Surviving the War for Talent in Asia

How Innovation Can Help

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Asian Economic Growth

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Asia...the world's largest factory, the world's largest office, shapes the economic landscape of the world. This is home. This is Asia.[1]

Asia is transforming! Over the past three decades, Asia produced a remarkable record of high and sustained economic growth. The countries of this region are currently experiencing some of the strongest economic growth in the world. Relative economic power is shifting from the developed world to Asia, and this shift will likely endure for a long time. According to Asian Development Bank (ADB), sometime between 2020 and 2025, Asia's share of the world's total gross domestic product (GDP) could rise to an estimated 40 percent.

What drives this momentum? Why is the transformation so evident now? In this chapter, we examine how all this started and what sustains it.

Introduction

World War II devastated Asia, seriously scarring many countries, especially in East Asia. With the collapse of imperialism and colonialism after World War II, Asian countries began to address the social and economic legacies of war as sovereign and autonomous entities. Circumstances demanded that governments address seemingly intractable problems such as weak to no economic infrastructures, extreme poverty, and underdeveloped market systems.

The first Asian country to "recover" from World War II was Japan. Then emerged the "Asian Tigers," a cluster of countries in East Asia, followed by the Southeast Asian countries. From Japan, to India, to Vietnam, the economic prowess of Asia has elicited world attention.

Each of these Asian countries has unique factors contributing to its respective economic success. This chapter examines a short economic history of a few of these countries so that you can more fully understand the talent shortage that currently threatens Asian economies.

Japan

The story of Japan's miraculous rise as the second largest economy in the world after the United States began in the 1960s. It took approximately 50 years for Japan to successfully double its living standards after the World War II.

Japan's membership to the World Bank and to the International Monetary Fund (IMF) in 1952 helped to finance much of its infrastructure and economic development. Its sheer perseverance, determination, and dedication in its post-war reconstruction efforts paid off handsomely. Indeed that was the "Made in Japan" era when Japan set the global standard of producing quality products at a much lower cost than its western counterparts.

For Japan to continue to command economic presence in Asia, it cannot rest on its laurels. It must continue with its plan to upgrade its economy and relentlessly plan the "big brother" role for its Asian counterparts. It has to sustain its high economic boom that depends on industrialization and heavy exports, coupled with high technology in high-value-added industries, such as industrial robots, computers, and semiconductors.

At the same time, Japan has its fair share of challenges with rising costs, an increasing aging population, and low fertility rate. It is predicted that by 2020, its youth population (aged 20–34 years old) will decrease by 31 percent.[2] The eyes of the world are on Japan watching how it deals with these challenges while working toward its economic goals.

China

Although Japan today remains the second largest economy in the world after the United States, China has made significant economic progress since its entry into the World Trade Organization (WTO) in December 2001. For the past decade, China has dominated at low-cost manufacturing. So, it is no surprise that this Asian Tiger has often been referred to as "the world's largest factory or workshop."

China's economic advance started when President Deng Xiaoping led China into free-market economies and opened its trade doors to the world in 1997, practically shuttering its communist economics system. This daring and visionary move by President Deng changed China's fate and destiny. He helped transform an emerging market into one of the world's most powerful economic players. In fact, he set the stage for China to become a global market leader. And now, some predict that the inevitable is imminent: China might soon overtake the United States as the key driver of the global economy, a position the United States has held since the end of World War II.

If we take a closer look at the statistics, China, which accounts for approximately one-fifth of the world's population, is prepared for better economic times. China has already overtaken the United States as the country with the world's largest number of Internet users. For the past three years, China has also been the world's largest exporter of information and communications technology (ICT). It now has the same number of mobile phone users (500 million) as the whole of Europe.[3] By the year 2015, China's research scientists and engineers might outnumber those of any other country. By the year 2020, it aims to annually spend a larger share of its GDP on research and development (R&D) than the European Union.[4]

With such dramatic and rapid rise in economic growth, comes a heavy price—rapid urbanization. For the world's most populous country with 1.3 billion people, the statistics are staggering. China's cities are set to add 325 million more people, including about 230 million migrants. Based on the current trend, the country's urban population will reach 926 million by the year 2025 and top 1 billion by the year 2030.

Let the data speak for itself: 221 of China's cities will have more than 1 million residents (compared to Europe, which has 35 cities today). In addition, 5 billion square meters of road will be paved, 170 mass-transit systems could be built, and 40 billion square meters of floor space will be built in 5 billion buildings. (Of those new buildings, 50,000 could be skyscrapers, the equivalent of ten New York Cities). And, by 2025, the GDP will have multiplied by five times, and the urban economy will generate more than 90 percent of China's GDP.[5]

That is one mammoth record to match.

