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DR. AMY GUTMANN

China's Second Economic Transition
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Thailand's Religious Divide
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To submit an essay for review and publication by the Wharton Asia Journal, or to subscribe to the Journal, please visit:
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This is the inaugural issue of the Wharton Asia Journal. The purpose of the Journal is two-fold: as a publication, the Journal strives to provide the Penn campus with reputable and academic insight into Asia's development as an economy and as a society; as an organization, the Wharton Asia Journal encourages scholarly examinations of Asia in a global context amongst student and faculty. To these ends, the Journal will publish articles produced by students and faculty to engage the campus community with relevant social, political, and economic issues concerning Asia. The Journal is affiliated with the Wharton Asia Exchange student organization.

The distinctive cultural, social, and political landscape of Asia makes comprehending the economy of the region an interdisciplinary study. This first issue is publishing five pieces that will provide insight into how Asian business and society functions.

An interview with Dr. Amy Gutmann, President of the University of Pennsylvania, explores Penn's relationship with the region and political ideas that relate to Asia's development. An essay by Dr. Marshall Meyer examines China's second economic transition. An interview with Dr. Howard Perlmutter provides broad insight into many aspects of globalization. An essay by an undergraduate student discusses the comparative social treatment of Muslims in Southeast Asia. A review examines a book about "godfather families" which control many of Asia's economy-spanning conglomerates.

These faculty and undergraduate views demonstrates the global span of the Wharton Asia Journal despite a focus on Asia. Discussions of China, India, Thailand, France, Poland, Singapore, and other countries all play a part in this inaugural issue's examination of business and society in Asia.

Jonathan Richter & Alvin Yap

Interview: Penn, Politics, and Asia

In an interview, University of Pennsylvania President Amy Gutmann discusses the relationship between the university and Asia, as well as relevant themes from her academic work to the region.

Your scholarship has contributed greatly to the academic field of political philosophy. Is “deliberative democracy” best for any country, at any point in its development?

Deliberative democracy is a way of making democracy more than just majority rule. It is the opposite of sound-bite democracy or the purely populist form of democracy. Obviously if a country is not democratic yet, adding the adjective “deliberative” to it does not make it a deliberative democracy. However the one, I think, great advantage of deliberation is that it is not distinctive to democracy. The term itself originated from a time prior to democracy when heads of states brought bodies of diverse wise people together to give them advice on issues.

The core of deliberation is about reason-giving and bringing people together who will apply reason to difficult political problems. I believe that deliberation is important for any form of government—that is, I think that if you add deliberation to any form of government, whether it is an oligarchy or a democracy, the odds are that you will improve both the process and results that come out of that form of government. The interesting thing about my work on deliberation is that it is very appealing, not only in the West, but in the East as well because it basically stands for giving reasons for political decisions. Any why should you give reasons? Well, it is not an academic answer. The reason you should give reasons is that political decisions bind huge populations and they should be respected enough to be told why

they are being bound in the ways they are. Whether it is a tax policy, an immigration policy, a healthcare policy or an education policy, the people who are bound by that policy are being shown respect when they are given reasons for that policy. You can only give reasons for the policy if you actually know what the reasons are. The better the reasons are, the more likely the government is to be supported by the people who it really counts on for support.

My work has been on deliberative democracy that is focused on countries like the U.S. that are already democratic but have veered away from deliberation towards a more populist sound-bite form of democracy. But I have given lectures all around the world on the importance of deliberation and it applies equally to non-democratic countries.

To make a connection between politics and Asian economic development, some East Asian countries such as South Korea, Indonesia, and the Philippines have in some way achieved democracy. Some economic indexes show, however, that since achieving democracy, economic development may have slowed. How, based on your work in political philosophy, might that be explained?

You could pick and choose countries where more democracy has brought more economic development and where less democracy has brought more. The best studies have shown that political and economic development, statistically on average go together. There are exceptions to that rule but on the whole, political liberties

have correlated with economic liberties.

There are some striking exceptions to that. Singapore is the country that is often brought forward as a country that has had a stable government, high economic development, yet has not extended various civil liberties to its members. But Singapore is a very small country and it is very unlikely that China, for example, will be able to maintain a non-democratic form of government into the indefinite future with a growing middle class. Middle-class citizens tend to want freedoms that go beyond only economic freedoms.

The simple answer of whether economic development is consistent with democratization, which is true in more cases than not is yes. In most cases, countries which find a peaceful road to democracy have maintained a high level of economic development. But I emphasize peaceful road to democracy, because without a stable form of government, whether it is an unstable democracy or an unstable autocracy it is very difficult, almost impossible to have sustained economic development. So the real question is not about democracy, but rather whether countries that do not have stable governments can find a way of moving forward politically and economically.

We should look at the countries in Asia that have been enormously successful both politically and economically speaking. The most interesting comparison, I think, is India and China because both have high rates of economic growth. China has a form of government that makes moving forward with infrastructure must easier than India does. India has a form of government that

makes a reliable banking and legal system much easier than China does. The two countries in many ways can learn from one another, and we learn a lot from studying their strengths as well as their weaknesses.

Why does China have a system that is more conducive to building infrastructure and India to banking and like industries?

When China wants to build the road across the country, it can do so in a fairly command and control way. India has a federal system of democratic government in which each state within India has tremendous amount of power over its own commerce. The answer to that problem found in the United States over time was called the Interstate Commerce Clause which allowed the federal government in the United States to basically make the decisions about infrastructure when there was commerce across state boundaries. India does not have anything comparable to that so it has a much greater problem in redesigning infrastructure, such as roads and communications, than China does.

