



BUSINESS OPPORTUNITIES IN ASIA PANEL DISCUSSION

Asian Business Association

Columbia Business School

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On February 27, 2007, the Asian Business Association hosted a panel discussion on business opportunities in Asia. The panel featured mostly Columbia Business School alumni who are industry professionals in countries across the region. They included Mr. Rishav Gupta '04, senior vice president of Aleutian Capital Partners, a private equity firm that has led buyouts of technology and healthcare companies in India; Ms. Henny Sender, senior special writer for the Wall Street Journal, who was formerly based in Hong Kong; Jonathan Lipton '04, vice president of GSC Partners, overseeing the expansion of a real estate fund in China; and Gregory Wang '05, director and head of the China group in investment banking at Cantor Fitzgerald. The panel was moderated by Douglas Guthrie, professor of management and organizations at the NYU Stern School of Business.

Much of the panel's discussion focused on China. Professor Guthrie opened his remarks by declaring himself very bullish on China, calling the country's growth the most exciting set of economic changes in the last 100 years, if not in history. He praised China's leadership for its single-party capitalist system, which has produced superior economic results. "Say what you will about the human rights record," he said, "but they have really done great things with the economy." About 60–65 percent of the economy is now privately owned, a figure that is not too far short of Europe's. The similar growth of India and the smaller so-called Asian Tigers presents many still-undiscovered opportunities for synergy.

The sustainability of China's expansion is of primary concern to investors. Mr. Gupta expressed concern that China could face a shortage of skilled workers that could hamper growth, while Mr. Lipton warned of volatility from the prospect of 400 million underemployed rural workers who are expected to migrate to China's big cities in the next 15 years. 200 million have moved to cities since 1990. According to Mr. Wang, China's bubble might have burst by now if it were a market economy, but the government's skillful management has tempered overheating. Ms. Sender pointed out that the government has guided China through "quality growth," as most of its GDP growth is grounded in strong infrastructure investment.

While China was the main subject of focus, no discussion of Asia is complete without mention of the largest economy, Japan. Ms. Sender commented that she is pessimistic about Japan now, because it has a more antagonistic, us-versus-them attitude toward foreign investors, in contrast to China's extroverted, foreign-driven growth. She recounted recently meeting the head of international strategy for Japan's second-largest steel company, and the executive had never been to India. In light of Korean steelmaker POSCO's substantial investments in India, Ms. Sender found this "inconceivable." In 2006, Japan had the same number of mergers and acquisitions as Spain, a country with a GDP less than one-fourth the size.

Ms. Sender drew another key distinction between American concerns about Japanese economic growth in the 1980s and current U.S.-China relations. In the case Japan, it was U.S. corporate executives who feared cheaper imports and disdained Japan's tight investment and import protections. In today's economic rivalry with China, the competition is between American firms that invest in China and those that do not. American workers are more afraid of China than are executives, who praise China for lower costs and large markets. As Professor Guthrie pointed out, this is a critical difference that is often glossed over by regional analysts.

The panelists discussed uncertainty and skepticism in the United States toward China's growth. China has proved many critics wrong by showing that privatization is not the automatic solution to transitioning to a capitalist economy. State-guided investment and a nominally Communist government have overseen the fastest economic expansion in history. As one audience member pointed out in the Q&A session, Americans are indoctrinated that democracy and the free market are the only means to success. Watching China grow faster than the United States can bring a sense of insecurity and self-doubt about the American political economy model.

Fascinating developments are the unfolding synergies between China and India, which panelists described as natural competitors. Eighty thousand Indians now speak Mandarin, a development that has occurred over the past three years with no government influence. Indians often express concern about China's expanding influence, particularly in Southeast Asia, a region where both countries would like to extend hegemony. However, as Mr. Gupta pointed out, wherever one goes now in India, one finds Chinese managers being trained in Indian management and operations practices. Further to India's advantage, Ms. Sender commented that the great demographic difference between China and India will begin to affect economic growth in the near term: while China's population is aging, India's is very young.

Mr. Lipton introduced the subject that while many countries are cautious and wary of China, China is far more concerned with internal stability than external competition. And perhaps it should be. In 2006, China experienced 74,000 instances of civil unrest. With 400 million people expected to migrate to Chinese cities, the potential for further strife is great. China has no choice but to continue a pro-growth strategy and create as many urban jobs as possible. Internationally, China's leading concern is that a world power could cut off its supply of oil and other natural resources. Although China's military buildup is well documented, it is growing slower than the pace of the economy. Importantly, Mr. Lipton stressed that the buildup is of a defensive, not offensive, nature.

The evolving question of U.S.-China relations looms above any discussion of China's economy. The challenge for the United States is to remain strongly engaged and not to turn toward protectionism. China felt affronted by Congress's tabling of CNOOC's proposed acquisition of Unocal. One panelist suggested that China could tilt more toward Europe, as European companies have expanded in China more aggressively than American ones. Another panelist mentioned that few Americans in China ever identify themselves as such. There have also been trade-related tensions, as the United States just filed a case against China in the WTO, charging that the Chinese are illegally subsidizing exports and discriminating against imports.

However, despite recent hiccups, the United States is by far the leading destination for Chinese students looking to study abroad. There is a deep respect for the American business model, and Chinese see a 'China vs. U.S.' competition as a friendly dichotomy, by which China can match the United States by emulating its best characteristics. There is little sense that Europe would replace the United States as an object of inspiration anytime soon. However, the United States would be very unwise to restrict student visas. Chinese students who come to the United States tend to return home with a very pro-U.S. outlook—if they do not choose to stay outright. Professor Guthrie pointed out that Chinese students who had been migrating to the United States since the 1960s were partly responsible for the IT boom that occurred in the 1990s.

Private equity is a Chinese sector that could use improvement, owing to nationalist laws that restrict foreign ownership. Ms. Sender described the case of Warburg Pincus's buyout of Harbin Pharmaceutical, which turned disastrous after laws forced Warburg Pincus to contract a local partner. Mr. Lipton concurred that private equity is difficult because returns on investment take too long. Chinese assets are often not worth buying because a foreign investor cannot take full control. Rather, a PE fund's best strategy is to take a minority stake in a growth company. Buying excess capacity in a state-owned company would be a mistake.

China's future growth is in two likely areas: rural industries and domestic manufacturing. Expanding China's growth away from the coastal provinces has been a constant challenge for Beijing, and with 74,000 instances of civil unrest and the prospect of more internal migration, one can imagine that much more rural investment is in the offing. Additionally, as China adopts a more consumer-driven growth model and moves away from an export-driven one, more Chinese firms will produce for the Chinese market. Assuming the steady hand of the government guides this growth, China's rise has no end in sight.

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