The Fortune 500 multinational companies that currently operate in China had been conducting business in China for a long time when they first set foot in that country. Further, since joining the WTO, China has been flexible in its rules and procedures for foreign companies. These multinational companies have grown and expanded their businesses from major cities to smaller towns or cities within China, reaching out to serve the huge domestic markets, which comprise small- to medium-sized businesses and middle-class consumers.

Today, these multinational companies are reported to be more profitable in China than their other operations in other parts of the world. China, too, benefits from these multinational companies: As these companies transact with their local counterparts, a constant transfer occurs of knowledge, global standards, best practices, and innovative ideas and technologies. With the lessons learned from these multinational companies, China appears ready to globalize its knowledge-based economy.

Hong Kong

The financial services hub of Asia is located at the south of mainland China: Hong Kong. This Asian Tiger that became one of the fastest growing economies in the world, flourished well under the "One Country, Two Systems" policy proposed by China's President Deng Xiaoping. Although the socialist economic system in mainland China is not practiced in Hong Kong, its previous capitalist systems and lifestyle will remain unchanged for at least 50 years until the year 2047.

This arrangement works well for Hong Kong as it continues to draw resources, economic stability, and growth from mainland China. After all, Hong Kong's GDP had at one time been one of the world's most impressive growth rates in the world. Its strategy to adopt an outward-looking policy with export-oriented industrialization paid off. In fact, Hong Kong led the path for the other Asian Tigers to follow with similar successes and achievement.

For multinational companies that have businesses in mainland China, Hong Kong remains a haven for skills and *talent*. Rubbing off from China's economic growth, Hong Kong remains a popular destination for westerners, both from cultural and economic perspectives. After China opened its trade doors to the world, job seekers who were looking for global exposures and foreign assignments from Hong Kong started to flock to China when huge job opportunities were created, especially by multinational companies. Many of these job seekers were sent on such foreign assignments to China to start the China operations in major cities, smaller cities, or towns with lucrative compensation packages.

If China remains economically stable and continues to drive positive growth, Hong Kong will almost be secured of a seat at China's table if Hong Kong maintains its competitive advantage as the *talent* hub. China's success will surely rub off on Hong Kong as Hong Kong's economy largely relies on the services sector for higher labor earnings, and employment prospects and opportunities.

Singapore

Singapore...better known for its capability to provide quality infrastructure services more efficiently as an "efficient business city,"[6] has accomplished nothing more than sheer efficiency and competence.

Singapore owes its great economic success story to the sharp and foresighted leadership of its former minister mentor, Lee Kuan Yew.

The former prime minister of Singapore said, "We learned from the failed policies of countries such as India, Pakistan, Ghana, and Nigeria. Many new nations believed that the way to prosperity was state planning of the economy with socialist states being seen as models. But the third-world leaders who had demolished old regimes did not take into account that building a new order demanded different capabilities. So my strategy was to turn Singapore, a third-world island, into a first-class oasis, by establishing up-to-date facilities in communications and transportation."[7]

Lee Kuan Yew's brilliant strategy paid off handsomely when Singapore became a first-world country within a short period of time with its unprecedented GDP of 12.7 percent from 1965 to 1973. If any country has the sheer perseverance to push itself out of the doldrums of global economic tsunamis, it would be Singapore. It should be proud to have remained resilient despite the global recession that hit in the early 1970s with the collapse of oil prices, and then the second global oil crisis in the late 1970s. Singapore escaped unscathed.

Since then, Singapore's economic performance has been a stellar one—that is putting it mildly. To enhance its competitive advantage, the city-state embarked on a new strategy in innovation that took off in 2000. Emphasis has been on applied and technological innovations in the manufacturing sector, entrepreneurial opportunities in the services sector, and the "creative industries" specifically in the areas of developing individual creativity, skills, and *talent*.

Its focus has now borne fruits as evidenced by the latest economic report released by the Singapore government. In the second quarter of 2007, its GDP expanded by 8.6 percent year-on-year as compared to 6.4 percent in the previous quarter. That means its economy grew by 7.6 percent in the first 6 months of 2007, with sectors such as financial services that grew by 17 percent in the second quarter as compared to 14 percent in the first quarter, and construction, which also registered double-digit growth.

It looks like nothing can slow Singapore down. It will certainly not rest on its laurels. Its quest to transform its economy into an Asian giant will continue to see heavy diversified investments in various wide-ranging industries by the Singapore government. Further targeted drive is evident in the tourism, biotechnology, multimedia, retail and leisure, and medical technology industries that will definitely spearhead its human capital investment.

