HERBERT SMITH FREEHILLS

REDEFINING ASIAN BUSINESS

THE FOUR SUPER-BLOCS DRIVING ASIAN AND GLOBAL COMMERCE

Herbert Smith Freehills has advised Asian and international business on the ground in this region for over 30 years.

Over that time, Asia's economies have grown from tentative developing markets into a new global axis of commerce, a transition powered by the growth and evolution of their companies, banks and institutions.

Our lawyers are frequently asked to explain the differences in Asian businesses and to clarify what sets their history, performance and strategy aside from their European and American peers.

We commissioned this report to capture these critical differences, to provide a roadmap to the region’s business written from an Asia insider's perspective, and to guide those working with these companies as their influence spreads throughout the world.

While the data in this report can only be a snapshot of a highly dynamic market, we are confident that the descriptions of Asia's super-blocs of business will endure, and provide an invaluable guide to this growing force in world commerce.

Justin D'Agostino
Regional Managing Partner, Asia, Herbert Smith Freehills

Contents

02 Introduction

05 Part 1: The Old Guard

11 Part 2: The State Standards

17 Part 3: The Young Innovators

25 Part 4: The Asset Hunters

29 Conclusion

© Herbert Smith Freehills 2017. All data correct as at August 2017, unless dated otherwise.

Herbert Smith Freehills is a Hong Kong partnership which is affiliated to Herbert Smith Freehills LLP (an English limited liability partnership). Herbert Smith Freehills LLP, its subsidiaries and affiliates and Herbert Smith Freehills, an Australian Partnership, are separate member firms of the international legal practice known as Herbert Smith Freehills.

The contents of this publication, current at the date of publication set out in this document, are for reference purposes only. They do not constitute legal advice and should not be relied upon as such. Specific legal advice about your specific circumstances should always be sought separately before taking any action based on this publication.

Introduction

Asia as a whole, and corporate Asia in particular, is changing so rapidly that attempting to keep track sometimes seems an exercise in futility. Yet understanding trends in the region is crucial given its gigantic and steadily growing importance to global commerce.

Asia's role as growth engine of the global economy only stands to be reinforced. By 2050, by some estimates, three of the four biggest economies will be in Asia: China and India will take the first two places, with Indonesia fourth.[1]

Asia will also get richer. By 2030, nearly half of the global middle class's US$64 trillion of consumption will take place in just four Asian countries: China, India, Indonesia and Japan.[2] Asian companies will become even more prominent as providers of goods and services for these consumers, and also as international sources of capital and acquirers of assets.

Brute facts about the region's demographics, and even the geographic description "Asia" itself, obscure its diversity and dynamism. Meanwhile, traditional narratives about corporates headquartered in the region – often seeing them as cogs in a vast manufacturing and exporting hub – are narrow and outdated.

Consider, for example, the sheer size and power of Asia's internet companies. In the US, the FANG companies (Facebook, Amazon, Netflix and Google/Alphabet) dominate market-talk; in Asia, the same is true of China's 'BAT' trinity (Baidu, Alibaba and Tencent). Eyebrow-raising figures about these three are easy to find: for example, mobile payments in China last year totalled US$5.5 trillion, *50 times* more than the US.[3] Alipay, which is owned by Alibaba affiliate Ant Financial, had 54% of that market, with Tencent taking 37%.[4] When it comes to social media, Tencent's WeChat is dominant with nearly 1 billion users.[5] Facebook Messenger has 1.2 billion users,[6] but WeChat, as an entire ecosystem, allows much greater functionality.

While their success and scale is founded in China's staggering demographics – and largely closed regulatory environment – all three are entrenched across Asia through a web of direct investments, alliances, acquisitions and stakes. They also have global ambitions.

In this they represent a key trend: Corporate Asia is moving from ascendance to dominance, its growth driven by an array of factors that includes technological disruption but also shifting trade and capital flows. The evolution in strategy, governance, ambition and approach to investing accompanying these trends demands new concepts to understand corporate Asia.

The region's diversity belies generalisations about "Asian business", especially those commonly heard outside the region. To be sure, the growing global influence of Asian (and especially Chinese) firms and capital is evident in headlines published across the world. But read in isolation, without the context provided by on-the-ground experience, they risk leaving a distorted or incomplete impression.

This report provides that context and serves as a roadmap to a better understanding of opportunities in the region. Using insights from experts with decades of experience advising the largest companies in Asia's biggest economies, it rethinks and redefines corporate Asia in the 21st century. It does this by focusing on the most important underlying trends and their evolving impact across four groups of corporate actor in Asia, positioning them in a new light. They are grouped not in traditional terms of country or sector, but by commonalities in profile, strategic development, and the opportunities and challenges that face them. These are the super-blocs driving Asian – and increasingly global – business.

These are the super-blocs driving Asian – and increasingly global – business.

1. The Old Guard

The Old Guard is made up of decades-old companies, most numerous in Northeast Asia, whose size and brand value have been built up over generations. Many are little known outside their home markets; others are global titans including Japan's Toyota, its trading houses like Mitsubishi and Mitsui, and South Korea's chaebol. The Old Guard companies are grappling with forces challenging their business models but have formidable resources.

2. The State Standards

The State Standards are those government-owned or government-controlled companies that often – particularly in China – exert an outsize role domestically and, increasingly, internationally. Among them are Chinese giants like Sinopec, China Construction Bank and State Grid, as well as Indonesia's energy giant Pertamina and its Thai cousin PTT. Given their sheer scale, Asia's State Standards have become increasingly prominent across multiple sectors in the global economy.

3. The Young Innovators

The Young Innovators are the tech firms that are disrupting every business sector they have entered. Most prominent are the 'BAT' trio outlined above, but every country in the region has its wannabe tech titans. As the world is closer to the beginning of "digital disruption" than its end, their power is only likely to grow.

4. The Asset Hunters

Finally, there are the Asset Hunters, defined by their acquisitive nature – whether collecting domestic or overseas assets or bringing international brands or IP to their home markets. Among their number are Asia's many sovereign wealth funds, such as Singapore's GIC and Temasek and Malaysia's Khazanah; Chinese conglomerates such as Dalian Wanda and Anbang; and smaller consortiums pooling capital to seize domestic or regional opportunities.

This report is neither a comprehensive survey of the Asian corporate world nor a catalogue of its most remarkable firms: that universe is too big. Instead it focuses on companies that exemplify key trends, and uses arresting facts and examples to demonstrate the potential and dynamism of Asia's markets* and the issues common to members of each super-bloc.

Despite the bullishness that is inevitable when considering Asia's prospects, it is important to remember the risks that face the region. Geopolitical tensions from North Korea or in the South China Sea could undo the rising Asia narrative. Long-term risks like climate change are also pervasive – and underappreciated. Although such considerations fall outside the ambit of this report they must be mentioned because Asia's continued rise, though probable, is not inevitable, as some of the Old Guard have learned in recent years.

* In the context of this report, "Asia's markets" refers to Japan, South Korea, mainland China, Hong Kong, India and the 10 members of the Association of South-East Asian Nations. Some sources cited may use different definitions.

Part 1: The Old Guard

Definition: Still crucial

Asia's Old Guard comprises non-state-owned companies that are decades old, and whose size and brand value is the result of generations of work. Many are little-known outside their home markets; others are global titans.

Even as tech firms dominate business headlines, Old Guard companies remain crucial to economies across Asia as well as being globally significant. The nine companies in the top 100 firms of *Fortune's* 2017 Global 500 list that could be seen as Asian Old Guard, for example, had combined revenues in 2016 of more than US$1.1 trillion.

Given the history of economic development across the region, Old Guard companies tend to be more numerous in Northeast Asia, although some Southeast Asian energy companies do fit the mould. And while auto companies are among the group's best-known representatives, Asia's Old Guard firms command an extraordinary range of business interests.

This often reflects their beginnings as trading houses and their development into conglomerates – a route followed by Hong Kong groups like Jardines, Swire and Hutchison Whampoa, as well as Japan's vast *sogo shosha* trading houses Mitsubishi, Mitsui, Sumitomo, Itochu, Marubeni, Toyota Tsusho and Sojitz. South Korea's giant *chaebol* Samsung, LG, Hyundai and SK Holdings also qualify. Between them these huge conglomerates are involved in commodities, technology and telecoms, consumer goods, logistics, infrastructure, energy, finance, manufacturing, shipbuilding, insurance and many other areas of commerce.

And while this category includes giants like Samsung and Taiwan's Hon Hai (better known as Foxconn), it could refer also to thousands of smaller companies, some family-owned and many less well known. Not a few are billion-dollar corporations in their own right; to name just two: the Nidec Corporation, a Japanese manufacturer of motors with a market cap of ¥3.4 trillion (US$30 billion), and which like Foxconn counts Apple as one of its customers, and South Korea's Amorepacific, one of the world's largest cosmetics houses, with a market cap of KRW16.8 trillion (US$15 billion).

Powerful though the Old Guard companies are, many in the category, conglomerates and single-sector businesses alike, face a related problem: how to compete in an increasingly globalised world, in which older business models are under pressure. The wise are looking beyond their large (but largely stagnant) domestic markets and core competencies, as well as embracing digital disruption. Both transitions bring challenges, yet the Old Guard companies have little choice if they want to retain their authority.

Old Guard firepower

FORTUNE 500 RANKING	COMPANY	REVENUE (US$M, 2016)
5	Toyota Motor	$254,694
15	Samsung Electronics	$173,957
27	Hon Hai Precision Industry	$135,129
29	Honda Motor	$129,198
44	Nissan Motor	$108,164
71	Hitachi	$84,558
78	Hyundai Motor	$80,701
87	AEON	$75,772
95	SK Holdings	$72,579
	Total	**$1,114,752**

Source: http://fortune.com/global500/

Strategic trends

Old money, old model?

In recent years, many Asian Old Guard firms have been forced to adapt their business models. Take, for instance, Japan's *sogo shosha*. Their rise was linked to the fact that Japan is poor in energy and natural resources; one of their key functions was to secure such assets. Although decades of operating abroad meant they learned how to trade and invest internationally, a focus on resources – in which they doubled down after the 2011 Fukushima disaster – put them at risk of overexposure to cyclical energy and commodities markets. In 2015-16, after a collapse in energy prices, the five largest warned of impairment losses exceeding US$5 billion.[7] That experience has led them to tighten their existing operations and broaden their strategic focus.

Mitsui is a good example: after posting its first-ever loss in 2016, it embarked on a drive to boost its presence in a range of areas that by its standards were non-traditional, including healthcare, where it will invest not only in hospitals and clinics but in pharmaceutical companies and medical device-makers too. That is central to what Mitsui call its "four next-generation growth pillars", recognition that its old model failed to stay relevant.[8]

Some Old Guard conglomerates are also moving into technology areas pioneered by Asia's "Young Innovators" (see Chapter 3). Japan's largest bank, Mitsubishi UFJ Financial Group (MUFG), to take one example, launched a "re-imagining" strategy in May 2017 focused on finding efficiencies through fintech and digital channels.[9] Mitsui, meanwhile, has moved into the Internet of Things (IoT) space,[10] as have many of its competitors, including Mitsubishi. This will be increasingly crucial across a range of future growth sectors, including infrastructure. As urbanisation continues apace in Asia, for example, Smart Cities will rely on IoT to manage infrastructure in a more efficient manner. China aims to have at least 50 Smart Cities, while India wants more than 100.[11]

East Asian *Game of Thrones*

A broader strategic trend can be seen in line with the shifting power of Asian economies. In recent decades, Japanese firms lost out to upstart South Korean rivals in areas such as electronics and shipbuilding. Now, in a Northeast Asian version of *Game of Thrones*, those South Korean winners are at risk of losing their manufacturing crowns to more nimble and cheaper Chinese companies, while the power of Chinese state-owned enterprises (SOEs) is also having a dramatic impact (as we shall see in the next section).

