Asia Business Letter

The Swedish Trade Council's newsletter about your business in Asia. The headlines of this issue are as below.

Asia Business Letter, No 2

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EXPORTRÅDET
SWEDISH TRADE COUNCIL

Japan
Ahead of the ICT pack

The world's second largest economy and most high-tech telecommunications market presents exciting opportunities for Swedish companies ready to take on Japan's unique challenges.

As most Swedish information and communication (ICT) companies focus their export efforts on neighbouring Europe and then the US, something quite remarkable is happening far away on the other side of the planet. When it comes to telecommunications, Japan is the land of the superlatives, with a third generation (3G) penetration rate of 72 per cent, compared to just 20 per cent in Sweden, 85 per cent mobile Internet penetration rate, and higher data revenues than any other market in the world.

In fact, Japanese operators are thought to be at least three years ahead of their counterparts in Europe, and the race is on between incumbent telcos and newcomers to monetise their newly differentiating products.

"Traditionally," says Johan Rugfelt, Trade Commissioner of the Swedish Trade Council in Japan, "Japanese companies developed all their products in-house, but that climate is changing. New players are entering the market, and that is making competition more intense, and this means that things have improved in terms of buying solutions from foreign players."

The new players include EMobile, which launched a pure data service in March this year, and ACCA Networks, which was awarded spectrum in the 2.5GHz band in May 2007. IPMobile plans to launch a wholesale TD-XDMA service service in 2008, and Willcom operates the only PHS system in Japan, based around flat-rate data plans.

These new players will bring even fiercer competition to a market that is desperately seeking ways to create revenue from flat-rate data services, road navigation, e-money, mobile book and music downloads, mobile TV, or simply handsets. In the last category, after all, Japan is probably the world's most competitive market, with close to 100 new handset models hitting the market every year. The biggest thing in telecoms at the moment is also big in Japan, though still nascent - so-called triple-play, a package deal for voice, broadband Internet and television - and presents opportunities. Security is also needed for an ever-growing volume of B2B and B2C commerce, which has grown more than six-fold since 2000.

Japan accounts for 14 per cent of global ICT turnover, and last year Swedish ICT exports to Japan amounted to around SEK 2.3 billion, down from a SEK9.2 billion peak in 2000. However, that peak was due in a majority part to massive investment in 3G infrastructure, a project that Ericsson played an important role in.

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Swedish ICT exports are still led by Ericsson, but as Rugfelt points out, “there are Swedish companies that have grown around Ericsson, and they’re very cutting edge. And when it comes to cutting edge, this market is ahead of everything.”

This does not mean that opportunities will come easily to Swedish companies in Japan. Despite the fact that there are some 1,200 ICT companies in Sweden, only 30 have a Japanese presence, and of those only a dozen have been in the market for five years or longer. One of the reasons, Rugfelt concedes, is that Swedish companies tend to look to Europe as their first exporting destination, and then to the US market, but he also admits that Japan presents particular problems.

“Swedish companies tend to be small, and Japanese companies are very picky,” he says. “You need a strong partner to help you in Japan, because you need a strong presence in the market.”

This is a way of saying that, despite its high-tech prowess and the fact that its economy has in recent years opened up enormously, Japan remains a very particular market, with many localised standards and famously choosey consumers. Market entrants face very tough competition, Japan-centric technologies and ways of doing things, extremely rigorous demands in terms of quality and specifications, a market marked by dizzying speeds of product development, not to mention the language, which takes many years to learn to any level of proficiency.

But theses difficulties are not insurmountable, as Swedish companies such as Ericsson, Telelogic, Intentia, and Axis have already proven. For Rugfelt, the STC in Japan can help smooth the road for companies looking to take advantage of the opportunities in Japan’s ICT market.

“We’re helping Swedish companies connect with potential customers,” he says. “And then, step two, and more importantly, we’re helping them find a local partner. That’s how the STC can help.”

Swedish Trade Council

Taiwan
Mobile island

In a world first, a government initiative aims to bring island-wide broadband wireless Internet to Taiwan.