China, on the flipside has a banking and legal system that is not conducive to reliable results for people who enter into contracts. The economic development of China has happened despite of the fact that there are serious issues of reliability in the enforcement of contracts. China's banking and legal system are still subject to centralized state authority as opposed to

reliable enforcement of contracts over time. To achieve transparency and impartiality requires the development of a legal and banking system that is independent of whoever constitutes the state authority at any point in time. Those are the only kind of banking and legal systems that are stable over time. It is something that China is moving towards but has not achieved at the level that some other countries have.

There are also issues that both countries share. Environmental pollution, for example, is an enormous problem in both China and India. They both share that problem because they both have developing economies, In China, for example, the production of energies is largely coal-based and has wrought tremendous destruction on the environment.

Is there anything about Penn's involvement in Asia that you would prefer to address first?

What I have been doing most recently which is most relevant to your focus is that I have just come back from Asia. The first international roll-out of the Making History Campaign¹ was in Hong Kong. There were a hundred and fifty Penn alumni and parents who came to a sit-down dinner in Hong Kong and were just *thrilled* to hear what is happening at Penn. After Hong Kong I went to Tokyo and it is the first time that we know of that the Penn President and Dean of Wharton had a Penn-Wharton event in Tokyo. A hundred eighty Penn alumni came to a sit-down dinner in Tokyo. I also spent a sort of "cultural day" in Tokyo: going to kabuki, then the Mori Art Museum, and touring the city in between. So, if you add to that the trips I made to China and India, there is probably no other continent besides North America that the Penn President has spent more time on Penn Business. It is a very important part of who we are as a university.

One of the other things that I think is important to know is that Penn was one of the first major universities to admit students from Asia. One of my very highest priorities is to increase access to a Penn education to the best and the brightest students. The fact that we are seen as very welcoming, historically, of Asian students and faculty has enabled me to build on that priority. So when I go to Asia, I am struck by how many parents want their children to come to Penn. It is great for Penn, because it means we are seen as a very welcoming place for the best and the brightest students from around the world. Although it is a long way to come, it is our job to make this university increasingly welcoming to foreign students. I am very pleased that Penn is able to build on a historical strength by having more and more international students and faculty, both come here for a great education and then go back to their countries of origin to be great ambassadors for Penn and for international understanding.

You were quoted in the NY Times²

¹ The "Making History" campaign is the University of Pennsylvania's current capital fundraising project for the purpose of academic and campus development.

² Tamar Lewin, "U.S. Universities rush to set up outposts abroad," New York

"Penn's partnerships with Asia have been among the most rapidly increasing."

saying that the "downside risk" of establishing satellite campuses in other countries was outweighed by the upside of such institutions. We have seen Penn expand its international reach by building student exchange relations with international schools, and establish representative offices in other countries such as Wharton's in Shanghai. Has Penn considered expanding its international reach by building more such institutions or even going as far as other universities in setting up satellite campuses?

We have been building a model of two-way partnerships, where we partner with excellent institutions in Asia. We have increased the number of these partnerships internationally. Partnerships with Asia have been among the most rapidly increasing. They include partnerships with eminent Chinese universities. We have the T.C. Chan Center at Tsinghua, various Wharton partnerships, and partnerships in India. The T.C. Chan Center was created by the School of Design in partnership with Tsinghua University to create educational and research programs around environmentally sound engineering. It is based at Tsinghua, but the faculty and students go back and forth between Penn and Tsinghua depending on what they are working on. Our Graduate School of Education is responsible for the premier program in China that educates educators. We also have China Knowledge@Wharton and India Knowledge@Wharton. In our partnerships with excellent institutions in Asia we contribute our comparative advantages and they contribute theirs. In doing so, we try to encourage student exchanges as well as faculty exchanges.

We have not jumped on the bandwagon of creating separate campuses in other countries. We have been approached to do so in places such as Abu Dhabi and Dubai. We have considered it, and we will continue to consider it but I do not know whether we would ever do that. Ever is a long time, but I do know that we do not have any plan to do that in the next year. By the way, establishing campuses in other countries is the exception rather than the rule. Very few top institutions have done this. The reasons are simple. Firstly, we want to do whatever we do at a very high level of quality, so that we are true to the level of quality that we represent at home.

Times (10 February 2008).

Secondly, we want to do it in a way that supplements rather than drains our faculty strength at home. So we would not want to see a lot of Penn faculty spending half their time in Asia, for example, and therefore the students who come to Penn do not see them half the time. It would be a challenge building up an equally high-quality faculty in another country, where we have neither comparative expertise nor a networking capacity that surpasses the networking capacity of a domestic institution. If you look at the number of programs that a place like Penn has created in Asia and around the world, those vastly outnumber in academic scope the few campuses that have been created overseas by some other universities.

Many other universities in the United States which are considered Penn's peers, including Princeton, Harvard, Stanford and Columbia, have centers which extensively support faculty and student research on Asian politics, economics and social issues. Although Penn has developed some Asia-focused centers, Penn has not supported research by Penn faculty and students to the level of extensiveness of some peer institutions. Has Penn considered establishing a research center for Asian studies similar to those that some of Penn's peer universities can claim?

It is easier to establish research center than it is to have research and teaching combined. Research and teaching combined redounds to the benefit of students as well as faculty. Our model is the model of trying to combine research and teaching. We have our Center for East Asian Studies, our Department of East Asian Languages and Civilizations, and our Center of Advanced Study of India. All of those centers are, I think more successful than pure research centers in that they bring together research and instruction. A large number of faculty at Wharton do research and teaching that is relevant to not only international but to Asian studies. You would notice a similar situation, if you look at the School of Arts and Sciences. I would not just focus on centers as much as the whole curriculum of Penn that is very international.