Alliance-building, consolidation and simple usurpation are therefore likely as power shifts continue. In the same way that Sharp, a once-august Japanese manufacturer, was unable to keep pace with its competitors (and was last year taken over by Foxconn[12]), so some large South Korean companies could also lose out in the fastest-growing markets as Chinese competition intensifies.

Chinese smartphone makers Xiaomi and Oppo, for example, already account for 40% of India's handset market. Samsung remains number one for now, with a 27% share, but the Chinese firms saw year-on-year revenue growth of 180% in the first quarter of 2017. Competing with the upstarts will require increased flexibility and the ability to adapt business models, for instance by outsourcing.

Going where the growth is

This reflects another important strategic decision for many single-sector Old Guard firms in North Asia. Aware that their domestic markets are saturated, the decision to acquire assets or expand directly into more markets overseas is pressing. Some of those with war-chests to spend are doing so: motor-manufacturer Nidec, for example, snapped up nearly 30 businesses or divisions of other firms over the past decade, of which more than half were in Europe and the US.[14] Not all are as bold: Japan's Old Guard has often preferred to hoard cash rather than spend it. By 2014 Japanese companies had accumulated some US$2 trillion in cash, equivalent to 44% of GDP.[15]

Others are growing organically: on the FMCG side, for instance, South Korea's Amorepacific – ranked on its 60th anniversary in 2015 as the world's 14th-largest cosmetics company – has entered countries both near (China) and far (the US and Europe) in a bid to escape the limitations of its home market. That is paying off: while domestic sales revenue was up 12% to KRW4 trillion (US$3.5 billion) in 2016, overseas revenue climbed 35% to KRW1.7 trillion (US$1.5 billion).[16]

Challenges and opportunities

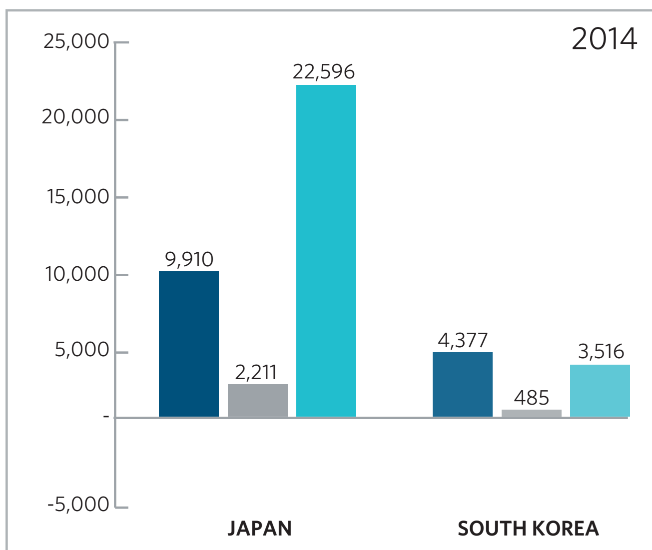
Overpaying, underperforming?

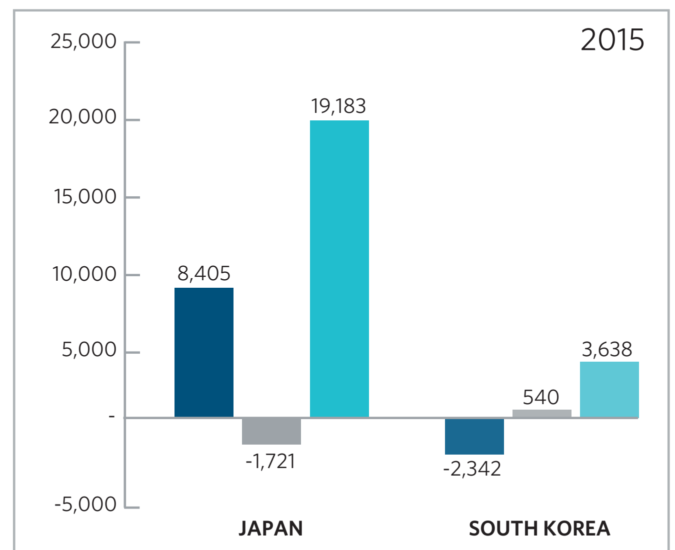
Venturing overseas or buying foreign assets does not guarantee success, as some of the largest Old Guard have learned: Toshiba's purchase of US nuclear company Westinghouse profoundly damaged the Japanese titan; Nomura spent nearly a decade trying to unwind its 2008 purchase of the European and Asian assets of Lehman Brothers; and drug manufacturer Daiichi Sankyo's US$4.7 billion purchase of India's Ranbaxy Laboratories, also in 2008, resulted in write-downs and import bans, and culminated in an arbitration tribunal.

Better due diligence and heightened awareness of international trends should help to avoid mistakes of that sort, as the Old Guard look anew at entering new business lines and going beyond stagnant domestic markets. Yet doing so brings its own challenges. Competing in China, despite that market's vast size, carries risks: tackling incumbents is one; dealing with the fallout from political wrangles is another. That partly explains why Southeast Asia and South Asia are increasingly seen as more attractive destinations.

Old Guard firms that adopt a more international approach will improve their chances of success. In a sign of a more outward-looking Japan, some firms there have followed a trend set by Young Innovators like Rakuten by adopting English as their corporate language, including Nissan, Bridgestone and, from 2020, Honda.[17] Moreover, some Japanese firms are recruiting more foreign directors to their boards to improve governance and broaden the corporate culture: nearly 15% of firms in the Nikkei 225 stock index had at least one foreign director on the board in 2016, up from 11% in 2013 (but compared to 33% for UK FTSE 100 companies).[18]

Money from North to Southeast
Outbound FDI flows, US$m





to China to India to ASEAN 6

NB: ASEAN 6 are Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam. Source: OECD

Dealing with digital disruption

Those trends are likely to continue. So too is the threat of digital disruption. Given that that the world is closer to the start of this trend than its end, Old Guard firms will need to sharpen their awareness of the risks inherent in technological change, and work out how to adapt.

Their response to date can best be described as mixed. While many in retailing have had a long time to adapt to digital disruption, for example, other sectors have failed to move with the times, or have done so too slowly.

Blue Bird, an Indonesian logistics company founded in 1972, is one example. Its taxi business, the nation's largest, did not adapt quickly enough to the threat posed by regional rival Grab, local startup Go-Jek and US giant Uber. It was not until earlier this year, following a near-40% drop in net profits,[19] that Blue Bird partnered with Go-Jek allowing prospective passengers in Jakarta to use either firm's taxis while paying the same fare.[20]

Future unbundling

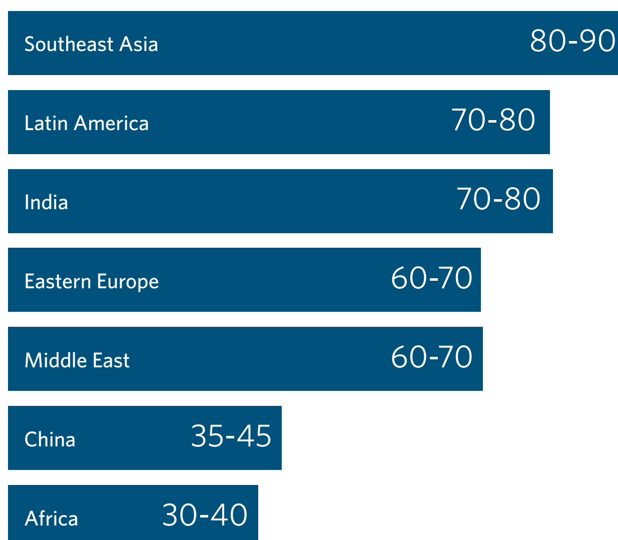
Another major challenge for some of the region's second- and third-generation family-owned businesses involves succession planning: what to do when the patriarch steps down or dies. That sort of unbundling raises an array of issues, from cultural differences around how new leadership will operate, to changes in working style, company strategy and even business relationships.

This is a much bigger issue in Asia than elsewhere, given 85% of companies in the region are family-owned.[21] And this is not just small businesses: while fewer than one in three companies in the S&P500 in 2014 were family-owned, McKinsey estimates that in Southeast Asia, an estimated 80-90% of large companies are family-owned, while in India the proportion is between 70-80%.[2]

Succession can be costly: one study that looked at more than 200 such cases involving family-controlled companies listed in Hong Kong, Singapore and Taiwan between 1987 and 2005 concluded that they lost almost 60% of their value during the transition, most of it in the five years leading up to succession.[23]

The study's author pointed out that China is more at risk than most. Because huge numbers of Chinese family firms were started in the 1980s, many could end up in succession crises at the same time. Another challenge facing China is that many of its "Old Guard" are in fact SOEs – and like state-owned groups elsewhere in Asia, they must reform to ensure their future success. [2]

Family fortunes
Share of large companies that are family owned, %



Source: McKinsey

Part 2: The State Standards

Definition: A thing of the past? Far from it

Asia's State Standards comprise its largest government-owned or government-controlled firms, typically known as state-owned enterprises (SOEs). Popular perception might have it that SOEs as a category are in decline, especially since many are in sunset or cyclical sectors such as hydrocarbon resources, and in some cases are in dire need of rationalisation. Though the need for reform is true enough, as a group they are far from in decline – particularly when it comes to China.

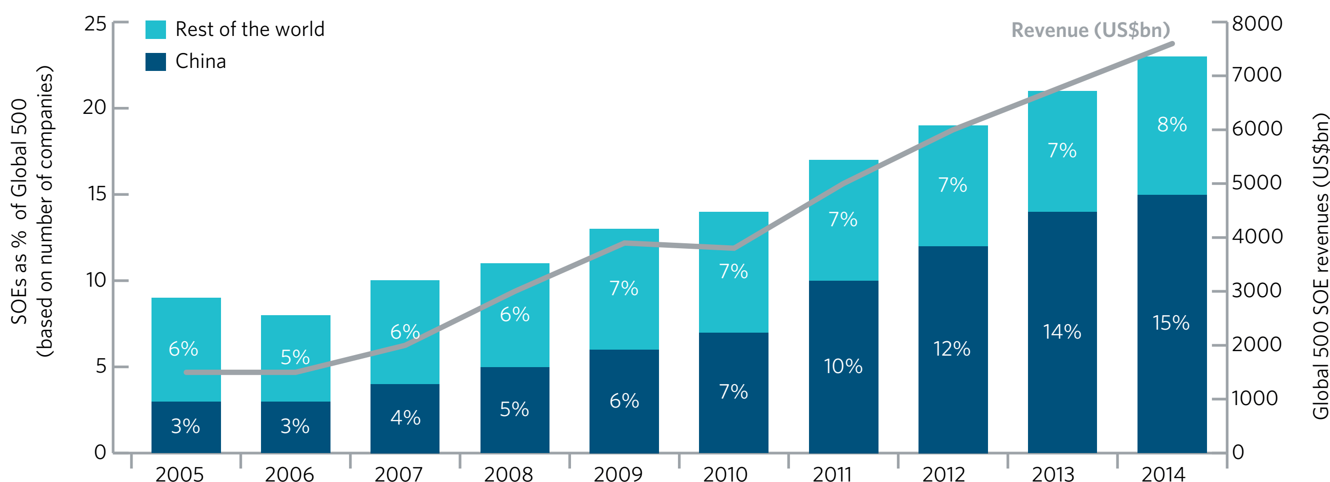
As the consultancy PwC pointed out in a report on the sector in 2015, State Standards have become "an influential and growing force globally".[24] In fact, PwC notes, the proportion of SOEs worldwide among the Fortune Global 500 grew from 9% in 2005 to 23% in 2014, driven particularly by the growth of Chinese SOEs.

Many State Standards in Asia are indeed focused on traditional sectors, such as energy and natural resources – including Singapore Power, Indonesia's Pertamina, Thailand's PTT and Malaysia's Petronas. China's SOEs dominate numerous industries, though, including banking, insurance, construction, heavy industry, logistics and telecoms. Among its largest are behemoths such as Sinopec, State Grid, China Construction Bank, China Mobile Communications, SAIC Motor and China Railway Engineering, to name just a few.

