

# GLOBALIZATION, NEW ASIAN ECONOMIC AREA (AEA): IMPLICATIONS ON ECONOMIC REFORM AND DEVELOPMENT

*Dr. Adisak Chandprapalert*

*Graduate School of Commerce, Burapha University*

## ABSTRACT

Recent experiences in Asia provide an empirical evidence that countries in the process of integration are increasingly exposed to internal and external economic environment. In addition, this new emerging economies in Asia has the potential effects on multinational corporations to treat these economies as a single regional market. To explore the extent to which MNCs can integrate their business operations in the Asian Economic Area (AEA), this research examines the extent of economic and social integration within AEA. It further discusses the variations and disparities among them in macro-economic environment, consumer characteristics, marketing infrastructure and human resources, and presents a regiocentric approach to the AEA markets with strategy implications for MNCs.

## INTRODUCTION

36 Emerging economies of Asia have experienced a phenomenal growth throughout the 1980s and 1990s. Much of the credit has been attributed to increasing liberalization and growing integration of these economies to triad economies of North America, Europe, and Japan. This integration progressed in two separate interrelated fronts: in real sectors of these economies through trade and foreign direct investments and in financial sectors through portfolio investments. Asian strategies involving a governed market created impressive economic growth in the last twenty years.

Multilateral trade and investment among the Asia-based economies including China, Taiwan, Japan, and South Korea have grown rapidly and provided an impetus for economic growth in East Asia. Economic integration among them has become so advanced that they are collectively referred to as Asian Economic Area (AEA). As part of the global planning, many MNCs have since adopted a strategy that addresses the area as a single regional market. As those four dynamic economies are likely to maintain high growth rates in the past, their multilateral economic relationship will continue to evolve,

creating opportunities for multinational corporations (MNCs) to integrate their operations in this region and to improve performance in many areas. As MNCs continue to converge in this region, their success will largely depend on understanding the extent of economic integration within the AEA and its implications for corporate planning and business strategies.

## INTEGRATION WITHIN THE ASIA ECONOMIC AREA

By definition, the Asia economic area includes Mainland China, Taiwan, Japan, and South Korea. These economies have been increasingly treated as a single regional market because of their common oriental heritage and the continuous economic integration among them. It has been shown that the advantage of geographic proximity depends upon the extent to which the acquisition and transfer of knowledge (Audretsch and Stephan, 1996).

The retrocession of Hong Kong in 1997, Macao in 1999, and perhaps Taiwan in the near future to China will drive the economic integration further. The economic

integration was initially driven by the transfer of labor-intensive manufacturing operations from Hong Kong and Taiwan to mainland while South Korea and Japan were considered as the source of technology transfer through other southeast Asia countries. With Hong Kong's financial resources, marketing skills, and export capacity, Taiwan's capital, Japan's and South Korea's technology and manufacturing capability, and China's labor, land, market, raw materials and preferential investment policies, this regional economy has been growing at a fast rate by any standard. A direct result of the rising cross-fertilization is a dramatic increase in the triangular trade.

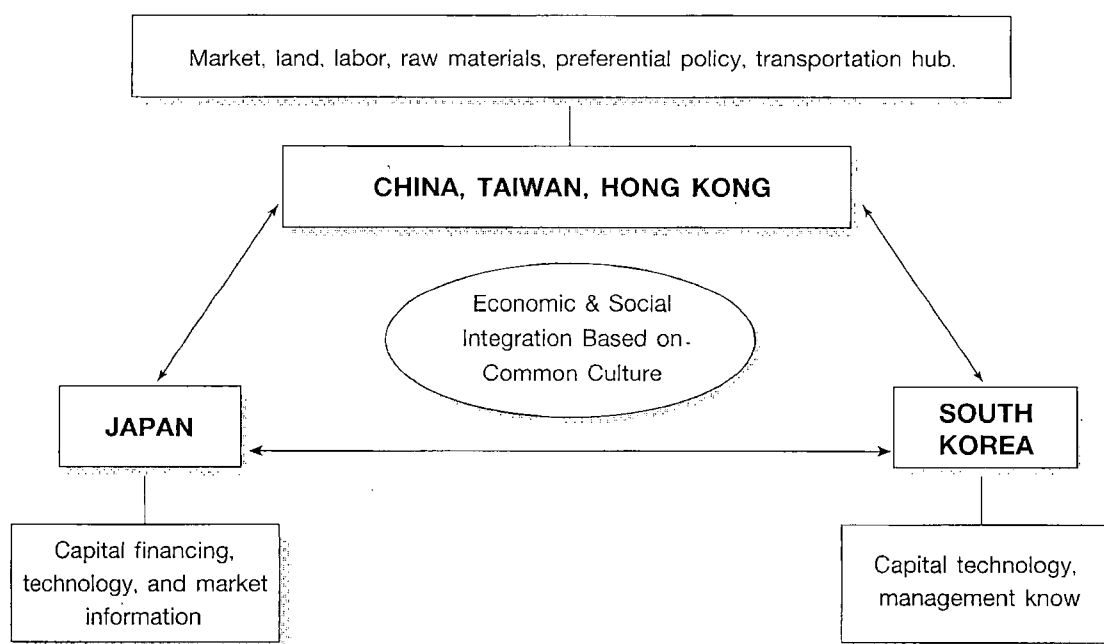
Intra-regional investment, trade and tourism have also led to a certain degree of social integration. The cohesiveness of Greater China is driven by a common culture, a strong sense of identity and historical consciousness, and a shared desire for economic growth and prosperity (Hartland-Thunberg, 1990). Once separated by political ideology, Hong Kong and Taiwan today exert a largely one-way influence on the mainland popular culture (Gold, 1995). Oriental customs and culture like novels, music, television programs, and movies from the islands have become immensely popular in China, and led to increased homogeneity in consumer