As an illustration, two integrated resorts expected to generate 35,000 jobs are ready to boost Singapore's economy.[8] The Marina Bay Sands, a business-focused integrated resort (IR) with extensive convention facilities is scheduled to open in 2009. The second IR, Resorts World at Sentosa Island, is expected to open in 2011. Singapore will also host global events such as the world's first Formula One night race and the world's first Youth Olympics Games. Singapore has become yet another *talent* hub with unmatched credentials and perks for skills in Asia.

India

Not too far away is India that is catching the world's attention after decades of slow growth and extreme poverty since its independence 61 years ago. Having successfully implemented its economic reforms in 1991, India is now ready to take the world by storm. If India can sustain its healthy GDP growth over the next two decades, scores of India's poorest communities can be greatly eradicated. To put things in context, India's real GDP averaged 8.6 percent over the last four years, with an expected growth of 9 percent a year through 2012.[9]

Its robust economy has made India home to world-class companies across major industries such as information technology (IT), automotive, steel, telecommunications, manufacturing, and pharmaceuticals. Today, India's executives feel optimistic about their country's economic performance and expectations for workforce hiring and employment opportunities.

Consider the IT industry, for example. Because of its high number of IT workers, India has built a sophisticated human supply chain. Its secret recipe in a thriving IT environment is to merge people and processes in an efficient manner. Home to close to 1.6 million IT employees,[10] here lies the *talent* who write software for Western and multinational companies, and manage and handle back-office operations electronically for these companies. Such is the advent of technological progress that has invariably put India on the world's technology map.

The telecommunications sector is another Indian success story. More than half of its urban population either have mobile or fixed-line telephone subscriptions. Today, India is the fastest growing market in the world for mobile subscriptions. The pace of its technological growth and advancement rapidly continues at dizzying heights. Coupled with the fact that it is a lucrative breeding ground for competitive skilled *talent*, India has become an attractive destination for foreign investors to focus on human capital investments for highly skilled resources.

In its perseverance to globalize its economy, local Indian companies have taken great strides to compete with their Western counterparts. For example, Wipro's focus has been on certification and continuous improvement to meet the highest internationally recognized standards for software development. Further, India today hosts R&D centers for more than 100 multinational companies and is ranked as the sixth most popular location in the world.[11]

The Tata Group, the country's largest private enterprise, now produces the world's cheapest car (priced at "1 lakh," or 100,000 rupees, equivalent to US$2,500 per car). When asked how he would position India in a global economy, Ratan N. Tata, the chairman of the Tata Group, said, "If we plan our cards right as a country, we could be a supplier of IT services and IT solutions to the world. We could also be a product development centre for pharmaceuticals. We could be a very good global R&D centre in biotechnology and in some of the emerging technologies, such as nanotechnology, provided we really give them the focus they would need."[12]

The Next Asian Tiger: Vietnam

Vietnam, once widely anticipated as the *next* economic "Asian Tiger," is now emerging as a regional economic power. Today, with more than 8 percent annual growth, this "new kid on the block" is one of Asia's fastest-growing countries after China. The Vietnam War scarred the country badly and left its economy nearly dead. With its resilience, it picked itself up and managed to revive itself from three decades of war destruction.

Vietnam has come a long way since its early *doi moi* days after the country took on a vigorous drive to reform its economy. In essence, the reform efforts undertaken were directed at developing a multisector market, and to reform its financial and legal systems, to create an environment conducive for foreign direct investment (FDI). These reforms resulted in a stable economy with rapid growth spurned by large increases in international trade and heavy presence of multinational companies in Vietnam. The punch line is that Vietnam's economic structure has transformed from an agricultural-based country to one dominated by the industrial and services industries.

This new kid on the block has not sat on its laurels since. Vietnamese people are a dedicated lot who knows what real perseverance is. They know that the country needs to network with others in the region and around the world to sustain its healthy and stable economy. They recognized that the country needed to gain entry as a full member of the association of Southeast Asian Nations (ASEAN), which occurred in 1995, where it would demonstrate its commitment to economic cooperation in the ASEAN region to the opening up of its economy and to trade liberalization.

Fueled with its desire to live up to its title of the "new Asian Tiger," Vietnam then signed a cooperation agreement with the European Union on economic relations, commerce, and science and technology. In recent years, Vietnam joined the WTO and ended its 12-year communist rule. With a stable foundation now set, Vietnam focuses on its socioeconomic development plans, including building and enhancing its human capital to meet global and regional demands.

Vietnam's economic progress and prowess has been carefully watched by its Western counterparts and multinational companies. These "observers" were encouraged when the ADB[13] forecast Vietnam's economic growth to be 7 percent in 2008 and to rebound to 8.1 percent in 2009, as compared to 8.5 percent in 2007. In its annual publication, the *Asian Development Bank Outlook 2008*, Vietnam revealed that its year average inflation is forecast at 18.3 percent in 2008 but will slow to 10.2 percent in 2009.