No doubt there are many sectors in which state involvement is likely to diminish, not least because the State Standards will be out-competed by privately owned enterprises. But where policy and commerce intersect at the national level, in areas such as infrastructure, they are likely to get larger still.

A 2017 report by the Asian Development Bank estimates that developing Asia will need to spend at least US$22.6 trillion between 2016 and 2030 to meet its infrastructure needs – over US$1.5 trillion every year.[25] Given that China's average investment needs will comprise nearly 60% of that US$22.6 trillion total, its State Standards can expect plenty of work at home and – given regional geopolitics and increasing expertise – contracts abroad too.

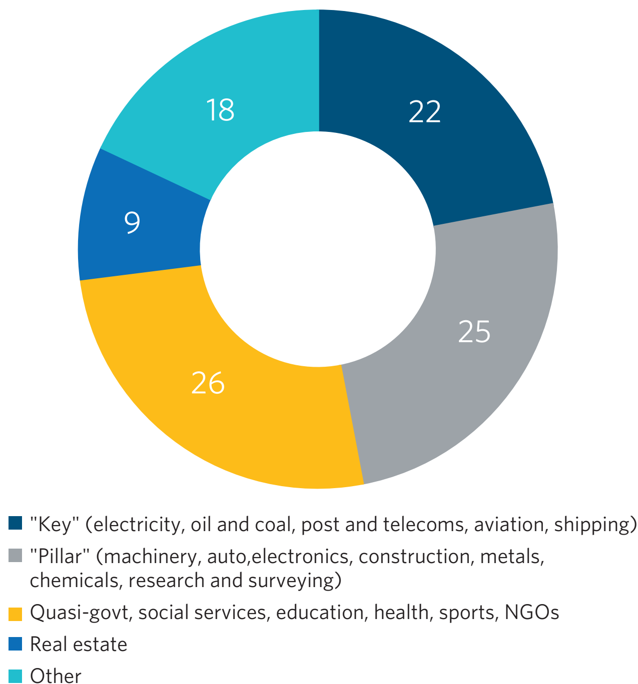
State Standards rising



Source: PwC

China's SOE universe

China SOEs by sector 2013 (%)



Source: Financial Times/China Ministry of Finance

The competition to finance and build infrastructure projects will therefore continue to heat up. In recent years, State Standards such as the Export-Import Bank of Korea have widened their remit from trade guarantees to become key players in infrastructure financing. This year alone, for instance, KEXIM signed a deal with India to provide loans worth US$9 billion for infrastructure projects,[26] another worth US$8 billion for projects in Iran,[27] and offered US$1 billion in concessional loans for infrastructure in the Philippines.[28] And Japan's parliament last year approved changes to the charter of the Japan Bank for International Cooperation allowing it to invest more money into higher-risk projects,[29] a development that is expected to see more JBIC money flowing into infrastructure projects in Southeast Asia.

Strategic trends

Where commerce meets geopolitics

SOEs will be among the prime beneficiaries of Beijing's "One Belt, One Road" (OBOR) initiative,[30] a vast US$900 billion programme that will connect China to Europe and Africa by land and sea, and that will build ports, railways, roads, pipelines and communications – hundreds of projects in key industries in more than 60 nations. OBOR is the epitome of commerce meeting geopolitics, and China's SOEs are being encouraged to take the lead.

It is not surprising that furthering national strategic aims has long been a central function of the State Standards. Resource-poor Japan and South Korea were regional pioneers of that approach in the second half of the 20th century. China's SOEs are now in the vanguard: before OBOR, China's "Going Out" policy encouraged its companies to invest abroad, and in many cases its State Standards have sought out natural resources assets. Energy security has long been a prime incentive for deals, such as PetroChina's US$2.6 billion purchase of stakes in oil and gas fields in Peru from Brazil's Petrobras in 2013.[31]

That can also translate into inbound deals where State Standards partner with peers from other countries. Earlier this year, for instance, Saudi Aramco agreed to invest US$7 billion in a US$27 billion refining development with Petronas in southern Malaysia.[32] And some State Standards are shifting their strategic approach: last year, Thailand's PTT warned that it risks failing unless it adapts to the energy sector's new normal of fewer petroleum resources and a shift to renewables. Part of that approach saw PTT set up a unit to seek out opportunities in new businesses; it also expanded its energy focus into electricity.[33]

Beyond asset grabs

China's SOEs are evolving to be more than mere holders of resource assets or road-builders. As PwC points out, the "Made in China 2025" strategy is explicitly designed to make China's SOEs more competitive internationally and to improve their ability to export high-end products. In short, to position themselves better in the global supply chain.

Early efforts to internationalise beyond key sectors were not always successful, particularly when they involved managing foreign companies. SAIC Motor learned the hard way with its 2004 deal to buy a majority stake in SsangYong, for instance. Five years later, the Chinese giant walked away from the South Korean firm amid a sea of union troubles and accusations of IP theft.[34]

Whatever the truth in SAIC's dispute with SsangYong, acquiring IP *is* strategically important to China and its State Standards as they buy companies abroad. If this can be combined with other key strategic goals such as food security (ChemChina's US$43 billion purchase of Switzerland's Syngenta, a pesticides and seeds firm[35]); or marrying the politically strategic with the commercially promising (China General Nuclear Power Group's decision to take a 33% stake in the UK's Hinkley Point nuclear power plant[36]), then so much the better.

The last of these examples highlights a newer trend by China's infrastructure and construction State Standards: rather than merely building such projects, they are increasingly interested in part-ownership too and, in some cases, in funding schemes in a manner reminiscent of their private equity cousins.

State Grid – the world's largest utility – has raised capital abroad, for instance, last year turning to the market for a US$9 billion loan, some of it in dollar- and euro-denominated tranches, to help finance its purchase of a stake in Brazilian power distribution company CPFL Energia SA.[37] Such solutions, combining overseas capital-raising, overseas acquisition and overseas contracting, are now common as domestic pressures surrounding state funding rise.

Challenges and opportunities

Policy and profits – oil and water?

Given their strategy is not driven by strictly commercial imperatives, it is understandable that SOEs face efficiency problems. A recent report by a Beijing-based research company showed that state companies' return on assets in 2014 was just 4.6%, well below the 9.1% rate of private businesses.[38]

To be sure, it is not just Chinese SOEs that have struggled. After the South Korean government encouraged its SOEs to acquire overseas energy assets, for example, the firms concerned took on large amounts of debt and accrued losses. Korea National Oil Corp's (KNOC) 2009 purchase of Canadian refiner Harvest Energy, for instance, saw its subsidiary lose nearly a billion dollars between 2010 and 2012. KNOC was accused of overpaying for overseas assets as its debt ballooned from KRW3.7 trillion (US$3.3 billion) in 2007 to KRW18 trillion (US$16 billion) by 2012.[39]

The later reversal of South Korea's "energy diplomacy" project saw KNOC and other state champions offload non-core assets in a bid to reduce their debts, amid public anger at the estimated US$3.1 billion lost to the process.[40]

China, meanwhile, has embarked on a policy to consolidate its SOEs in key sectors in a bid to improve efficiencies. So far this has been seen in high-speed rail (the 2014 merger of CSR and China CNR to form the China Railway Construction Corporation); telecoms (seven companies were combined in 2008 into three national carriers – China Mobile, China Telecom and China Unicom); shipping (the merger, announced in 2015, of China Ocean Shipping, or Cosco, and China Shipping) and others. The trend is set to continue, with further mergers expected in coal, electricity, heavy machinery and steel.[41]

Other countries know their state champions too must be rationalised if they want to compete: earlier this year Indonesia announced it was looking to consolidate more than 100 state-owned firms in a bid to make them more resilient to foreign competition.[42]

Will the taps stay open?

Bad deals are among the factors that have fed into increasing pressure to turn off the taps of cheap state funding. As noted, China's State Standards in particular are far less efficient than private sector firms; research by a Beijing-based firm found they generate less than 10% of GDP but get nearly 30% of bank loans.[43] Meanwhile, state backing also provides a ratings boost that effectively reduces the average annual borrowing rate in the Hong Kong bond market for a Chinese SOE from 3.5% to 2%, according to *The Economist*.[44]

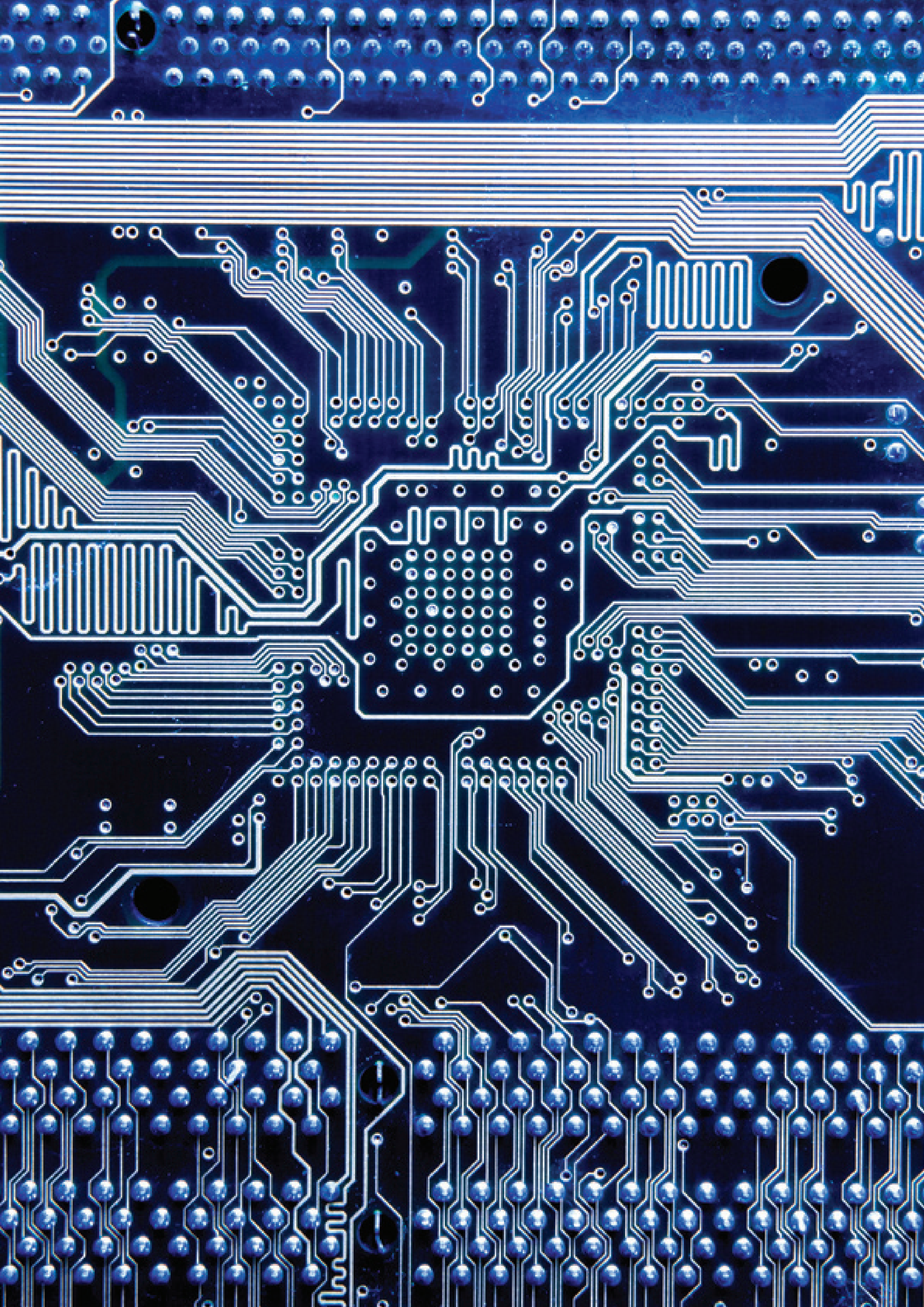
Should state credit become more difficult to justify, governments might be compelled to relinquish some control through IPOs or by selling stakes. Many have already done so – Japan most prominently of all – though as China has shown, privatisation need not follow economic development. Vietnam has gone through a years-long stuttering privatisation programme that has seen it raise billions of dollars by selling minority holdings in numerous State Standards, including an agreement last year to offload a 7.7% stake in Vietcombank, a large financial firm, to Singapore's GIC for US$521 million.[45]

Restructuring and revamping

If nothing else, Asia's experiences with its State Standards have shown the cost of allowing them to remain inefficient and poorly monitored, no matter where they are domiciled: in recent years, State Standards from Japan to China to South Korea have blundered badly in a range of acquisition deals. A recent report by the Chinese government's Audit Bureau on 20 SOEs showed that, for instance, four overseas projects undertaken between 2007-11 by ChemChina cost the firm RMB3.6 billion (around US$530 million) by the end of 2015. Similarly, China Railway Engineering lost RMB1.36 billion (US$200 million) on six overseas projects between 2009-15, in part because of inadequate due diligence.[46]

In addition, national pride in building industrial might has left some countries with massive overcapacity. China's steelmaking firms, for instance, have proved hard to rationalise even as the country seeks to rebalance its economy towards consumption and away from investment.