Dr. Amy Gutmann became the eighth president of the University of Pennsylvania in 2004. In her inaugural address as University President, she launched the Penn Compact, which articulates three central strategic goals for the University: increasing access for the very best students of all backgrounds, regardless of economic means; recruiting and retaining the very best faculty who will integrate knowledge across multiple disciplines; and magnifying Penn's intellectual and institutional impact throughout the world. Dr. Gutmann is an eminent scholar in the field of political philosophy. She has authored and edited fifteen books and has published more than 100 articles, essays, and book chapters.

China's Second Economic Transition

China has largely completed its first economic transition, from a command to a market economy, and has begun inching toward a second economic transition, toward building truly national markets.

Marshall Meyer

China has largely completed its first economic transition, from a command to a market economy, and has begun inching toward a second economic transition, toward building truly national markets. This second transition will be equally imperative—so that firms capable of competing first nationally and then globally can emerge—and challenging, because localism is deeply engrained in China. Today, China is one country but many economies. Into the future, the capacity of Chinese firms to compete globally will depend on creating a single market and a single economy at home. Chinese firms will go out, regardless, to compete on the global

stage. But whether they will become globally competitive, or be relegated to the margins of the global economy, remains to be seen. was not exactly the case that most local governments reformed; rather, most reform was local. These local reform initiatives were experimental. What worked was adopted by the central government, though not necessarily implemented as national policy; what didn't work was abandoned. The decentralized and experimental approach to reform was adopted in sharp contrast to the "Big Bang" or "Shock Therapy" approach taken in the former Soviet Union, which promised instant reform but ultimately mainly produced asset-stripping, concentration of control of the economy in a handful of oligarchs, and a sharp economic downturn.

“Can China launch firms strong enough to withstand global competition from relatively small domestic platforms?”

stage. But whether they will become globally competitive, or be relegated to the margins of the global economy, remains to be seen.

Decentralization and Economic Fragmentation

By the early 1980s, China had decentralized much of its economy outside of pillar enterprises. Under the policy of administrative decentralization, control (though not ownership) of the great majority of state enterprises was transferred to provincial and local authorities, and in some instances to enterprise managers. China's decentralization gave it an enormous advantage in the 1990s because it allowed economic reform and opening to proceed swiftly on the local level. Local governments, rather than the central government, initiated most reforms. It

Administrative decentralization and later decentralized enterprise did, though, have a downside: China underwent a fractured economic development in which it evolved into several distinct regional economies, rather than a unified one. The Pearl River Delta (eastern Guangdong Province), The Yangtze River Delta (Shanghai, southern Jiangsu Province, Zhejiang Province), and the Bohai Bay Region (extending in an arc from Qingdao to Dalian, including Tianjin and Beijing) became the hotspots of the Chinese economy. Provinces competed for GDP growth and erected barriers to inter-provincial trade. Shanghai, for example, practiced import substitution in the automotive industry in the early 1990s: automotive components manufactured outside of Shanghai were treated as foreign-made and taxed as imports. The combination of local GDP targets and local protectionism meant that the provinces effectively replicated each others' economies, miniaturizing firms and

sacrificing comparative advantage. During the Mao era, when China felt surrounded by enemies, local self-sufficiency was a matter of national security; today, while the prominent motif of national security has receded somewhat, economic isolationism in the form of inter-provincial fragmentation persists and, perhaps, has intensified.

Several econometric studies have confirmed that fragmentation of the Chinese economy increased during the 1990s. Alwyn Young found a convergence in the proportions of provincial GDP accounted for by industry, agriculture, and services and a divergence in labor productivity and prices across provinces from the late 1970s to the mid-1990s.¹ Young's results compose the exact opposite of the expected results from national economic integration and regional specialization, and most likely derive from an exacerbation of internal trade barriers. Sandra Poncet's comparison of domestic with international trade flows of Chinese provinces from 1987 to 1997 came to a further, and somewhat surprising, conclusion: as Chinese provinces became more integrated with the rest of the world, they actually became *less integrated with each other*.

“... Chinese provinces' international integration has gone together with domestic market disintegration.”²

The implication of Poncet's work is that Chinese firms look to foreign markets because of the difficulty of doing business domestically. Not everyone agrees that economic fragmentation in China is still increasing (Thomas Rawski of the University of Pittsburgh, for example, does not),³ or that fragmentation is the main obstacle to the growth of Chinese firms (Will Hutton, in *The Writing is on*

1 Alwyn Young, “The Razor's Edge: Distortions and Incremental Reform in the People's Republic of China,” *Quarterly Journal of Economics*, 115 (2000): 1091-1135.

2 Sandra Poncet, “Measuring Chinese Domestic And International Integration,” *China Economic Review*, 14 (2003): 1-21; “A Fragmented China: Measure and Determinants of Chinese Domestic Market Disintegration,” *Review of International Economics*, 13 (2005): 409-430.

3 See, for example, “China as Producer: Chinese Industry After 25 Years of Reform.” Conference Paper presented at the China and the World Economy Workshop” (December 2005).

the Wall, argues that a heavy-handed state rather than a fragmented economy makes large firms impossible).⁴ However, most Western observers agree that the absence of large, internationally recognized firms is remarkable in an economy as large as China's. Hutton is particularly blunt on this point: “The reason so few people can name a great Chinese brand or company, despite the country's export success, is that there are none.”⁵

Weakness of the Parent-Subsidiary System

At first glance it might appear that, on a firm level, integration would be a desirable characteristic for competing Chinese companies: Chinese government policy favors companies that look large. However, looking large and acting like a large, integrated firm are different things. Some of the largest SOEs in China, especially those remaining 100 per cent state-owned and retaining 100 per cent ownership of their subsidiaries, continue to face challenges integrating their operations due to endemic localism and weaknesses of the parent-subsidiary system. China Ocean Shipping Company (COSCO)'s bulk shipping business (not the container shipping business now injected into Hong Kong-listed China COSCO Holdings), is illustrative. COSCO's bulk shipping business remains 100 per cent owned by the COSCO Group, which is in turn 100 per cent state owned. COSCO is the largest bulk shipper globally, operating 398 bulk vessels with capacity of 30 million deadweight tons, roughly eight per cent of global bulk shipping capacity.⁶ Yet, COSCO's five bulk shipping subsidiaries—Tianjin-based COSBULK, COSCO Qingdao, COSCO Xiamen, COSCO Hong Kong, and COSCO Singapore—do not operate in concert. They are, in fact, independent businesses that pursue relatively different strategies, and help each other very little, if at all. COSBULK, for example, is mainly

4 Will Hutton, *The Writing is on the Wall: Why We Must Embrace China as a Partner or Face It as an Enemy* (Free Press, November 2006).