With the awarding of six WiMax licences - three for the north of the island and three for the south - in late July this year, Taiwan is set to go ahead with its plans to bring broadband wireless Internet to everybody who has a device to access it.

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The project is part of the island's Mobile-Taiwan (or M-Taiwan) project, which aims to bring 10 cities online using a combination of WiMax, wireless LAN, and mobile phone networks, making Taiwan the most connected place on the planet. Far EasTone Telecommunications, which was awarded a licence for southern Taiwan, looks likely to lead the way, announcing in late September that it plans to launch its WiMax services in southern Taiwan in late 2008 or early 2009, also indicating it is looking at a possible partnership with one of the northern licensees.

M-Taiwan is widely seen as a test- and launch-pad for new technologies and applications.

Swedish Trade Council

China
The low-cost challenge

It is time for the management of companies to ask how their business model should be adapted to meet the challenge of low-cost, home-grown Chinese rivals that are fast expanding into international markets.

Around 60 per cent of Chinese exports come from foreign companies producing in China, and in some segments of the high-tech sector this figure is as high as 95 per cent. However, Chinese companies and the government clearly have ambitions that China climbs up the value chain and takes a larger share of exports through creating leading brands.

This will undoubtedly pose challenges to foreign companies; even those with China operations with low cost, because the strategy of most Chinese companies is to use low cost to achieve competitive advantage.

This is not exactly new. A number of Chinese companies have used comparative cost advantage to penetrate markets that foreign companies previously commanded. Their strategy is simply to provide customers with more for less. This might include low-cost, high-tech products, taking a wide range of products to mass market, or turning specialty products into volume business.

Notable Chinese companies that have applied this strategy include Haier (home appliances), Shinco (DVD and other home electronics), BYD (rechargeable batteries), ZPMC (port machinery and cranes) and Nuctech (x-ray equipment for vehicles and containers). Few of the many other Chinese companies adopting similar strategies are well known in Sweden. Some are sub-suppliers to other brands, while others have started as sub-suppliers, built volume and then their own brand. Still others have started as research projects within state-owned or government-supported research centers, later developing their own products and selling them under their own brand name. Some have even acquired their former customers, fast-forwarding production, distribution channels and business volume. Probably the best known example of the latter is Lenovo, which acquired IBM's PC business.

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While low cost is fundamental to the strategy of Chinese companies looking to wrest market share from foreign rivals, the ability to adopt innovation and technology in a cost-efficient way is also essential, as is the ability to adapt production processes so they match the special conditions of China.

Having experience of building market share in such a competitive environment gives such Chinese companies a competitive edge when they expand into international markets. Typically, they target unexplored markets, dissatisfied customers, and market segments that rivals are not focused on. The success stories already dominate their sectors, and have built corporations that span several countries, if not continents, and this is likely just the beginning.

The implication of this for the management of companies with a presence in China is that it is time to ask how their business model should be adapted to meet the challenge of low-cost, home-grown Chinese rivals that are fast expanding into international markets. For companies that do not have a presence in China, there are questions also: How do we prepare for competition from companies using business models and strategies unlike those we are accustomed to.

One approach is to focus on the weaknesses of such Chinese companies. After all, many of them lack distribution channels, market knowledge and experience of overseas markets, and in some cases they need to develop additional products in their portfolio. This provides the opportunity to create partnerships with such companies in order to jointly develop markets in China and abroad. Indeed, new joint ventures and co-operative partnerships formed with this purpose have already become a trend over the past few years.

On the other hand, it is also essential to consider the total cost picture. How can everything from R&D, sourcing and manufacturing to support functions as HR and IT-infrastructure be undertaken in a more cost-efficient way? Carrying out R&D in China for example will not only reduce costs but also result in products that are more suitable for the Chinese market, simultaneously reducing production costs since R&D staff will likely have used local production knowledge in their designs.

Critics of low-cost strategies in China frequently point out that cost advantages are likely to erode quickly, as they did in South Korea, Taiwan and other so-called tiger economies. But it is worth noting China's huge rural population; Chinese authorities predict that some 200 million of them are likely to move from the countryside to urban areas in search of opportunities, providing a pool of low-cost labour for some time to come.