China's ongoing corruption crackdown is also focusing minds at the top of its State Standards, as are government warnings about overseas acquisitions. Yet it is not just China's State Standards that will need to tread cautiously; its aggressive, private-sector companies – the Young Innovators – are heading abroad in droves. They would do well to bear in mind the lessons learned by the State Standards.



Part 3: The Young Innovators

Definition: Up-ending everything

Asia's Young Innovators are the upstarts using technology to shake up established business models, from online shopping and logistics to finance to media and communications. Some are giants, many more are minnows. Their disruption will go much further yet. Few are more than a decade old, and all have something else common to youth: the ambition to change the world.

Some already have. Alibaba's NYSE listing in 2014 was the biggest in history and, as of mid-July 2017, its market capitalisation of over US$370 billion puts it comfortably in the Top 20 of the world's most valuable companies. Tencent, which is listed in Hong Kong, is not far behind at around US$326 billion. These are China's two most valuable listed companies; 20 years ago neither existed.

China's new titans

As with most aspects of commerce in Asia, China dominates the Young Innovators. Indeed, the rise of Alibaba and Tencent, and hundreds more in China (including search engine Baidu (worth US$63 billion by early July), e-commerce platform JD.com (US$58 billion) and online gaming service Netease (US$40 billion)), is thanks to the parallel rise of both the Chinese consumer and technology.

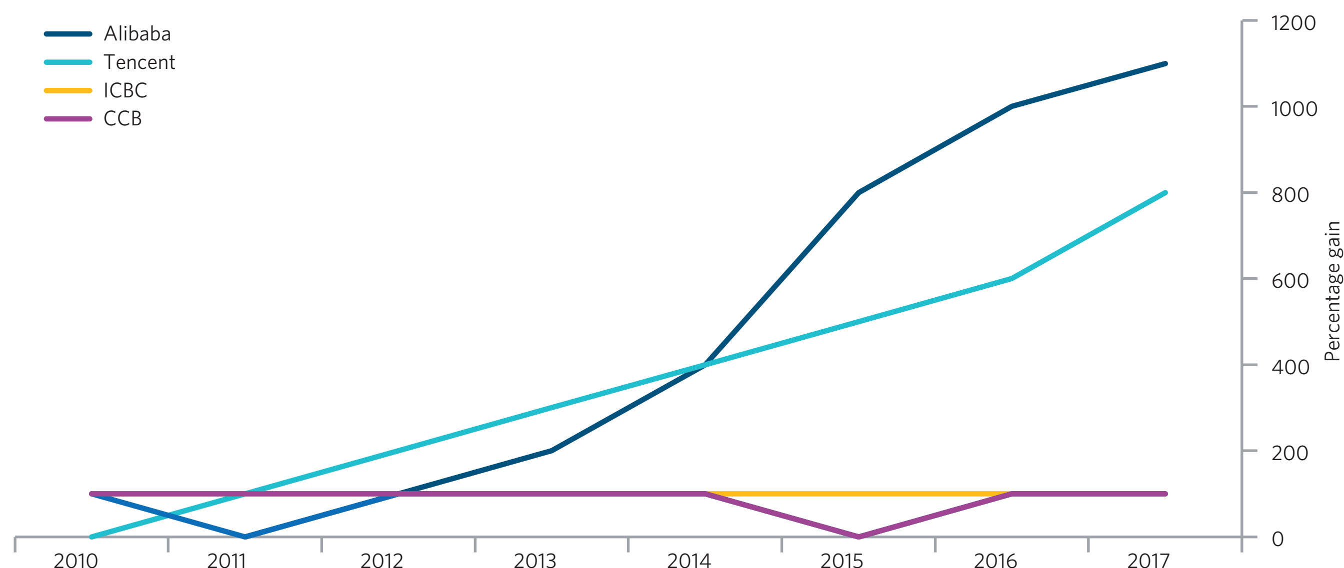
This reveals a key characteristic of the Young Innovators: many of the most successful are consumer-focused firms and have reaped the rewards of a burgeoning Asian middle class: Alibaba's revenues, for example, have increased more than tenfold in six years while Tencent's are up eight times.[47] In terms of revenue growth, State Standards such as ICBC, PetroChina and CCB have performed far more modestly.

Banking on the Asian digital consumer

Across the region, thousands more Young Innovators are scrambling to get noticed. Some are barely known even inside their domestic markets; others are firmly established. CB Insights, a venture capital research firm, keeps a list of "unicorns", private firms with valuations above US$1 billion: more than one-third are Asian and 79% of those are Chinese.[48] But the group also includes Young Innovators looking to tap other massive potential markets

Growth takeoff

Revenue index (June 30th 2011=100) normalised as of 06/30/2011



Source: Bloomberg

in Asia, such as India's e-commerce leader Flipkart, its Uber-competitor Olacabs, Indonesia's logistics and delivery disruptor Go-Jek, and regional ride-sharing and payment services firm Grab, which in July announced that Softbank and Didi Chuxing would invest as much as US$2 billion to fund its operations.[49]

Hundreds more across the region are on the verge of joining the unicorn club. Many are banking on getting their share of a growing Asian middle class. It seems a sensible bet: a recent study by the Brookings Institution calculates that between 2015 and 2022 the global middle class will add a billion people, propelling the total to four billion. Of that extra billion, nearly 90% will come from Asia: 380 million from India; 350 million from China; and 210 million from other Asian nations.[50] The middle class could spend another US$10 trillion globally by 2022, of which US$8 trillion would come from Asia.

Increasingly that will be spent online: eMarketer expects global online sales will reach just over US$4 trillion by 2020, more than double 2016's US$1.9 trillion. The group predicts that Asia Pacific will keep its lead with sales nearly trebling by 2020 to US$2.7 trillion.[51]

Asia's bulging middle

Spending by the global middle class (PPP, constant 2011 billion $ and shares)

	2015		2020		2025		2030	
	#	%	#	%	#	%	#	%
North America	6,174	18	6,381	15	6,558	13	6,681	10
Europe	10,920	31	11,613	27	12,159	23	12,573	20
Central and South America	2,931	8	3,137	8	3,397	8	3,630	6
Asia Pacific	12,332	36	18,174	43	26,519	51	36,631	57
Sub-Saharan Africa	915	3	1,042	2	1,295	2	1,661	3
Middle East and North Africa	1,541	4	1,933	5	2,306	4	2,679	4
World	34,814	100	42.279	100	52,234	100	63,854	100

Source: Brookings Institution, https://www.brookings.edu/wp-content/uploads/2017/02/global_20170228_global-middle-class.pdf

Strategic trends

For the giants, global goals

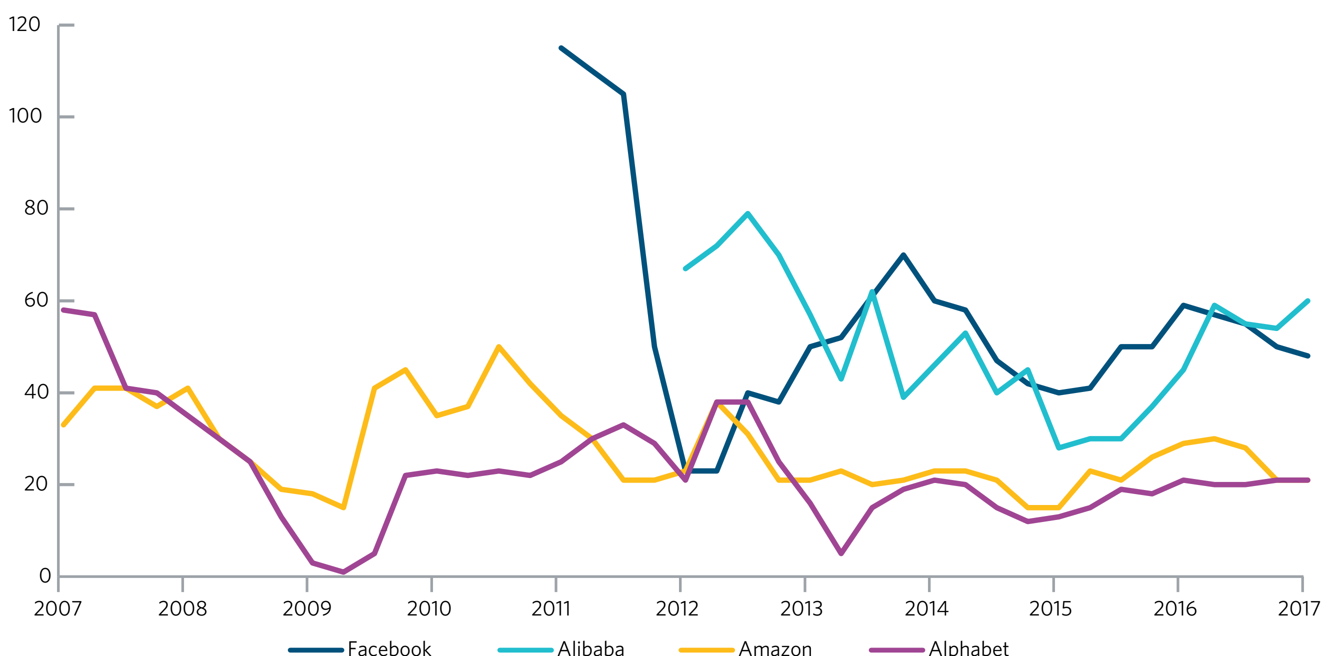
Many of these consumers are already signed up to China's so-called 'BAT' trinity: Baidu, Alibaba and Tencent. All are ambitious but perhaps none more so than Alibaba's founder Jack Ma: last year he told shareholders that within 20 years, "We hope to serve two billion consumers around the world, empower 10 million profitable businesses and create 100 million jobs."[52]

Alibaba is well on its way. Indeed, it is already far more than an e-commerce platform, though on that alone its scale is gargantuan: its various platforms boast more than 430 million annual buyers, and its revenue growth is the best in the business.[53]

Alipay, the payment services arm of Ant Financial, Alibaba's financial affiliate (which has 520 million users[54]), competes with Tencent's WeixinPay (with more than 600 million users[55]) in China's US$5.5 trillion mobile payments sector – some 50 times the size of the US market.[56] Alibaba also has extensive investments in tech companies around Asia and beyond. It owns 83% of Southeast Asian e-commerce firm Lazada,[57] as well as stakes in dozens of tech companies including India's e-commerce firm Snapdeal, US ride-hail company Lyft and China equivalent Didi Chuxing.[58]

Its competitors do too. Tencent – which owns WeChat, China's dominant social media platform with nearly 940 million subscribers – has billions invested in more than 130 companies including Didi Chuxing, India's Flipkart, and Indonesia's Go-Jek.[59] Baidu, China's dominant search engine, also owns stakes in dozens of tech firms at home and abroad. All are indicative of a mindset that sees opportunity globally, not domestically.[60]

Magic carpet ride: Alibaba is the fastest growing internet-related tech giant
Revenue growth (annual % change)



Source: Bloomberg via Financial Times https://www.ft.com/content/cca7f5ea-5567-11e7-80b6-9bfa4c1f83d2

From data to dollars

There is much more to the 'BAT' trinity than just shopping and chatting. In information, Alibaba and its competitors see huge potential. Alibaba, for instance, gathers data on all manner of consumers' behaviour, including what they view, what they buy and how they spend. That translates into more advertising dollars, allows the firm to feed that data back to merchants who can refine their sales targeting, and even means Alibaba can advise merchants what consumers are likely to buy ahead of time. It also allows Ant Financial to assess people's creditworthiness.[61]

Tencent and Baidu have also built huge databanks to mine the information they gather. The winners will carve out a dominant position in China's online advertising and e-commerce markets, which in 2016 brought in revenues of US$930 billion. And because big data is at the heart of artificial intelligence, the consequences from driverless cars to the internet of things could be profound.