attitudes and life style.

However, economic integration within AEA does not always result in a win-win situation. The integration process may have been largely beneficial to AEA's members, who have taken advantage of China's land, market, low cost labor, and preferential investment policies. Customers, suppliers, local agents, counterparts in domestic networks, and even local Chinese intermediators serve as connectors for linking AEA's members to local network. On the contrary, strategic-asset linkages that enable AEA's members to access local technology networks and internationalization resources are shown to be the most important for investment among AEA's members.

Taiwan, Hong Kong, South Korea, and Japan's export to China have grown rapidly as they increase direct investment in China. As intra-regional tourism brought enormous benefits to these economies, they are also competing to become the destination of global tourists. These economies are also competing to build the finance and banking center, seaport and air cargo hub, and telecommunication nucleus for region. Continuous integration may result in gain for one but loss for another and upsets the delicate balance.

37



## **A REGIOCENTRIC APPROACH TO THE MARKETS OF THE GREATER CHINA**

This region has been important traders and attractive investment opportunities for MNCs. But this region as a whole did not become a major force in the global economy until the recent boom in China and economic integration among them. According to Strategic linkage theory, it contends that firms can gain access to desired strategic capabilities by linking to firms with complementary capabilities, or by pooling their internal resources with firms possessing similar capabilities (Porter and Fuller, 1986). The linkages create an effect that enhances the competitiveness of firms in the alliances by pooling complementary of similar firm-specific capabilities. Simultaneously, we found that firms are keen on forming external network linkages based on relational linkages that create trust and mutual understanding, which underscore inter-firm cooperation. In addition, some MNCs soon realized that despite their commonalities, one can not ignore its differences and variations among them. There is still disparity in marketing infrastructure, political, and legal systems, communication, and transportation. To effectively execute the regiocentric approach and integrate their operations in AEA, MNCs need to examine the similarities as well as differences among them in such factors as macro-economic environment, consumer characteristics, marketing infrastructure and human resources.

### **MACRO-ECONOMIC ENVIRONMENT**

In essence, China, Taiwan, Japan, and South Korea still represent different economic, political and legal systems. While Hong Kong in China symbolizes the special promotional zone for free market economy with an established legal system, Taiwan, Japan, and South Korea is a democracy. Both are subject to the influences of the global economy and less to government control, thus relatively stable and easy to penetrate. On the other hand, China's economy is still uncertain

and subject to the boom and bust cycles. Understanding this nature of China's developing economy may aid MNCs in making informed marketing decisions. Therefore, these economic systems represent risks and challenges for MNCs and have a significant impact on entry strategy and local partnership. Success in Greater China often starts with carefully chosen the right partner. In Taiwan, Japan, and South Korea, where government control of foreign investment is lax, direct investment in the form of wholly subsidiary presents minimum risk and has become the dominant method of entry. In Asia, Japan, Taiwan, and South Korea are run by oriental culture that they are willing to form strategic alliances with multinationals to gain access to higher levels of expertise and technology. The large pool of managerial and technical talent there present opportunities for Western companies seeking partnerships there.

### **CONSUMER CHARACTERISTICS**

One of the most common threats in the AEA economies is a growing and increasingly affluent middle class looking for quality goods and services. Despite high real estate prices, with low income tax and high saving rate, they represent attractive markets for quality products. Demand for traveling abroad has been increasing from time to time recently. Once exposed to foreign goods overseas, many of them are receptive to buying them upon return. While consumers in Japan, South Korea, and Taiwan have bigger purchasing power and access to modern conveniences and foreign made goods, China is still playing catch-up with the rest of the AEA. Consumer market in China seems to have taken the form of increasing real purchasing power.

Despite the emerging middle class consumer in AEA, income disparity results in a consumer market that is less homogeneous. The AEA can be divided into market segments based on the level of consumer readiness. The wealthy and well-educated consumers from mature and affluent economies such as Taiwan,

Japan, and South Korea are very similar to those of the west while the emerging market of China still needs to be explored and cultivated.