Similarly, those who complain that China is already as expensive as many other markets are maybe focused on the costs of top executives and specialists. The average salary for most staff in China, however, is still under 1,000 SEK per month, and a new graduate from a master program in system development, with fluent English, for example, can be employed for 4,000-6,000 SEK per month. Cost is going up but studies show that productivity increase even more. In other words, the cost advantage of sourcing, setting up production and developing R&D in China will remain for many years to come.

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Whether you see China as your market or not, low-cost competition is on the way also in the more advanced sectors and in high end segments. The challenge is adapting your business model to meet it.

Torbjörn Yngwe Bäck
Swedish Trade Council in China

South Korea
Opportunities in health

Swedish companies generally need very specific opportunities when it comes to the South Korean market, and a new elderly care centre to open at the end of the year is just that.

A number of factors are converging in South Korea to make its healthcare market a great opportunity for Swedish companies. For a start, despite the fact that South Korea's economy is the 10th largest in the world, and the disposable income of its people is nearly twice that of that average EU citizen, South Korea's healthcare expenditure as a share of GDP - currently just 5.4 per cent - is lower than any other OECD member nation.

Although the opportunities are broad, Swedish Trade Council Trade Commissioner Tarras Delin points to the medical equipment market as the biggest opportunity for Swedish companies. "South Korea has the fastest growing medical equipment market in Asia," he notes, also pointing out that domestic device producers are overwhelmingly small companies that operate in a highly fragmented market.

Other healthcare sectors experiencing rapidly increasing demand include elderly care facilities, which are expected to more than double from a current by 2010. Meanwhile, South Korea is also highly reliant on pharmaceutical imports, currently worth US$2.1 billion annually compared to US$773 million in 2005, and demand is expected to remain steady, with growth of approximately 10 per cent a year. The reasons for such rapid growth include a traditional underinvestment in healthcare, a rapidly ageing population, and recent government policies such as extended insurance policies and improved reimbursement systems.

Nevertheless, growth of Swedish healthcare exports to South Korea, which in 2006 represented some SEK272 million, up from SEK202 million in 2002, have not been growing at a pace that reflects market demand. For Delin, one of the problems is a lack of knowledge about South Korea in Sweden. "Korea is squeezed between Japan, which is the world's second largest economy, and China, which is 'the world's factory', and not many Swedes know very much about the place," he says.

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“When I try to get Swedish companies to do business here,” says Delin, “I have to come up with very specific opportunities in order to catch their attention.”

One such opportunity is the Swedish Ageing Well Centre, which will open at the end of this year. Under the leadership of Dr. Daein Kang, the Daniel Medical Center, and in cooperation with the STC, the Swecare Foundation and the Swedish medical equipment industry, the centre will have just 25 beds, but most of its US$9 million budget for equipment purchases will go to Swedish producers.

The aim of the centre is to achieve exchanges of Korean and Swedish knowledge, technologies and personnel with the objective of providing the best possible care for the elderly population. Furthermore, and even bigger opportunity for Swedish healthcare product manufacturers, says Delin, the centre is a pilot programme for a 300-bed geriatric centre that will be built in 2008 and opened in 2009.

“It’s very important for Swedish companies to be part of the pilot, because it will lead to increased opportunities when the second centre opens, and we hope there will be a further rollout of facilities elsewhere around the country.”

According to Delin, a further eight elderly wellbeing centres are currently in the planning stages. He points out this will be both beneficial to Korea, through the transfer of Swedish knowledge about how to care for the elderly using state-of-the-art technology and Swedish healthcare philosophy, and to Sweden, which will make significant inroads into the Korean market and be able to showcase its innovative solutions to prospective Korean customers.

If Swedish awareness of South Korea is for the most part minimal, this runs the risk of missing out on opportunities in one of the world’s most vibrant economies. Few people realise it, but South Korea, with a population that is just 4 per cent of India’s, has an economy that is larger than the Subcontinent’s, and nearly half the size of China’s. The Swedish Ageing Well Centre is an important step in increasing Swedish exposure to one of the world’s most important and fastest growing markets.