To take just one example: in 2014 Alipay moved into the healthcare space via its Future Hospital platform, which allows people to book consultations, research healthcare information and financing, get medical records, and pay for services.[62] Although a new CyberSecurity Law came into force in China in June,[63] data privacy law remains in its infancy across Asia. Data privacy has become an important issue in the West; it could yet become so in Asia.

Domestic bliss

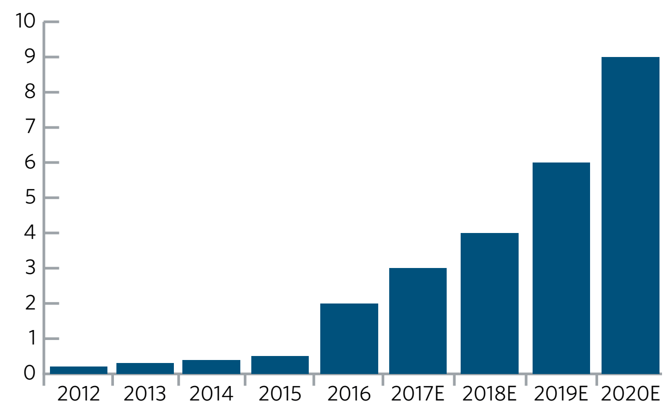
Most of the Young Innovators, of course, lack the scale or ambition of Jack Ma. Many are focused on their region or, in most cases, their domestic markets. Few make money.

Take logistics firm Go-Jek, which partnered with Indonesia's Old Guard Blue Bird taxi company and which is currently valued at US$3 billion.[64] Go-Jek has expanded to 25 cities in Indonesia and, although it has hinted at expanding regionally, to date remains focused on countering Uber and Singapore-headquartered Grab at home, and on expanding its mobile payments business Go-Pay and other services.

That makes sense: Indonesia, with its vast population of more than 250 million, has the fastest-growing internet market in the world, according to a 2016 report by Singapore's sovereign wealth fund Temasek and Google.[65] Consumerism is growing rapidly: by 2025, Temasek and Google estimate the Indonesian e-commerce market will be worth US$46 billion and its ride hailing market more than US$5 billion.

Indonesia online

Internet commerce's share of total retail sales in Indonesia



Source: Macquarie Research via Bloomberg https://www.bloomberg.com/news/articles/2017-05-31/china-s-road-to-world-tech-domination-begins-in-southeast-asia

In short, it makes sense for companies like Go-Jek and Indonesian e-commerce site Blibli to focus domestically. Ironically, Indonesia's poor infrastructure works in such firms' favour: as consumers increasingly value time and convenience over cost, they will be prepared to pay for such services.

Ample funding

Naturally enough Asia's potential has caught the attention of investors, many from China: according to PwC, Chinese firms invested more than US$37 billion in technology abroad in 2016, more than twice the previous year's sum. Much of that went to the region.

Sovereign wealth funds like Temasek and Malaysia's Khazanah are also involved, competing with the likes of Softbank's new US$93 billion Vision Fund, Baidu, Alibaba, Tencent and Fosun, an Asset Hunter conglomerate from China (see Part 4), as well as other TMT firms from China such as Didi Chuxing.[67] Global money is also flooding the region in a private equity battle royale, with names like Matrix Partners, Sequoia Capital and Accel prominent on unicorn term sheets. Indeed, after a relatively slow 2016 – in line with a global slump — venture capital funding for tech in Asia is set to more than double by the end of 2017 with the region's start-ups on track to attract around US$56 billion.[68]

Western tech majors are getting in on the start-up act too, even as their efforts to enter Asian markets directly have had mixed success - in some cases, as with Facebook and Google in China, because their products are banned. Google nonetheless funded China's AI venture Mobvoi in 2015 and recently bought another

Unicorns do exist
Most valuable private tech company in select Asian markets

	NAME	VALUATION (US$BN)	INDUSTRY	SELECT INVESTORS
China	Didi Chuxing	$50.0	On-Demand	Matrix Partners, Tiger Global Management, Softbank Corp.,
India	One97 Communications (Paytm)	$5.7	Fintech	Intel Capital, Sapphire Ventures, Alibaba Group
Indonesia	Go-Jek	$1.8	On-Demand	Formation Group, Sequoia Capital India, Warburg Pincus
Japan	Mercari	$1.0	eCommerce/ Marketplace	East Ventures, Global Brain Corporation, ITOCHU Technology Ventures
Singapore	GrabTaxi	$6	On-Demand	GGV Capital, Vertex Venture Holdings, Softbank Group

Source: Brookings Institution, https://www.brookings.edu/wp-content/uploads/2017/02/global_20170228_global-middle-class.pdf

Indian AI startup, Halli Labs.[70] Amazon has been linked with a number of ventures even as it moves directly into key Asian markets (most recently Singapore) in a hard-fought battle with Alibaba. Facebook has reportedly investigated buying up some of Asia's most promising social media platforms, such as Naver's Snapchat-like Snow.[71]

Japan's Softbank, a Young Innovator that invests in Young Innovators, set up its Vision Fund earlier this year with a focus on cutting-edge technology, including artificial intelligence and the internet of things – what founder Masayoshi Son referred to as helping to "build and grow businesses creating the foundational platforms of the next stage of the Information Revolution."[72]

And it is not only tech startups that look set to benefit from vast amounts of capital being deployed; in an energy-hungry world, the need for clean sources of power, such as solar and wind, will continue to attract funding.

Better to beg forgiveness than ask permission?

This fast-moving world of winner-takes-all means new tech firms prefer to act now and worry later about possible consequences. That nimble approach makes them less afraid to enter new markets and sectors – as Alipay's foray into the healthcare sector in China shows.

Asia's older TMT firms, on the other hand, have a more conservative culture, and fewer have made inroads into this brave, new tech arena. Those that have invested – such as SingTel's US$250 million Innov8 VC start-up business – tend to be cautious and focus on areas they are familiar with. In Innov8's case, that means investing in network capabilities, devices and content services rather than ride-hailing apps.[73]

That is a similar story in the media space: Asia's domestic broadcasters have been slow to innovate, whereas new entrants like Malaysia's regional video-streaming service iflix are growing rapidly – in its case, raising US$90 million this year to expand further in the Middle East and Africa.[74]

Fintech fearlessness

The contrast of impulsiveness and caution is prominent, too, even in highly regulated sectors like finance, where Old Guard banks are held back by compliance officers in a way that does not apply to fast-rising competitors such as Alibaba's Ant Financial.

Firms like Ant scaled quickly before regulators cottoned on: the money market fund that Alipay wallet owners can invest in, for instance, launched in 2013 and is already the world's largest.[75] Growth like this has given them the confidence to go abroad, if for now mainly through acquisitions. Ant owns stakes in Indian e-payment firm Paytm and South Korea's financial services operation Kakao Pay. It is also competing with Euronet to buy US remittance group MoneyGram for US$1.2 billion.[76]

Challenges and opportunities

Compliance reality check?

When it comes to fintech and compliance, some countries in the region are more welcoming than others. Singapore is at the head of the pack. Last year it set up its Committee on the Future Economy that is pro-tech and includes incentives for firms to headquarter in the city-state.

In addition, Singapore's regulators are known to be more understanding of start-ups' needs and business models, and are prepared to help them understand the regulatory landscape. That helped Singapore attract more than 180 startups by the end of 2016, according to research firm CLSA, more than twice as many as Hong Kong.[77]

Both cities are, it seems, more welcoming than many other places, whether by omission or commission. Indeed, when it comes to competition, some are much less welcoming. China, for instance, remains a regulatory walled garden and bars foreign companies from operating in key areas: Google, YouTube, Facebook, Instagram and Twitter are among those with no presence on the mainland.

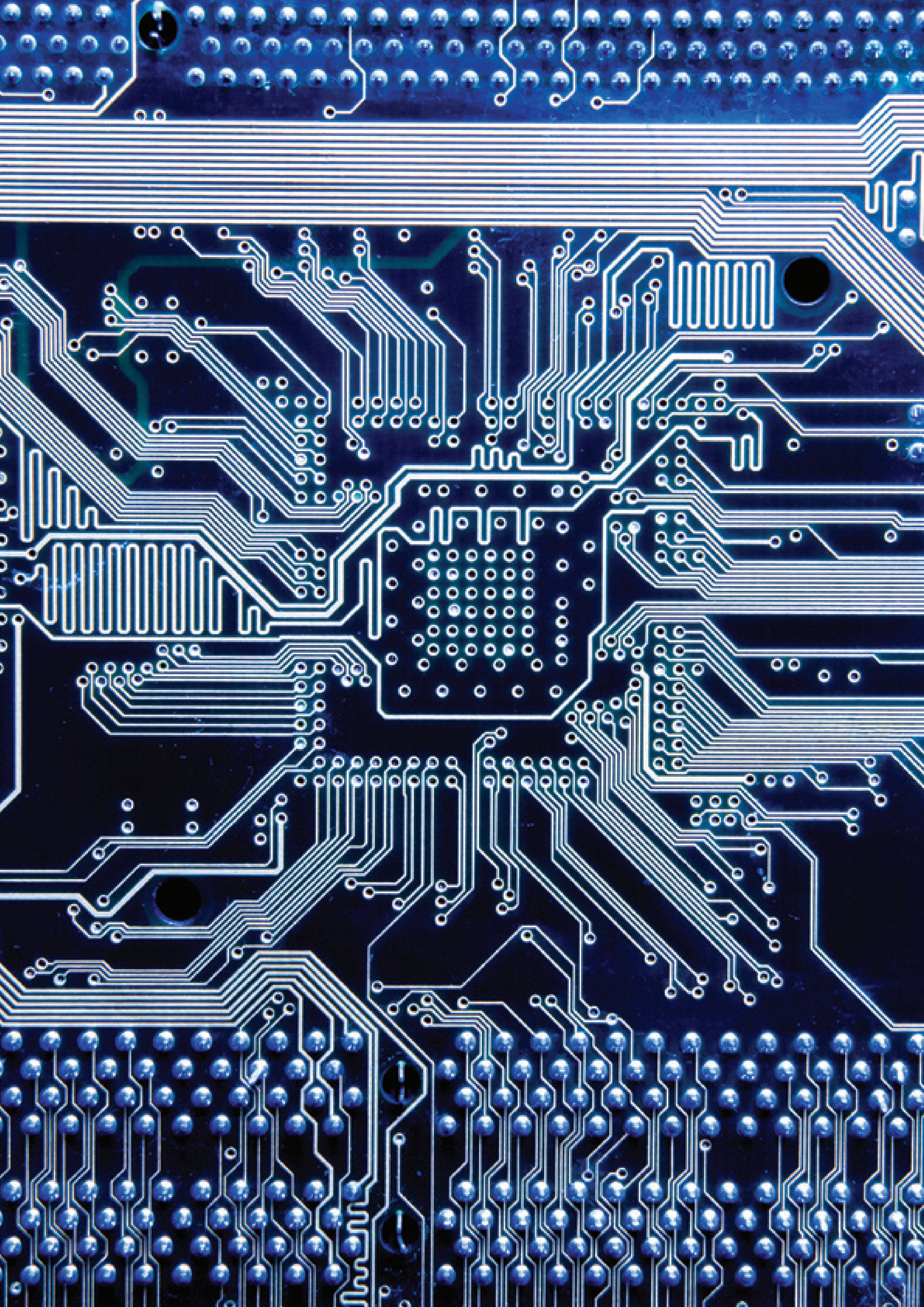
Can data go global?