There are enough opportunities for everyone in Vietnam. Because doing business in China and India is slowly becoming more and more expensive for multinational companies, Vietnam is commonly considered a viable alternative. In fact, Vietnam's current positive and encouraging economic performance has occurred at an opportune time when FDI in infrastructure, industrialization, and human capital development begins to take center stage.

Indeed, the next Asian Tiger has arrived.

The U.S. Economic Slowdown

In April 2008, "The Great Depression" was flashed as the front-page headline of the *Independent,* a British newspaper, joining the flurry of gloomy news about the economic slowdown in the United States. The tumultuous economic growth in Asia has taken its toll on the U.S. economy. Sadly, Asia's continued stellar economic performance in terms of job opportunities, innovation, and positive change has invariably added more doom and gloom to the dismal U.S. downturn.

It seems lately the Americans awake to one bad news story after another. Food and healthcare costs continue to escalate; housing prices and the Dow Jones Industrial Average drop, showing no sign of recovery; bank loans and credit facilities become tighter and more stringent; fear of unemployment sets in with current salaries just waiting to be axed; and year-end bonuses might soon be unheard of. And the list goes on. In short, the U.S. economy is heading into the doldrums with little prospect of any help anticipated at the end of the dreary road. Worst of all, this depressing situation could continue for the next two to three years.

The biggest area that has been hit is housing, which is everyone's biggest asset. And Americans are no exception. In fact, the U.S. housing market has been deteriorating for the past few years, and no one paid attention. Then the prices of houses continued to plunge at a fast pace, as more and more houses become empty and unsold, with foreclosures by banks at an all-time high.

As an illustration, the two largest mortgage companies, Fannie Mae and Freddie Mac, together hold about half of the country's $12 trillion in mortgage debts.[14] With continuous tightening of credit by the international banks in the United States, this means that there will be few creditworthy buyers who can qualify for new homes, resulting in a slowdown in the construction industry. Other sectors such as manufacturing and retailing are also badly hit.

Inevitably, this downward trend with fears of unemployment looming in the near future has affected the already shrinking U.S. consumer spending, particularly in cars and luxury goods. Retail sales are sliding with lower and lower imports forecasted. However, at the other end of the scale, it is all bushy-tailed and bright-eyed for China. Fueled by its growing huge domestic demand, China's retail spending is on the upward trend for both locally produced products and imported ones.

A growing concern is that Chinese imports in the United States will take a hit on consumer spending. Although these Chinese imports offer cheaper alternatives with wider varieties to Americans who are tightening their belts, it might be a matter of time before the United States cuts back on its imports, including cheaper Chinese imports. When demand is low triggered by austerity drives to cut back on spending, even cheap Chinese goods might no longer be affordable. The World Bank estimates that if U.S. consumption of Chinese goods falls by the equivalent of 1 percent of GDP, this could knock 0.2 percent to 0.5 percentage points off China's GDP growth.[15]

However, with fears of a global recession imminent resulting from the backlash of the extreme recession in the United States, the rest of the world will not be spared. Economic growth in Asia will likely slow over the coming year. As the saying goes, "When the U.S. sneezes, the rest of the world catches a cold." At the time of this writing, it seems like it will be a bad cold, one that might take longer than usual to recover from.

Summary

The continuous and rapid economic growth in Asia, which shows no sign of slowing down, directly and negatively impacts the U.S. economy. Because the U.S. domestic demand is shrinking, multinational companies, especially the U.S.-based ones, know that their survival largely depends on international markets, particularly in Asia, which has an undying thirst for natural resources, know-how, technology, infrastructure, and talent.

Multinational companies know that they need to assimilate into the multiple cultures across Asia, anticipating the discerning taste of Asian consumers. This is a tall order today because it is the only pragmatic way for them to ensure sound returns on their Asian investment.

For Asia's home-grown businesses that traditionally have been passed down for generations by their forefathers, it is important for the older generation and forefathers to appreciate and understand that times have changed and how things have changed. The Asia today is no longer the same as the Asia of yesterday. Western cultures and influences have made their significant impact into this part of the world through colonialism and imperialism.

To stay fiercely competitive in this age of globalization in a "flat world,"[16] these traditional Asian businesses need to compete against multinational companies that have deeper pockets, more resources, and advanced technology.

Asian businesses need to accept the hard fact that the multinational companies have already made their mark in Asia today with their increased geographical and territorial coverage.

Against this competitive economic backdrop lies one interesting factor that has become a key differentiator and a unique selling proposition for the survival of businesses of the future. That factor is something we have all taken for granted for decades that is slowly becoming a scarce commodity: *talent*.

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