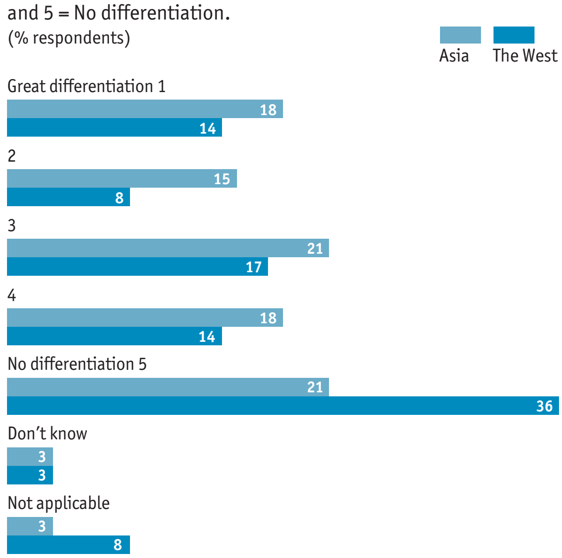
(% respondents)



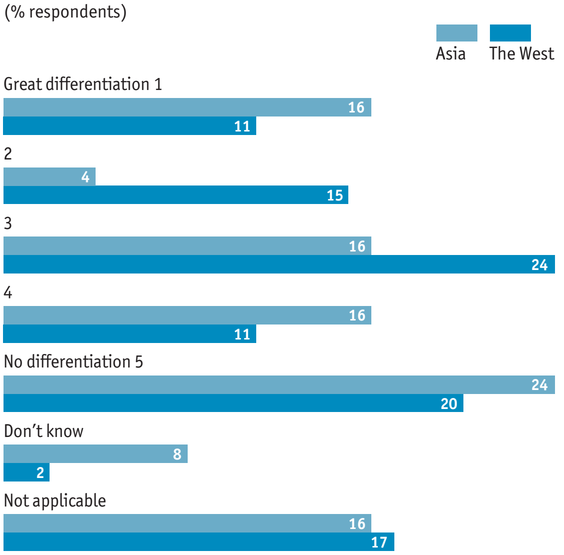
How differentiated would you say are the following between your home market and Asia/the West for talent management?
Please rate on a scale of 1 to 5 where 1 = Great differentiation and 5 = No differentiation.
(% respondents)



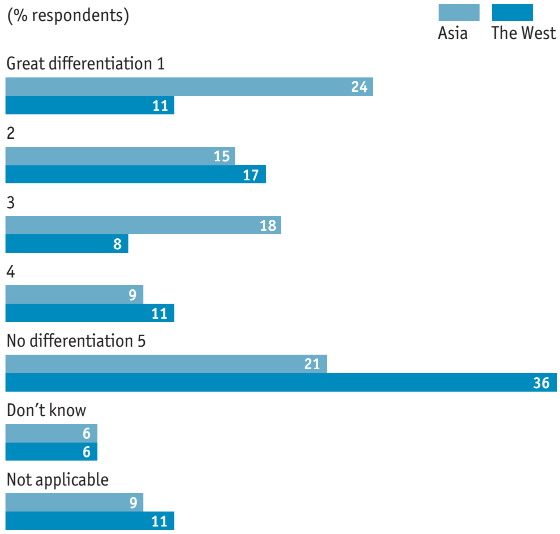
Combined Asia and the West responses
How differentiated would you say are the following between your home market and Asia for talent management?
Please rate on a scale of 1 to 5 where 1 = Great differentiation and 5 = No differentiation.
(% respondents)



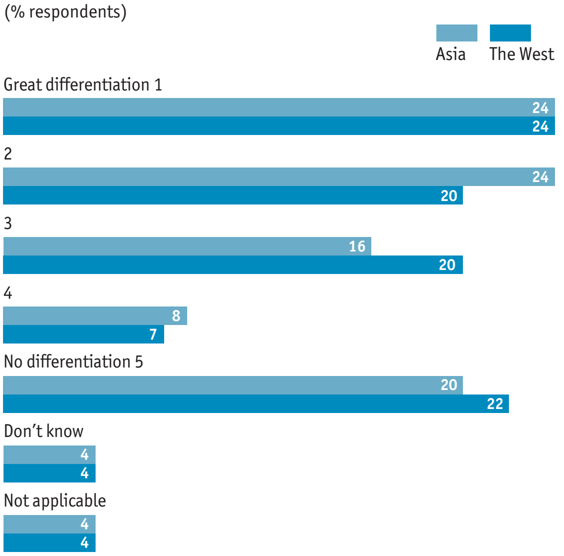
How differentiated would you say are the following between your home market and Asia/the West for methods of raising capital?
Please rate on a scale of 1 to 5 where 1 = Great differentiation and 5 = No differentiation.
(% respondents)



Combined Asia and the West respondents
How differentiated would you say are the following between your home market and Asia for methods of raising capital?
Please rate on a scale of 1 to 5 where 1 = Great differentiation and 5 = No differentiation.
(% respondents)



How differentiated would you say are the following between your home market and Asia/the West for innovation?
Please rate on a scale of 1 to 5 where 1 = Great differentiation and 5 = No differentiation.
(% respondents)



Combined Asia and the West respondents
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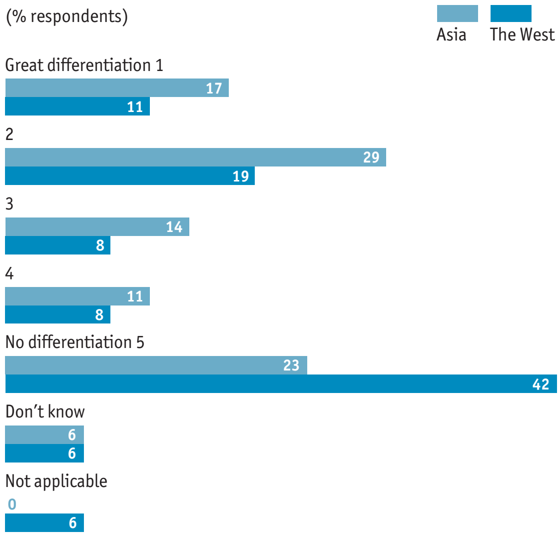
Please rate on a scale of 1 to 5 where 1 = Great differentiation and 5 = No differentiation.
(% respondents)



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