## MARKET INFRASTRUCTURE

Two aspects of business environment are common for the AEA markets: oriental culture and the emphasis on relationship. The Chinese written language is very similar for Hong Kong, Taiwan, and Japan, with some regional variations in dialects. Among many marketing techniques, cultivating personal relationships is extremely important for business success in AEA. A common oriental culture puts emphasis on proper business procedures that displays respect, courtesy, modesty, and harmony (Laurence & Herbig, 1995). Informal conversations are often necessary to set a proper and friendly atmosphere before conducting negotiations. Social meetings in restaurants and sending gifts are the two popular means of establishing relationship followed by sending samples and proposals in pre-negotiation stage. Thus, establishing long-term relationship with intermediaries is very important for MNCs from the West.

In channels of distribution, Taiwan, Japan, and South Korea's retail networks are well developed and look increasingly like that of North America, including small family shops, convenience stores, department stores, specialty stores, supermarkets, discount clubs, and franchise (Chang and Sternquist, 1993). MNCs can gain wider access and easier entry into these markets. But in China, the recent economic system is still in a period of development and reform. Careful research before selecting a channel is therefore essential. Given China's size and diversity, some MNCs may find it necessary to negotiate separate distributors to cover different areas.

Physical distribution remains one of the biggest challenges for MNC operations in the AEA. The road system in China is still underdeveloped comparing to

those of Western nations and often creates transport bottlenecks, particularly in China and Taiwan (Speech and Kawahara, 1995). Lack of warehouse space and adequate equipment present the biggest problems, and the situation may worsen further inland. Thus, it is necessary to research abilities of local ports and transport systems in China's local markets. Until then, China's inefficient distribution processes, antiquated and overcrowded infrastructure will remain barriers to successful market expansion for MNCs in China.

## HUMAN RESOURCES

Many business people in Taiwan and South Korea are English-speaking and trained in the West, thus more familiar with Western cultures and business practices. But adequate staffing in China has been a major challenge for MNCs due to the shortage of bilingual and bicultural professional managers. Thus, MNCs need to invest in in-house education and training for the local employees and work with local universities in developing an efficient work force for the AEA.

Early investment in China brought many expatriates to China. These professionals were required to receive pre-departure training in culture sensitivity, in unfamiliar bureaucratic system, and in management practice. As MNCs business growing in China, they can deploy managerial and technical staff from AEA to supervise operations in China. The shared ancestry and common culture staff allow a rapport with workers in China. However, having a Chinese manager from AEA members does not guarantee success. MNCs need bilingual managers who are adaptive and willing to appreciate the differences in approach and solution and when designing corporate reporting, evaluation, incentives, and motivational programs, MNCs need to consider local cultural factors (Hua and Glinow, 1995).

## Conclusion and Recommendation

There are enormous similarities as well as

tremendous differences among these Chinese markets. The above analysis has several implications for a regiocentric approach to the AEA market. In areas where these markets share common characteristics, it is possible that MNCs can standardize its operations to improve cost-effectiveness. Furthermore, in order to minimize the impact of between country variations, a step-by-step and region-by-region expansion strategy is well advised for MNC's entry and expansion in the AEA. MNCs further need an in-depth understanding of the extent of economic integration while exploring its complexities and variations. Companies need to instantly monitor the progress of integration, evaluate and modify of strategies if necessary, to minimize the impact of regional variations. Successful operation and expansion of MNCs will not only contribute to the economic growth of these markets, but also exert influence on the social and political progress in these regions.

## REFERENCE

- Audretsch, David B. & Stephan, Paula E. (1996). "Company-Scientist Locational Links: The Case of Biotechnology". *American Economic Review*. Vol. 86, 641-52.
- Crane, George T. (1995). "Greater China: The Ties That Don't Bind". *Current History*, Vol. 94, 270-274.
- Gold, Thomas B. (1995). *"Go With Your Feeling: Hong Kong and Taiwan Popular Culture in Greater China"*. Greater China: The Next Superpower. Oxford University Press.
- Hartland-Thunberg, Penelope (1990). *China, Hong Kong, Taiwan and the World Trading System*. St. Martin's Press. New York.
- Jones, Randall; Robert, King; and Micheal, Klein (1992). *"The Chinese Economic Area: Economic Integration Without a Free Trade Agreement"*. Organization for Economic Co-operation and Development (OECD), Paris
- Laurence, Jacobs and Paul, Herbig (1995). "Confucian Roots in China: A Force for Today's Business". *Management Decision*. Vol. 33, 29-34.
- Porter, Michael E. & Fuller, Mark B. (1986). *"Coalitions and Global Strategy"*. Competition in Global Industries. Boston, MA: Harvard Business School Press.
- Schmitt, Bernd (1995). "Language and Visual Imagery: Issues of Corporate Identity in East Asia". *Columbia Journal of World Business*. Vol. 30, 28-36.
- Speece, Mark W. and Yukiko, Kawahara (1995). "Transportation in China in the 1990s". *International Journal of Physical Distribution & Logistics Management*. Vol. 25, 53-1