5 “Does the future really belong to China?” http://www.prospect-magazine.co.uk/article_details.php?id=8174.

6 These are COSCO's figures, not Clarkson's. Clarkson reports ownership but not operational control of bulk vessels. According to Clarkson, as of September, 2006 there were 6,369 bulk vessels with capacity of 386 million deadweight tons globally.

Dr. Marshall Meyer is the Richard A. Sapp Professor, and a Professor of Management and Sociology who teaches at the Wharton School at the University of Pennsylvania. Professor Meyer is a leading global expert on business and management in China, including the internationalization of Chinese firms, the reform of Chinese state-owned enterprises, and the technology of Chinese industrial parks. He teaches a “Management and Governance of Chinese Firms” course during fall semesters, and graciously advises a multitude of student organizations and independent student research projects.

a charterer, while COSCO Hong Kong is mainly an owner-operator. An August 2006 press account reported that COSCO Hong Kong was currently long on bulkers, especially large Capesize vessels, while COSBULK was short. However, COSCO Hong Kong was said to be unwilling to let out more than one of its Capesizes, much less transfer Capesize bulkers to COSBULK, for fear of losing influence within COSCO Group.⁷

COSCO Group management has moved with the caution of experience toward integration of its bulk shipping business. The employees of COSCO's bulk businesses, COSBULK and COSCO Qingdao especially, more closely identify with their communities than with the COSCO Group. Local identification is exacerbated by the peculiar definition of state ownership, "ownership by the whole people," which leaves property rights ambiguous. The COSCO Group may own its bulk shipping subsidiaries, but so do "the whole people"—i.e. the workers whose lives would be disrupted by a dramatic reorganization of the business. In the 1998 "Qingdao incident," COSCO workers showed their willingness to take to the streets to drive this point home.

A comparison with the U.S. may be apt. Until World War I, many large U.S. industrial firms were organized as holding companies, that is, as parent-subsidiary structures, without central management. The recession of 1920-21 forced many firms, including General Motors, to develop strong management teams responsible for forging corporate strategies and monitoring their execution. Alfred Chandler's *Strategy and Structure*, which describes the consolidation of General Motors, DuPont, Standard Oil, and Sears, might be made required reading for senior managers of large Chinese enterprises.

Underdeveloped Domestic M&A

A further impediment to large firm size in China is the country's underdeveloped domestic M&A market. On July 26, 2001, in a meeting with Tsingtao Beer Senior Economist, Vice Chairman, and General Manager Peng Zouyi, Peng presented an outline of his strategy for consolidation of the Chinese beer industry. Financed by secondary offerings, Tsingtao had already acquired

7 Ian Lewis Genoa, "Uncertainty over Restructuring is Boggling Down COSCO," *Tradewinds*, 11 August 2006.

45 subsidiaries and raised its domestic market share from 5 per cent in 1999 to 13 per cent in 2001 to become the top-selling beer in China. Within three to five years, Peng predicted, Tsingtao would make more acquisitions and consolidate the domestic beer market with 30 to 40 per cent market share. Tragically, Peng died five days later. Within a year, Anheuser-Busch had raised its stake in Tsingtao from 4.5 to 27 per cent. Despite the additional Anheuser-Busch investment in Tsingtao, Tsingtao's market share stalled at 13 to 14 per cent. Toward the end of 2006, SABMiller, which holds a 49 per cent interest in China Resources Breweries, Ltd., announced that its CR Snow brand captured 14.9 per cent of the Chinese market in the first half of 2006, marginally ahead of Tsingtao. It is possible that new regulations governing and in some respect restricting cross-border M&A will precipitate the indirect consequence of stimulating domestic M&A by creating demand for local M&A consultants. The amended cross-border M&A regulations, which took effect September 6, 2006, require foreign acquirers to engage a PRC-registered M&A consultant, which will conduct due diligence on the foreign shares and issue a consulting report for review and examination by the approval authorities.

While the Chinese beer industry remains fragmented nationally, it is highly concentrated locally. According to John Slocum and his colleagues in a recent *Organizational Dynamics* article⁸ the top three brands in Shanghai, Beijing, and Guangdong province command 56, 77, and 73 per cent market shares respectively. The number one brand in most localities is a local brand, (e.g., Zhujiang in Guangdong Province), with the exception of Shanghai, where Suntory appears to be the leader. National fragmentation in conjunction with local concentration indicates that Chinese markets are local rather than national. Another comparison with the U.S. may be apt: the combination of national fragmentation and local concentration is reminiscent of the U.S. beer industry in the 1950s and the U.S. supermarket industry in the mid-1980s.

Fragmentation and Internationalization

8 John W. Slocum, Jr., Roy Foster, Mike McGuire, Wendy Conder, Robyn Frazer, John Ross, Elthon Corradini, David Lei, and Stan Scott, "Fermentation in the Chinese Beer Industry," *Organizational Dynamics*, 35 (2006): 32-48.