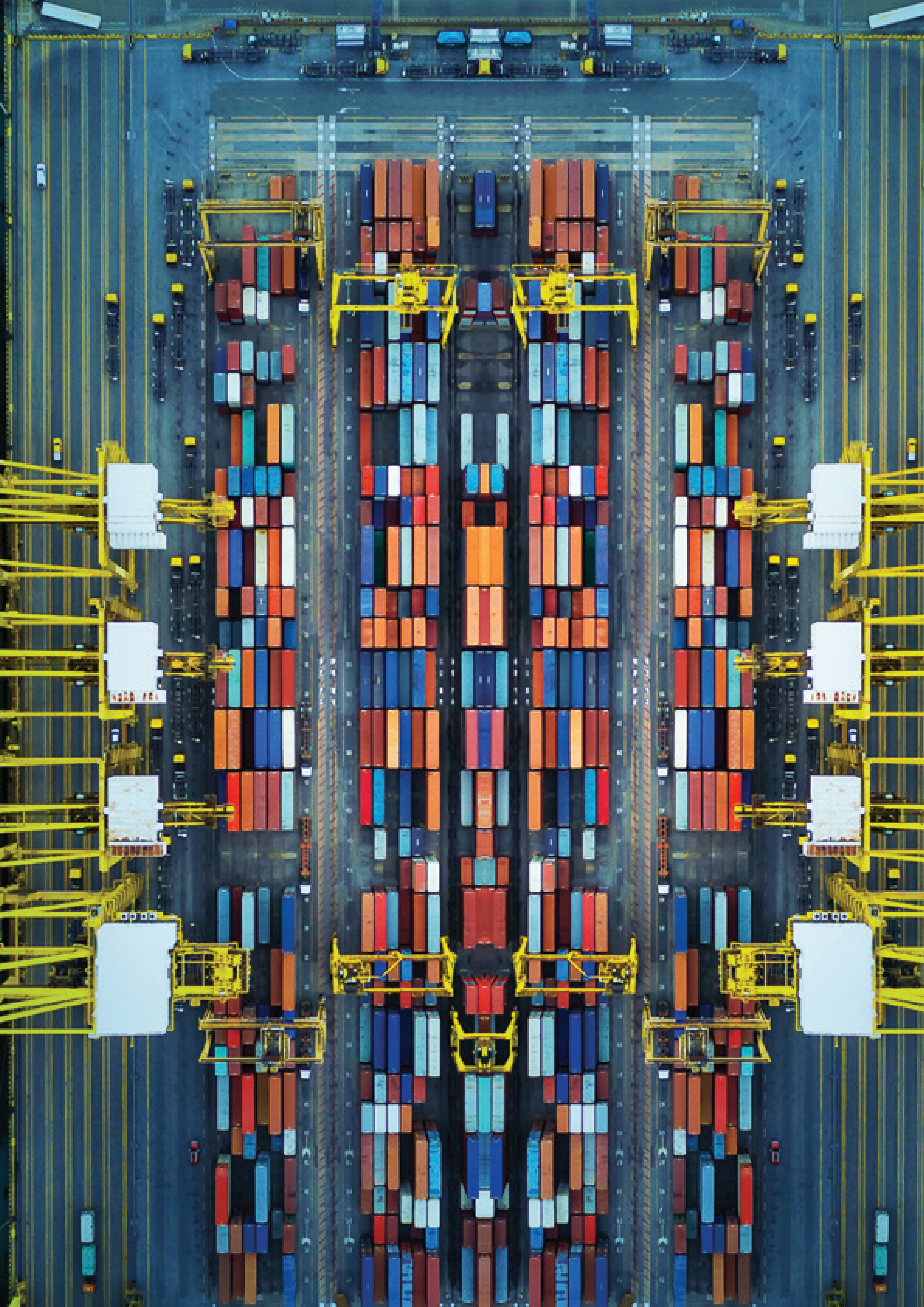
As companies like Ant Financial know, data is not just at the centre of their operations; it is their most valuable commodity. Ant has so much data on customers that it can tailor financial products to them. This increasing volume of data, much of it personal, raises significant issues of privacy, data protection and cyber security for tech firms.

At the same time, the use and storage of data is becoming more tightly circumscribed as countries work on new legal frameworks. In China, for instance, the new CyberSecurity Law[78] requires companies to hold data on Chinese citizens on servers based in China and, should a company wish to transfer such data abroad, it must get permission from regulators.

In most cases, data protection is an evolving process: Indonesia, for instance, still lacks a comprehensive law, and those provisions that do exist are contained in a number of different documents.[79]

Yet even where the rules are largely sorted out, Young Innovators looking abroad will need to move carefully: Asian fintech companies looking to access the European market, for instance, are likely to encounter requirements regarding data protection and financial services regulations they have not needed to consider at home. More than ever, venturing abroad in this globalised world brings with it the need to know local rules.





Part 4: The Asset Hunters

Definition: Ambitious Asian capital

Asia's Asset Hunters come from different backgrounds, but share a central characteristic: they have money and they want to spend it. They are seekers of property – physical, intellectual, and financial – to bolster their portfolios and further their strategic aims.

Important among the Asset Hunters are Asian sovereign wealth funds such as the China Investment Corporation (CIC, with US$814 billion in assets under management), Singapore's Government Investment Corporation (GIC, with an estimated US$359 billion) and South Korea's KIC (US$108 billion).

Joining forces

The Asset Hunters category also includes new funds and consortiums of Asian capital through which asset owners – private wealth, conglomerates and institutional investors – are competing with US and European money for assets.

These include some of the tech funds mentioned in connection with the Young Innovators, but also firms and families that are clubbing together to buy local assets in sectors that have traditionally been the focus of inwards investment. The Star Energy consortium of Indonesian and Philippines conglomerates that last year bought Chevron's geothermal assets in those countries for an estimated US$3 billion is one example.[80] Indonesia's MedcoEnergi is another: last year, as part of a consortium, it paid US$2.6 billion to get control of the NNT copper and gold mine in Indonesia from US mining giant Newmont and Old Guard member Sumitomo.[81]

Courageous conglomerates

Another notable group of Asset Hunters are Asia's cash-rich corporate buyers and conglomerates. Some have venerable histories but have been transformed in recent years. These include, for instance, the Philippines' San Miguel Corporation, which was established in 1890 and has been on a spree buying interests in oil refining, infrastructure, power generation, telecommunications and banking, among others. In doing so San Miguel has significantly diversified and boosted its revenues from PHP142 billion (US$2.8 billion) in 2009 to PHP674 billion in 2015.[82]

Another notable group of corporate Asset Hunters are those in certain industries that, seeking growth in their domestic market or strategic solutions, venture abroad for intellectual property (such as licensing deals) and premium brands. Some notable examples include China's leading sports firm Anta, which seeks out high-end foreign brands desired by Chinese consumers.[83] Another high-profile example was the purchase by India's Tata of JLR in 2008; it turned around the premium-brand automaker after buying it from Ford for US$2.3 billion.[84]

Top Asian* SWFs

GLOBAL RANKING	FUND	AUM (US$BN)
3	China Investment Corporation	$814
6	HKMA Investment Portfolio	$457
7	China SAFE Investment Company	$441**
8	Singapore Government Investment Corporation	$359
10	China National Social Security Fund	$295
12	Temasek (Singapore)	$197***
16	Korea Investment Corporation	$108
26	Khazanah Nasional (Malaysia)	$35

* Includes countries in this study only. As of 11 July 2017 ** Best guess estimate *** Updated after 2016 results announced
Sources: http://www.swfinstitute.org/sovereign-wealth-fund-rankings/

Other conglomerate Asset Hunters might (unkindly) be called *nouveau riche*. Notable are those from China – Anbang, Dalian Wanda, Fosun and HNA – that recently made the news after Beijing cracked down on their international purchases, fearing financial problems fuelled by debt. That action followed 2016's record-breaking US$246 billion of announced outbound deals by Chinese firms.[85]

Strategic development

Clubbing together

As the Star Energy consortium example shows, Asian Asset Hunters are prepared to pool resources for investments in more traditional industries. This not only gives them greater firepower and a heightened ability to compete with Western firms; it also provides them with the opportunity to emerge as much bigger players.

This trend is also bringing together financial buyers and funds such as SWFs – notably Temasek and GIC[86] – as well as asset management groups, as they seek to broaden their portfolios and lower risk by buying jointly into areas such as technology, media and telecoms. In 2014, for instance, GIC joined new and existing backers in investing money in Indian e-commerce giant Flipkart when that firm raised a total US$1.7 billion in two rounds in July and December.[87]

The co-investment trend will likely continue, according to consultancy PwC, "regardless of the type and mandate of the Sovereign Investor".[88] Chinese funds, too, are more likely to take this route as they seek to gain expertise, lower costs and drive down risk.[89]

Broadening portfolios

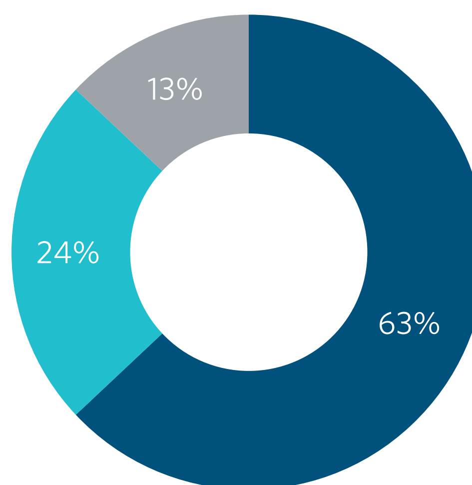
Asian SWFs have in recent years sought to broaden the range of their investments both in terms of geographic and sectoral exposure. CIC, for instance, trebled its overseas asset purchases in 2016 from the previous year to around US$19 billion.[90] Over the past six years Singapore's Temasek, which has offices in 10 cities globally,[91] has increased investment in areas such as technology and life sciences, significantly boosting its returns.[92] For its part, Malaysia's US$35 billion Khazanah fund has opened offices in the US, Turkey and Europe since 2013 as it seeks wider opportunities.[93]

At the same time, some SWFs are putting money into specialist funds that invest in a wider range of assets, notably technology – a strategy that has become a far more proven investment model over the past decade. This trend has been accompanied by a greater willingness to buy assets directly. Globally, the world's sovereign investors participated in 77 direct private equity deals in 2012, worth US$15 billion; by last year there were 137 such deals worth US$45 billion, according to data from Thomson Reuters.[94]

This shift in investment approach has necessitated (and in turn has been driven by) internal reform. One notable trend is that Asia's SWFs have moved to increase the amount of decisions made in-house, and limited outsourcing to external funds.[95] To that end GIC, for instance, has more than 1,000 staff on its investment teams, while Temasek has hired a range of international experts.

Stronger together

LPs with an interest in co-investing: current attitudes towards co-investments



- Actively Co-Investing
- Considering Co-Investments
- Oportunistically Co-Investing

Source: Prequin 2016/PwC

Taking risky bets

For some of China's corporate Asset Hunters, 2017 has become a year to forget. The likes of Anbang, HNA, Dalian Wanda and Fosun – huge conglomerates that between them bought US$56 billion of companies in five years[96] – are the subjects of Beijing's crackdown on foreign asset purchases. The quartet are widely seen to have overstepped the mark in both the types of assets they were buying and the prices paid.