Improving “knowledge about the Korean market must be one of the most important tasks of the Swedish Trade Council and for me personally as the Trade Commissioner here in Korea,” says Delin.

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India
The future is India

After 60 years of independence, India has become the world's 12th largest economy, and Indians are largely confident and positive about their nation's future.

On 15 August, 2007, India celebrated 60 years of independence. Since liberating itself from British colonialism, India's development has empowered its people to achieve remarkable progress in many areas. Today, its annual GDP growth rate of 9 per cent is the second highest of the four so-called BRIC countries - Brazil, Russia, India and China. In other words, the triumph of Indian independence is the birth of an emergent powerhouse, the world's 12th largest economy.

Early post-independence development was largely industrial, and India is now a strong and diverse industrial power. More recently, India has emerged as an outsourcing market leader, commanding around 50 per cent of the global IT outsourcing market, and leading it to be known as the "back office of the world".

Meanwhile, consumption is rising with India's growing middle class of around 350 million people, and by 2025 India is expected to be the fifth largest consumer market in the world. Today, it is the world's fastest growing wireless market, adding almost 7 million mobile phone users monthly to the current pool of 180 million users. The IT, automobile, engineering and textile industries are also important industries, with the latter employing about 10 per cent of India's population.

India's growth can also be witnessed in the increasing numbers of foreign and multinational corporations that are establishing a presence there, while the country is also taking to the global stage in terms of sports. The country has been chosen to host the Formula One Grand Prix in 2010, the European Golf Tour will make its debut in New Delhi next February, and preparations are in swing for the 2010 Commonwealth Games.

Indians are largely confident and positive about their nation's future. However, the country still faces challenges that need to be overcome in order to support continued growth. Dr. Manmohan Singh, India's prime minister, recently addressed some of these challenges in his Independence Day speech. Developing infrastructure, power, roads, airports etc, remains a priority in order to sustain growth in the manufacturing industry and facilitate effective logistics. Moreover, India is in need of more skilled labour to develop the manufacturing sector. All the same, the prime minister noted, the nation stands ready to embrace the world. In the words of Dr. Singh, "Nothing can stop an idea when its time has come", and 60 years after achieving independence, India is no doubt such an idea.

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In that 60 years, much has been accomplished, and the country continues to move on the right track. Popular optimism is sure to take India to even greater heights. As Minister of Commerce and Industry Kamal Nath recently put it: "We no longer discuss the future of India. We say: The future is India."

Usha Jeswani
Swedish Trade Council in India

Malaysia
50 years of independence

Malaysia celebrates 50 years of independence and the country has undergone enormous changes during that time.

Speaking at a recent seminar on business opportunities in Malaysia, Minister for Trade and Industry Lim Hng Kiang noted the enormous transformation the Malaysian economy has undergone over the past 50 years. From an economy that was once reliant on agriculture and mining, Malaysia, he said, had "moved high up the value chain and produced world-class corporate players like Petronas and Synergy Drive ... [while] GDP per capita rose 10-fold to more than RM19,000, leading to vast advancements in the living standards of Malaysians."

The Malaysia the minister was speaking of is a nation that this year celebrates 50 years of independence, and next year 50 years of bilateral relations with Sweden.

In terms of Sweden's Malaysia presence, for the time being the big industrials are dominant, but Swedish consumer products are fast catching up, due to the emergence an increasingly affluent population. With an average per-capita annual income of around US$5,000, and a relatively youthful population, household and children's products, automobiles and so on are attractive markets.

Malaysia continues to develop at full throttle, and policy makers aim for the Southeast Asian nation to be a fully developed industrial country by 2020, a goal that is ambitious but considered achievable. With projected annual average GDP growth of around 6 per cent through to 2010, Malaysia remains one of Asia's leading destinations for offshoring of production and services after China and India.

Meanwhile, Malaysia's membership in the 10-nation Association of Southeast Asian Nations (Asean) is integrating this vibrant economy into a market of some 560 million people in close geographical proximity to the growing powerhouse economies of China and India. Without a doubt, the increasing cohesiveness of Asean as an economic entity is enhancing the overall attractiveness of the region to foreign investors.

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