Fragmentation of domestic markets is of concern because of its impact on the globalization potential of Chinese firms. Can China launch firms strong enough to withstand global competition from relatively small domestic platforms? Our received theories of internationalization suggest that this will be difficult.

In general, internationalization is a large-firm phenomenon. Only the largest firms have the margins needed to cover the costs of internationalization. Firms designated as national champions are almost always large firms that have successfully integrated and consolidated their industries domestically. MITI, for example, encouraged domestic competition but then forced industry consolidation before permitting Japanese firms to invest abroad. A similar model has also appealed to France, which has applied it to firms including EDF, France Telecom, Total, Elf, and EADS.

Despite the successful internationalization of the above government-championed firms, government support is not even necessary for industry consolidation and internationalization to occur. Product pioneers like Microsoft enjoy scale economies in R&D, manufacturing, and distribution; entry barriers created by a panoply of patents, trademarks, and brand names; and managerial capabilities smaller rivals are unable to duplicate. By contrast, the thin margins characteristic of highly competitive industries usually cannot sustain the costs of international operations; moreover, the kinds of market imperfections that allow firms to extend their operations abroad are usually mitigated by intense competition. In any case, the combination of cutthroat domestic competition and barriers to inter-provincial trade may force many small Chinese companies to internationalize prematurely, consistent with Sandra Poncet's conclusions and inconsistent with received internationalization theory. James Kynge, in his recent book *China Shakes the World*, argues just that:

"... Chinese manufacturers (the energy and resources companies are in a separate category) are being pushed overseas through weakness rather than strength..."⁹

Leapfrogging Fragmented Domestic

9 James Kynge, *China Shakes the World: A Titan's Rise and Troubled Future—and the Challenge for America* (Boston:

Markets

A few Chinese firms have been able to leapfrog fragmented domestic markets and grow into global competitors. A case on point is China International Marine Container, a Shenzhen-based manufacturer of shipping containers and semi-trailers. CIMC is, as far as I can gather (an important qualification), one of only two sizeable Chinese firms to have achieved global dominance in its industry.¹⁰ CIMC manufactures more than half of the shipping containers in the world. And CIMC is aiming for dominance of the Chinese semi-trailer business with a 35 per cent market share, though it remains unclear whether CIMC can achieve this objective: CIMC has very capable management, but also happened to be in the right industry at the right time.

Two recent books on container shipping, both published by university presses in the U.S., are worth referencing. One is Marc Levinson's *The Box: How the Shipping Container Made the World Smaller and the World Economy Bigger*;¹¹ the other is Brian Cudahy's *Box Boats: How Container Ships Changed the World*.¹² Three main points could be taken from these books. First, the cost of ocean shipping plunged by more than half from the late 1970s to the mid-1980s due to containerization, accelerating the growth of global trade. Second, China is the chief beneficiary of cheap shipping and expanded trade. In 2004, for example, 50 million TEUs (twenty-foot equivalent units) of containers passed through China's three largest container ports, Hong Kong, Shanghai, and Shenzhen. The three major U.S. container ports, Los Angeles, Long Beach, and New York, by contrast, processed 19 TEUs in 2004.¹³ Third, despite

Houghton Mifflin, 2006).

¹⁰ The other is Shanghai-based Zhenhau Port Machinery Company or ZPMC, which manufactures cranes and large steel structures and dominates the global market for container cranes.

¹¹ Marc Levinson, *The Box: How the Shipping Container Made the World Smaller and the World Economy Bigger* (Princeton, NJ: Princeton University Press, 2006).

¹² Brian Cudahy, *Box Boats: How Container Ships Changed the World* (New York: Fordham University Press, 2006).

¹³ See the website of the American Association of Port Authorities, www.aapa-ports.org. The TEU breakdown by port in 2004 was as follows: HK 21,984,000 TEU; Shanghai 14,557,000 TEU, Shenzhen 13,615,000 TEU,

the efficiencies of containerization it took more than a decade, from the mid-1950s until almost 1970, for the International Standards Association and, subsequently, the shipping industry to establish 20- and 40-foot containers as global standards.

CIMC entered the container business in the 1990s with three distinct advantages. One was industry standardization. There was no such thing as local taste in containers, making container manufacturing literally a globally relevant industry from the outset. The second was a large domestic market. China was the global hub of container shipping and hence the largest market for shipping containers. The third advantage was logistics. Mai Boliang, CIMC's president, understood that by integrating container manufacturing along the Chinese coast, from Dalian in the north to Xinhui in the south, he could deliver containers to customers when and where they needed them at costs substantially below competitors manufacturing in a single location. CIMC's dominance of the shipping container industry raises the question of whether the same formula—industry standards, a large domestic market, and favorable logistics—would strengthen other industries in China. To briefly re-consider CIMC's semi-trailer business, would not national standards for semi-trailers accelerate CIMC's efforts to consolidate the semi-trailer business domestically and, ultimately, internationally? Would not concerted efforts to reduce logistics costs—now 18.5 per cent of GDP in China compared with less than 10 per cent in the U.S.—promote growth and consolidation and hence the internationalization of many Chinese firms from positions of strength? Would not industry standards and reduced logistic costs promote the growth of national-as-distinct-from-local markets in China? Karl Marx and John D. Rockefeller both agreed on one basic idea: fragmented, hypercompetitive markets fraught with senseless, self-defeating price wars caused by firms unwilling to curtail production are not sustainable. Marx called this “anarchy in production.” Rockefeller complained about “ruinous competition.” Neither Marx nor Rockefeller, of course, imagined that a command economy could have become a hypercompetitive economy almost overnight as China has. Still, both Los Angeles 7,321,000 TEU, Long Beach 5,780,000 TEU, and New York/New Jersey 4,478,000 TEU.

had a good point, even if the cures that they proposed (and which Rockefeller actually imposed on the oil industry) differed radically.