The purchase of trophy assets (like insurer Anbang spending US$1.95 billion on New York's Waldorf Astoria Hotel in New York in 2015, and a range of buyers snapping up stakes in European football clubs) drew a warning late last year from the authorities, who warned against "irrational" investment. In part, Beijing is concerned about overseas investment being disguised as capital flight amid an ongoing anti-corruption campaign. In addition, China needs to protect its capital account and the renminbi.

One unsurprising effect has been a sharp slowdown in foreign deals by Chinese entities in 2017. The number of new outbound M&A in the six months to June 2017 was down 20%, according to Rhodium Group; the average deal size was down sharply too. China's authorities have not barred outbound M&A, but they are insisting that firms ensure a tighter focus that fits corporate or sector needs.[97]

Meantime, the asset-hunter baton has passed from China's private firms, which drove a record 2016, to state-related companies; the latter accounted for 60% of total deal value in the first half of 2017.[98]

Equally unsurprisingly, some sectors have fared better than others: Rhodium says the technology sector has proven more resilient, noting: "Private firms still seem to be better able to get government approval for outbound transactions that boost their innovation capacity (or those that are in line with Beijing's industrial policy goals)."

Challenges and opportunities

The pressure to spend

In the words of Bain & Company, Asia is living in "an age of superabundant capital". The competition between SWFs, institutional investors, corporations and private equity funds is intensifying, inflating asset prices and reducing returns.

While the appetite for internet and TMT companies remained buoyant last year, with Asia-Pacific-focused private equity funds investing US$42 billion in the sector (45% of total deal value), they were still left with US$136 billion of unspent capital targeted at the region at last year's close, Bain reports. That represents two years of future investments at the current rate, which in turn creates pressure to invest.[99]

Set against that, though, are the high multiples being applied to potential investments amid slowing GDP growth. Looking ahead, Bain concludes, funds will have to improve their due diligence ahead of acquisition, and ensure they better manage their portfolios to get the most value out of those purchases they do make.[100] The same applies to other asset hunters.

Credibility effect?

China's asset-hunting giants are facing pressure of a different kind. The crackdown from Beijing has affected prospective sellers of overseas assets. Reportedly, some now demand break fees worth 10% of the deal's value, a fivefold increase; others are taking lower offers from non-Chinese firms in order to ensure sale completion.[101] Meanwhile, recent news that the China Banking Regulatory Commission is examining the potential risks of large private firms' loans is likely to exacerbate uncertainty about funding.[102]

Little wonder that some Chinese buyers are looking at different structures to ensure they remain competitive in overseas M&A. Among their options: focusing on smaller deals; joining forces with private equity firms; and pledging onshore assets as collateral for loans from Chinese banks overseas.

Seeking better terms, and enforcing them

As we have seen, there are plenty of examples of Asian Old Guard and State Standard corporate acquirers who have made a mess of things. But in general they have learned from their experience. The facts of China's history mean that, for many companies, this is the first generation of leaders making international acquisitions. Consequently, awareness of international practices is lower than elsewhere. For example, Chinese property developers buying in Australia have not only overpaid for assets there, they have also been unaware that it is Australia's local councils – not the state or federal authorities – that have jurisdiction over developments.[103]

But there are signs that this is changing fast, not least because large numbers of young Chinese professionals now study or work overseas before returning home. And when they do, they bring with them a more informed view of the world and world-class negotiating skills.

Indeed, despite the headlines, Chinese acquirers are becoming more discriminating. According to those who have worked on recent deals, they are improving their assessment of investments with better technical and financial due diligence, and have more acumen when it comes to pricing. They are proving themselves tougher in negotiations, and are no longer accepting conditions that apply to themselves and not to other acquirers. In short, as they grow in experience they are getting better at competing in a more international fashion.

It is also the case that Chinese and Indian firms are more prepared to use the legal tools at their disposal when acquisitions or foreign deals go wrong. Figures from the Singapore International Arbitration Centre (SIAC) show the number of cases involving Chinese parties more than quadrupled in a decade and now comprise 20% of the centre's caseload.[104] Indian parties were the leading foreign users of SIAC in 2016 with 153 cases. Chinese firms were party to 76 cases.[105]

Linked to that – and this applies across the four categories of Asian business in this report – some Chinese firms are building their own in-house legal infrastructure, a positive sign that shows they are taking legal risk management more seriously.

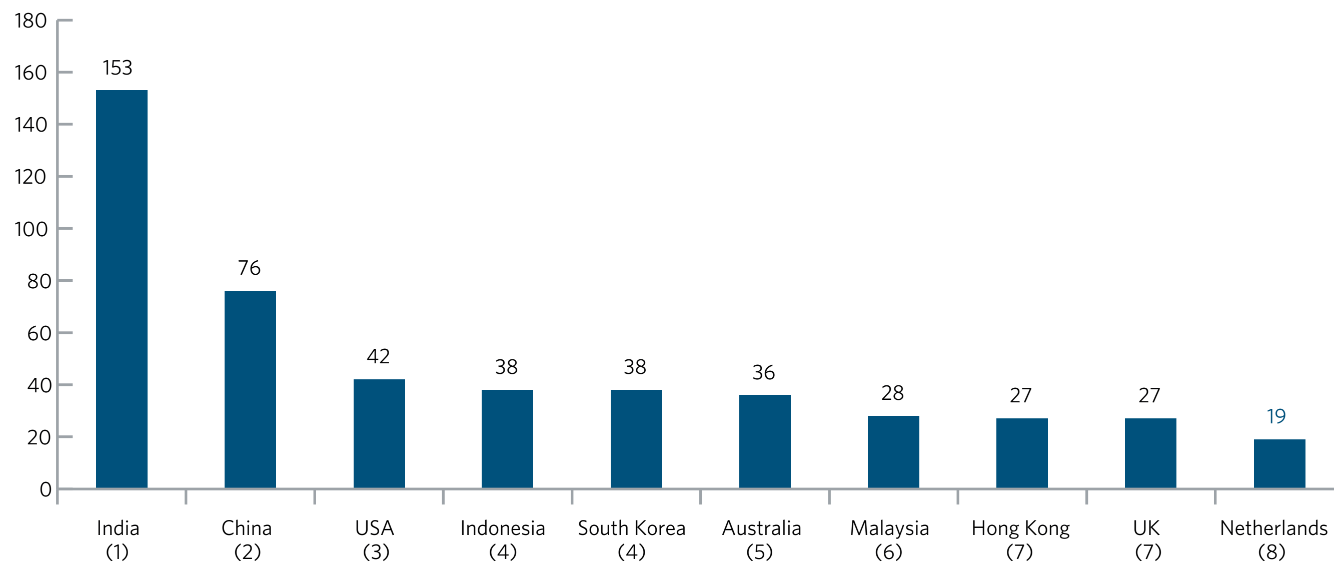
Frontier focus

In recent years, then, the Asset Hunters have not only acquired more funds; they are better equipped than before in deploying them. Chinese companies in particular are more sophisticated about what they are buying and how much they are prepared to pay.

In many cases, Asset Hunters are investing directly rather than outsourcing their investment strategy. They have also broadened their focus far beyond the region and to a much wider range of investments. TMT will stay a key focus – particularly in China and India – as will traditional areas such as energy, infrastructure and real estate. But given the excess of capital in the region, high valuations and slowing growth, all players would be wise to exercise greater caution in vetting their regional investments.

Asserting legal rights

Top 10 foreign users of Singapore International Arbitration Centre, 2016



Source: SIAC

Conclusion

Those in Asia's commercial super-blocs stand to define commerce for generations to come: located in the world's fastest-growing economies, and with growing influence in the rest of the world, Asia's commercial leaders have the potential to bring their experience, financial muscle and increasing savvy to global markets.

Some have a history of doing just that: the Old Guard helped to rebuild the region in the second half of the 20th century, first securing energy and other resources with which to build their economies before moving up the manufacturing value chain. Their success has been based in the patient acquisition of assets, entry to new markets and building of globally renowned brands. Yet their challenges remain significant: many must make better use of foreign assets in order to escape stagnant domestic markets, while also revamping their business models and dealing with digital disruption.

For their part, State Standards, backed by governments and with access to cheap funding, have demonstrated the power of the marriage of policy and commerce to become global titans. Yet as dissatisfaction grows with their privilege they will need to reform and become more adept at beating the competition commercially, not through unfair advantage.

They could learn a thing or two about that from the Young Innovators, the largest of which dominate the regional landscape and, increasingly, global markets, through cross-holdings and direct investments. It is impossible to consider corporate Asia without them. Although forging new paths into an unknown future, often with less regard to potential problems than their slower-moving peers, has stood them well to date, this approach carries its own risks, not least encountering serious headwinds as governments play regulatory catch-up.

Finally, increasing wealth, a more international focus and a greater appetite for risk have given Asia's Asset Hunters opportunities that did not exist 20 years ago. They are united in the bid to acquire stakes in Asia's future, as well as compete for valuable international property. In China, a few have flown too close to the sun, and can look to a restricted future. For most, though, that is not the case; as sources of capital they will come to hold more and more global assets in their diverse portfolios.

Treating the four as distinct entities is a useful heuristic, but it does gloss over the fact that they are in many ways interconnected, not least as they compete for business and talent, invest in each other, and build on each other's success. Many Young Innovators are poised to follow Old Guard pioneers in building brands abroad, fuelled by funds from the Asset Hunters.

And while Asia's State Standards face perhaps the most urgent need to reform on commercial lines, funds funnelled through government-owned and supported banks will help finance the expansion plans of the region's most ambitious firms, not to mention the massive ramp-up in infrastructure that will turbocharge the region's growth in the coming decades.

It is easy to imagine that – barring a geopolitical upending of regional or global markets – members of all four categories should continue to benefit from opportunities near and far. However, Asia remains a complex region and there are no certainties, in the same way that having a viable corporate strategy and sufficient determination does not guarantee success.

One thing is likely: members of Asia's super-blocs will continue to expand their influence across the world. Doing so has always carried risks, and to ameliorate this, the members of each category will need either to develop skills in-house or rely on professional service providers to navigate the laws, cultures and requirements of new markets.

Endnotes

1 Measured by purchasing power parity. https://www.pwc.com/gx/en/world-2050/assets/pwc-world-in-2050-summary-report-feb-2017.pdf

2 https://www.brookings.edu/wp-content/uploads/2017/02/global_20170228_global-middle-class.pdf

3 https://www.ft.com/content/00585722-ef42-11e6-930f-061b01e23655

4 https://www.ft.com/content/e3477778-2969-11e7-bc4b-5528796fe35c?mhq5j=e1

5 https://www.statista.com/statistics/255778/number-of-active-wechat-messenger-accounts/

6 https://techcrunch.com/2017/04/12/messenger/

7 https://www.ft.com/content/228c8ea8-e4ae-11e4-9039-00144feab7de?mhq5j=e2

8 https://www.mitsui.com/jp/en/library/ad/2017/1223559_10836.html

9 https://www.bloomberg.com/news/articles/2017-06-15/mufg-said-to-consider-shrinking-headcount-by-10-000-over-decade

10 https://www.mitsui.com/jp/en/release/2016/1218964_8910.html

11 http://www.zdnet.com/article/although-smart-cities-rely-on-iot-security-confusion-still-reigns/

12 https://www.ft.com/content/da1f3fc0-602c-11e6-b38c-7b39cbb1138a

13 http://economictimes.indiatimes.com/tech/hardware/china-players-like-xiaomi-oppo-may-dominate-overall-handset-space-this-quarter-cmr/articleshow/58760547.cms

14 http://www.nidec.com/en-Global/corporate/about/ma/

15 https://www.ft.com/content/bf32c780-83d2-11e6-a29c-6e7d9515ad15?mhq5j=e1

16 https://www.economist.com/news/leaders/21620203-japanese-and-south-korean-firms-are-worlds-biggest-cash-hoarders-hurts-their

17 http://www.apgroup.com/int/en/investors/menu-for-investors/ir-news/1486109771.html

18 http://www.bbc.com/capital/story/20170317-the-international-companies-using-only-english

19 https://www.spencerstuart.com/~/media/pdf%20files/research%20and%20insight%20pdfs/japanbi2016-english-final.pdf?la=en

20 http://asia.nikkei.com/Business/Trends/Harsh-rules-running-ride-apps-off-the-road-in-Southeast-Asia

21 https://coconuts.co/jakarta/news/go-blue-go-jek-and-blue-birds-long-awaited-partnership-finally-turns-app-feature/

22 http://familybusiness.ey.com/pdfs/page-72---73.pdf

23 http://www.mckinsey.com/global-themes/winning-in-emerging-markets/the-family-business-factor-in-emerging-markets

24 https://www.ft.com/content/33aac6fa-c16f-11e2-b93b-00144feab7de?mhq5j=e1

25 https://www.pwc.com/gx/en/industries/government-public-services/public-sector-research-centre/publications/state-owned-enterprises.html

26 https://www.adb.org/sites/default/files/publication/227496/special-report-infrastructure.pdf

27 https://www.gtreview.com/news/asia/kexim-signs-us9bn-infra-deal-in-india/

28 https://financialtribune.com/articles/economy-business-and-markets/66807/8-billion-kexim-finance-for-iran-finalized

29 http://www.rappler.com/business/172238-south-korea-kexim-fund-philippines-infrastructure-projects

30 http://www.legalbusinessonline.com/features/japan%E2%80%99s-asean-project/72790

31 Also known as the "Belt and Road Initiative", or BRI

32 https://www.ft.com/content/6343c4e8-4c6b-11e3-958f-00144feabdc0

33 https://www.ft.com/content/c17ff9ca-fdaa-11e6-96f8-3700c5664d30

34 http://www.nationmultimedia.com/business/Strategy-set-as-PTT-responds-to-transformation-of--30293269.html

35 https://www.ft.com/content/01d6de64-695a-11e3-89ce-00144feabdc0

36 http://money.cnn.com/2017/04/05/investing/syngenta-chemchina-takeover-acquisition/index.html

37 http://www.reuters.com/article/us-britain-nuclear-hinkley-contract-idUSKCN11Z22L

38 https://www.bloomberg.com/news/articles/2016-10-19/china-s-state-grid-said-to-seek-proposals-for-9-billion-loan

39 https://www.ft.com/content/5eeeb84a-5aaa-11e5-97e9-7f0bf5e7177b

40 https://www.ft.com/content/cd3bef28-1602-11e3-a57d-00144feabdc0

41 https://www.ft.com/content/54c0dcd2-df4d-11e4-b6da-00144feab7de

42 https://www.ft.com/content/e3972f54-62e2-11e7-91a7-502f7ee26895

43 http://asia.nikkei.com/Business/AC/Jakarta-accelerates-merger-of-state-owned-energy-mining-companies

44 https://www.ft.com/content/e3972f54-62e2-11e7-91a7-502f7ee26895

45 https://www.economist.com/blogs/graphicdetail/2016/11/daily-chart-15

46 https://www.ft.com/content/81ee463c-c6bd-11e6-8f29-9445cac8966f

47 Source: Herbert Smith Freehills

48 https://www.bloomberg.com/news/articles/2017-05-18/the-rise-of-china-s-new-economy-titans-in-seven-simple-charts

49 As of mid-July 2017. https://www.cbinsights.com/research-unicorn-companies

50 http://www.channelnewsasia.com/news/technology/grab-attracts-s-2-7b-in-investments-from-didi-chuxing-softbank-9057314

51 https://www.brookings.edu/wp-content/uploads/2017/02/global_20170228_global-middle-class.pdf

52 https://www.emarketer.com/Article/Worldwide-Retail-Ecommerce-Sales-Will-Reach-1915-Trillion-This-Year/1014369

53 http://fortune.com/2016/10/13/alibaba-jack-ma-company-future-retail-transform/

54 Ibid.

55 http://www.cnbc.com/2017/07/09/stripe-strikes-global-partnerships-with-chinas-alipay-wechat-pay.html

56 http://www.cnbc.com/2017/07/09/stripe-strikes-global-partnerships-with-chinas-alipay-wechat-pay.html

57 https://www.ft.com/content/00585722-ef42-11e6-930f-061b01e23655

58 https://techcrunch.com/2017/06/28/alibaba-ups-its-stake-in-southeast-asias-lazada-with-1-billion-investment/

59 https://www.crunchbase.com/organization/alibaba/investments

60 https://www.crunchbase.com/organization/tencent/investments

61 https://www.crunchbase.com/organization/baidu/investments

62 https://www.ft.com/content/cca7f5ea-5567-11e7-80b6-9bfa4c1f83d2

63 http://www.marbridgeconsulting.com/marbridgedaily/2017-05-10/article/100583/alipay_expands_array_of_integrated_healthcare_management_services

64 https://www.ft.com/content/b302269c-44ff-11e7-8519-9f94ee97d996?mhq5j=e1

65 https://techcrunch.com/2017/05/03/go-jek-tencent-1-2-billion/

66 https://docs.google.com/presentation/d/1Bp4KT-W8RF4ZorPUthts8X-B7QHBhsEnY1T5G7XifU0/edit#slide=id.g1421568192_0_36

67 https://www.bloomberg.com/news/articles/2017-05-31/china-s-road-to-world-tech-domination-begins-in-southeast-asia

[68] https://www.bloomberg.com/news/articles/2016-10-20/didi-president-says-china-s-ride-hailing-giant-is-definitely-going-global

[69] https://www.cbinsights.com/reports/CB-Insights_Asia-Tech-Investment-Report.pdf

[70] https://www.bloomberg.com/news/articles/2017-04-06/volkswagen-invests-180-million-in-google-backed-chinese-startup

[71] https://techcrunch.com/2017/07/12/google-acquires-indias-halli-labs-which-was-building-ai-tools-to-fix-old-problems/

[72] https://techcrunch.com/2016/10/31/facebook-bid-for-snow/

[73] https://www.bloomberg.com/news/articles/2017-05-20/japan-s-softbank-says-93-billion-committed-to-technology-fund

[74] http://innov8.singtel.com/about.html

[75] https://techcrunch.com/2017/03/07/iflix-90-million/

[76] https://www.ft.com/content/28d4e100-2a6d-11e7-bc4b-5528796fe35c?mhq5j=e2

[77] http://www.cnbc.com/2017/05/15/ant-financial-stalls-ipo-plan-as-buying-spree-continues.html

[78] https://www.ft.com/content/92a72046-a545-11e6-8b69-02899e8bd9d1?mhq5j=e1

[79] https://assets.kpmg.com/content/dam/kpmg/cn/pdf/en/2017/02/overview-of-cybersecurity-law.pdf

[80] http://datonomy.eu/2017/04/07/indonesia-moves-towards-comprehensive-data-law-how-will-it-impact-your-business/

[81] http://www.reuters.com/article/us-chevron-sale-geothermal-idUSKBN14C0OW

[82] http://www.reuters.com/article/medco-energi-newmont-mining-idUSL3N1B021M

[83] https://www.ft.com/content/a965f20e-3154-11e6-bda0-04585c31b153

[84] http://www.scmp.com/business/companies/article/1724762/chinas-anta-sets-sights-closing-gap-global-sports-brand-leaders

[85] http://www.nytimes.com/2008/03/26/business/worldbusiness/26cnd-auto.html

[86] https://www.bloomberg.com/news/articles/2017-05-10/china-s-246-billion-takeover-spree-is-crumbling-as-sellers-balk

[87] http://www.institutionalinvestor.com/article/3710374/asset-management-equities/asian-swfs-step-up-their-co-investment-game.html#.WWWBEtOGORs

[88] https://www.techinasia.com/flipkart-bags-700-million-funding-files-conversion-to-public-company-singapore

[89] https://www.pwc.com/ee/et/publications/pub/sovereign-investors-2020.pdf

[90] http://www.institutionalinvestor.com/article/3710374/asset-management-equities/asian-swfs-step-up-their-co-investment-game.html#.WWWBEtOGORs

[91] https://www.ft.com/content/7a20bcf8-6615-11e7-9a66-93fb352ba1fe

[92] http://www.temasek.com.sg/abouttemasek/corporateprofile

[93] http://www.temasek.com.sg/mediacentre/newsreleases?detailid=27035

[94] http://www.khazanah.com.my/Our-Investments/Geographic-Exposure

[95] https://www.vccircle.com/sovereign-wealth-funds-ramp-direct-pe-investments-hire/

[96] https://www.pwc.com/ee/et/publications/pub/sovereign-investors-2020.pdf

[97] https://www.ft.com/content/a6bfabd0-5818-11e7-80b6-9bfa4c1f83d2

[98] http://rhg.com/notes/tectonic-shifts-chinese-outbound-ma-in-1h-2017#.WVSYXAa6hXc.linkedin

[99] http://rhg.com/notes/tectonic-shifts-chinese-outbound-ma-in-1h-2017#.WVSYXAa6hXc.linkedin

[100] http://www.bain.com/publications/articles/asia-pacific-private-equity-report-2017.aspx

[101] http://www.bain.com/publications/articles/asia-pacific-private-equity-report-2017.aspx

[102] https://www.bloomberg.com/news/articles/2017-05-10/china-s-246-billion-takeover-spree-is-crumbling-as-sellers-balk

[103] http://rhg.com/notes/tectonic-shifts-chinese-outbound-ma-in-1h-2017#.WVSYXAa6hXc.linkedin

[104] http://www.afr.com/real-estate/chinese-investors-in-australia-have-a-learning-curve-20160606-gpcwbe

[105] http://siac.org.sg/2014-11-03-13-33-43/about-us/siac-shanghai-office

[106] http://siac.org.sg/images/stories/articles/annual_report/SIAC_AR_2016_24pp_WEBversion.pdf P.14

Notes

Created for Herbert Smith Freehills by New Narrative. New Narrative Ltd. (n/n) is a thought leadership research firm founded in Hong Kong in 2013.
The firm conceptualises and creates tailor-made written and digital content for leading professional and financial services companies across the world.
www.new-narrative.com

HERBERTSMITHFREEHILLS.COM

BANGKOK
Herbert Smith Freehills (Thailand) Ltd

BEIJING
Herbert Smith Freehills LLP
Beijing Representative Office (UK)

BELFAST
Herbert Smith Freehills LLP

BERLIN
Herbert Smith Freehills Germany LLP

BRISBANE
Herbert Smith Freehills

BRUSSELS
Herbert Smith Freehills LLP

DUBAI
Herbert Smith Freehills LLP

DÜSSELDORF
Herbert Smith Freehills Germany LLP

FRANKFURT
Herbert Smith Freehills Germany LLP

HONG KONG
Herbert Smith Freehills

JAKARTA
Hiswara Bunjamin and Tandjung
Herbert Smith Freehills LLP associated firm

JOHANNESBURG
Herbert Smith Freehills South Africa LLP

KUALA LUMPUR
Herbert Smith Freehills LLP
LLP0010119-FGN

LONDON
Herbert Smith Freehills LLP

MADRID
Herbert Smith Freehills Spain LLP

MELBOURNE
Herbert Smith Freehills

MOSCOW
Herbert Smith Freehills CIS LLP

NEW YORK
Herbert Smith Freehills New York LLP

PARIS
Herbert Smith Freehills Paris LLP

PERTH
Herbert Smith Freehills

RIYADH
The Law Office of Nasser Al-Hamdan
Herbert Smith Freehills LLP associated firm

SEOUL
Herbert Smith Freehills LLP
Foreign Legal Consultant Office

SHANGHAI
Herbert Smith Freehills LLP
Shanghai Representative Office (UK)

SINGAPORE
Herbert Smith Freehills LLP

SYDNEY
Herbert Smith Freehills

TOKYO
Herbert Smith Freehills

© Herbert Smith Freehills 2017