Building National Markets

What can be done to build national markets and thus cultivate domestic firms capable of competing globally? A few seismic-type changes must be precipitated in encouraging investors, policymakers and academic institutions to become more integration-oriented. First, investors must begin to ask the tough questions of firms, in particular how firms will go about building national markets. Can your company operate as an integrated firm—regardless of your legal organization—rather than uncoordinated subsidiaries? Do you have a strategy to build a national brand, more than merely sales plan? Can you build a domestic platform strong enough to support globalization? Do you have a plan for corporate governance which will focus the firm on national competitive advantage and ultimately global advantage rather than short-term profitability in local markets? Many investors still mistake the size of the Chinese economy for the size of Chinese markets. They would do better to assume markets to be small and fragmented, unless proven otherwise.

In addition to clearer investor perspective, facilitative government policy will be pivotal. Any measures which can help clear the logistics logjam, including national trucking licenses, national standards for tractors and semi-trailers, or road taxes designed to encourage large, efficient vehicles, will be helpful. Any policy which can be put in place to simplify the administration of earned income taxes will be especially helpful to domestic firms seeking to expand beyond provincial borders. The writer asked a Chinese tax expert whether a domestic firm operating in several provinces would pay income taxes to local tax bureaus or the State Administration of Taxation. The tax expert's answer, in brief, was that nobody knows.¹⁴ More than anything else,

¹⁴ In greater detail: “Under the current rules, in general, the branches of a domestic enterprise should pay income tax locally. However, according to the information available, the new EIT law will provide that the domestic enterprises should, just like what the foreign invested enterprises have been doing now, pay EIT on a consolidated or legal person basis, i.e., the head office will be

a Chinese counterpart to the Commerce Clause of the U.S. Constitution, which forbids any state from interfering in any way with commerce between states, would pave the way for development of national markets in China. Though a Chinese counterpart to the Commerce Clause is not imminent, it should remain a long-term objective of government policy.

Finally, management schools have a special responsibility in developing national markets and firms capable of competing nationally and globally. It is a cause for concern that management schools—in China and internationally—focus too much on financial engineering and too little on building firms. Students should study the great firms of the world. They should ask how they were built, how they prospered—and most importantly why many failed. In the late 1920s, a group of Chinese railway engineers came to the Wharton School to study management. Certainly they knew of Wharton’s reputation, but they also came to Wharton because the headquarters of the Pennsylvania Railroad, then “The Standard Railway of the World,” was nearby, within walking distance. Today’s management students should do the same: they should learn from the great firms of the world how to build the great firms of China.

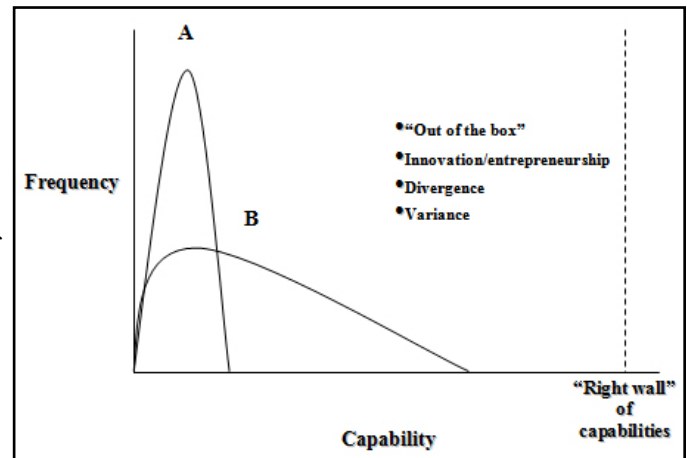
There is, of course, the question of how China might learn from the experience of other nations that have gone about building national markets. In the West, most of the market-building occurred quite early; for example, in the Commerce Clause in the late 18th century U.S. and the German customs unions, the Zollverein, of the mid-19th century. Supra-national markets, the European Union most notably, are more recent. In any case, China strikes me as very different from the West. China is very large, has a long and rich history, has never been governed by a colonial power although it has been occupied in wartime, and has not adopted a Western legal system as, for example, India has. These features suggest that localism will be more a more persistent in China than elsewhere and that a compromise between local and national responsible for paying income tax on behalf of the enterprise to the tax bureau in charge of the head office. This is going to impact the current tax collection and administration regime. I believe that once the new EIT law is in place, certain implementing rules will be adopted to clarify how the domestic enterprises should pay EIT.”

interests will ultimately be struck.

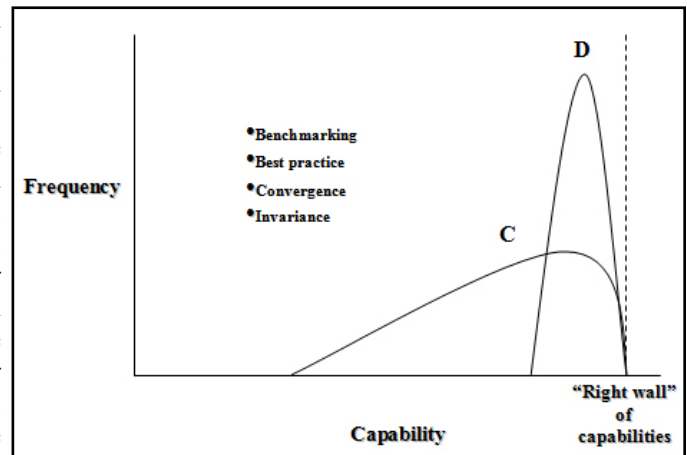
China can learn a great deal about its second economic transition from its first. One is the mirror image of the other. The first transition threw away the rulebook of the command economy. The first transition sought reform without defining what reform was. It was highly experimental—a casino—and created the vast differences now apparent to even the most casual observer of China. The second transition will require a new rulebook consisting of standards, norms, and conventions facilitating nationwide commerce. The second transition will seek to consolidate the gains of the first by making comparisons and then identifying best practices. It will be analytical rather than experimental and will close differences as best practices diffuse nationwide.

Two simple graphs capture how China’s first and the second economic transitions differ yet mirror each other. Both show firm capabilities improving over time, but the improvement processes differ dramatically.

The first graph, which corresponds to China’s first or what I call the A→B transition, assumes initial capabilities of zero, experimentation, but no basis for comparison of outcomes. Experiments succeed or fail, but firms do not learn from each other. Over time an upper tail develops, indicating that some firms, a minority, develop powerful capabilities.



In the second graph, which corresponds to China’s second or C→D transition, capabilities are more widely distributed initially, comparisons occur, and learning arises from comparison. Over time, firms converge on the “right wall” of the distribution, the upper limit of capabilities, as best practices emerge and diffuse. The second



transition could not occur without the first. The first transition induces variation

and improvement experimentally; the second transition reduces variation as a consequence of comparison and learning. Absent variation, neither comparison nor learning can occur. Nor could the second transition occur without a rulebook guiding comparisons—what is better practice, what is worse? The new rulebook defines performance (typically, capital markets), the bounds of acceptable conduct (laws and regulations), and exemplars (business education). Convergence and industry consolidation will go hand-in-hand in China as they have elsewhere. Thus, as China’s firms learn from one another and become more alike, their capabilities and their size will also grow together.

This is an optimistic picture, but a realistic one, of how China’s second economic transition could proceed.

Comparative social status of Muslims in Southeast Asia

Religiously-motivated insurgency in Thailand is cause to reexamine the attitude in the country towards the large Muslim population.

May Sripatanaskul

I always wondered how Bobo's wife could stay covered in her dress from head to toe in a hot and humid city like Bangkok. Every day after I got back from school and stopped by at his convenient store for a box of chocolate, his wife would be sitting in front of the store smiling at me from under her long scarf and dress. Living and growing up in See Yaek Bann Kaek, a predominantly Muslim neighborhood of Bangkok (สี่แยกบ้านแขก), my six-year-old self never understood the rationale behind the outfits that Bobo's wife and the other Muslim women in the area wore. Against the backdrop of recent religious tension in the south of Thailand and the increasing significance of the Muslim Thai population, I have walked down memory lane to the familiar streets of See Yaek Bann Kaek and realize how little I knew about the Muslim Thais that I had lived amongst.

It was only after moving to Singapore when I was sixteen to continue my high school education that I had an opportunity to broaden my horizons about my Muslim neighbors in See Yaek Bann Kaek. Singapore, a multicultural country populated by Chinese, Malays and Indians, is a place where racial and cultural differences mix surprisingly well. The Singaporean school which I attended featured several food stores in the school canteen that sold Halal food for Muslim students. We had a day off school for Hari Raya Aidilfitri the celebratory culmination of Ramadan. Though I was a foreign student, Chinese by ethnicity, I celebrated other cultural holidays alongside Muslims and Indians in the country. Singapore is a cultural and racial melting pot where

harmony between diverse ethnic cultures is admirably prevalent. Looking back at Thailand and considering the current insurgency that occurs in southern Thailand in relation to Muslim Thais, I sometimes wonder whether Thailand has taken these racial and religious relationships for granted or whether there was anything we had missed out on. There was a time when I felt ashamed for only starting to understand and recognize the culture of my Muslim neighbors in See Yaek Bann Kaek a decade later, outside of my home country.

It is arguably unfair to compare the Muslim populations of Thailand and Singapore; Muslims account for 14% of the population in Singapore but only 5% in Thailand.¹ Our population is more or less homogeneous, unlike Singapore, a new and modern port city where people of various creeds and colors migrate to make a living. It is not surprising to many people, therefore, that Singapore has a more culturally and religiously oriented public policy than the Buddhist-dominated Thailand.

However, the problem that we are experiencing in southern Thailand is not one that we can simply ignore or blame on the population of different beliefs. Muslim people make up a considerable percentage

of Thailand's population, particularly in the southern part of the country. According to the United Nations, Islam is the second most practiced religion in the country after Buddhism.² More importantly, religion-based insurgency, in addition to related political unrest and riots, has crippled the development and progress of Thailand in recent years. This gap of differences in religions and beliefs needs to be narrowed.

Discord with the Muslim minority in Southern Thailand is not new. It arguably began nearly a century ago with the partition of the Malay-Muslim Kingdom into Southern Thailand and Northern Malaysia under the Anglo-Siamese Treaty of 1909.³ The purpose of the separation was to keep Pattani, Yala, and Narathiwatt, the three southern provinces, as buffer states between the British Malay states and French Indochina. As the result of the treaty, the three provinces became the only Muslim-majority provinces in the Buddhist-dominated kingdom of Siam. Maintaining their religious and cultural identity in the region, therefore, is a major interest of these Muslim Thais. From my perspective as a non-Muslim Thai student studying overseas, the current insurgency in southern Thailand stems from the way these Muslims perceive their ethnic and religious status, and the way they have been treated by the Thai government and

1 International Religious Freedom Report 2005. US Department of State. The Bureau of Democracy, Human Rights, and Labor, 2005. <<http://www.state.gov/g/drl/rls/irf/2005/51531.htm>>.

"Singapore Muslim Schools Under Threat." BBC News 28 Apr. 1998. <http://news.bbc.co.uk/1/hi/programmes/from_our_own_correspondent/84556.stm>.

2 United Nations Thailand. <<http://www.un.or.th/thailand/population.html>>.

3 Noor, Farish A. "The Broken Dream of Malaya-Raya: Ibrahim Yaakob and the Rise of the Malay Left." The Other Malaysia. 21 Sept. 2006. <<http://www.othermalaysia.org/content/view/28/50/>>.

the local non-Muslim population.

The ethnic and religious position of Muslim Thais in southern Thailand is a precarious one. Thai Buddhism and Malay Islam are distinct identity orientations. The integration of Islam with the Thai Buddhist-influenced way of life in southern Thailand, according to the study done by the Faculty of Political Science at Thammasat University, poses the risk of jeopardizing the long-held ethnic and cultural identity of Muslim Thais. With insufficient support and recognition from the Thai government, a number of Muslim Thais in the south have been seeking to reinforce their identity through religious education in neighboring Muslim countries such as Malaysia and Indonesia. In fact, several mosques and religious schools (mandrasas) in the southern provinces of Thailand are under the patronage of foreign Islamic foundations.⁴ Al-Azhar University in Egypt, for example, gives out 80 scholarships each year, many of which are awarded to Muslim Thai students from the southern provinces. Clearly, this lack of Islamic recognition intensifies the situation in the southern Thailand. Given the struggle of Muslim Thais to reemphasize a distinct religious and cultural identity, it can hardly be denied that the country-wide ignorance of Islam has further accentuated the minority social status of Muslims in Thailand.

Another social factor that exacerbates tensions is the increasing perception of injustice and discrimination against the Muslim Thai. The disappearance of Muslim human rights lawyer Somchai Neelapaijit in October 2004, for example, intensified social tensions and aggravated the situation in southern Thailand.

No culprit has been apprehended in the case, and government authorities have failed to publicly clarify the status of the case. After several years, this silence has led to the perception among the people, in particular the Muslim population, that the government might have been behind the kidnapping. Though there might not be enough substantial evidence to draw any conclusions, the resulting perception of

4 "Southern Violence and the Thai State." Princess Maha Chakri Sirindhorn Anthropology Center, Bangkok. 18 Aug. 2006. <<http://www.bangkokbiznews.com/2006/special/south/pdf/southern01.pdf>>.

injustice towards Muslim Thais, creates the misunderstanding among the people in the country as well as the rest of the world that the Thai government is anti-Islamic. This, in a way, downplays the social status of the Muslim in Thailand.

Economic-related disparities are also thought to be one of the reasons behind the violence in southern Thailand. A survey conducted in nine districts of the three southern provinces identifies various problems that local Muslim communities face. These include poverty, unemployment, lack of education, inadequate supplies of land and capital, low standards of living, and other economic-related problems.⁵ Employment opportunities in the country, for example, are limited for the Muslim Thai youth who do not usually follow the Thai educational system and are not fluent in the Thai language, which is often a required qualification. Comparatively, the standard of living and the economic standard of Muslim Thais are lower than their Buddhist counterparts in the same provinces. Moreover, the conflict and violence in the southern provinces has caused unemployment to increase due to a general contraction in available jobs, which has further increased economic disparity between Buddhist and Muslim Thais.

Islamic insurgency in Thailand is not an isolated occurrence. Similar conflicts have occurred in nearby regions, and in many other parts of the world. The Philippines, for example, has also in the past been troubled by a religiously-motivated civil war between Muslims and Christians. This was also an issue of ignorance and inequality as the conflict began due to economic disparity between people of the two religions in the nation. Under the government of President Ferdinand Marcos, the Philippines found a solution to the religiously-motivated conflict by giving autonomy to areas with Muslim majorities. This area later becomes the Autonomous Region of Muslim Mindanao (ARMM).⁶ Islamic education is integrated into the existing national academic curriculum,

5 Dr. Srisompob Jitpiromsri and Panyasak Sobhonvasu, "Unpacking Thailand's southern conflict: The poverty of structural explanations" *Critical Asian Studies* 38:1 (2006), p95-117.

6 "AUTONOMOUS REGION IN MUSLIM MINDANAO." 15 July 2003. Census of Population and Housing. <<http://www.census.gov.ph/data/pressrelease/2003/pr0301tx.html>>.

“Ignorance of Islam has further accentuated the minority social status of Muslims in Thailand.”

showing the authority's recognition of Islam. Islamic holy days have been officially recognized in the country. The Islamic Studies Institute was also established at the University of the Philippines, and a code of Muslim laws was drafted and approved.⁷ It is this understanding and appreciation of diverse religious and racial identities that has brought together the people of the Philippines, closing the gap of differences. In this respect, Thailand's policies have been noticeably lacking.

Only in very recent years have initiatives and policies been pursued in Thailand to promote and improve the status of Muslims. At the National Security Council meeting on April 25, 2007, Prime Minister Surayud Chulanont stressed the importance of adjusting the educational curriculum to respond to the needs of the local Muslim youth.⁸ A plan has been initiated to support Muslim students throughout their educational career as well as assist them in securing employment. The Thai government has started to integrate religious study with academic study, broadening people's outlook on the issue of religious and cultural identities. Rom Klao High School in Narathiwat in southern Thailand, for example, has adopted the Thai-Muslim dual-curricular system. In this system, students are required to study an Islamic curriculum together with the regular Thai academic curriculum.⁹ In addition to this, the government has also been working with Royal Thai Embassies and the Central Islamic Committee of Thailand (CICOT) to provide more opportunities for the Muslim Thais at both educational and professional levels. The clear message of this movement is that the Thai government is working hard to improve the status of Muslim Thais.

Such conflicts in southern Thailand have also been partially ameliorated by the attention paid to the region by the Thai royal family. Frequent visits by royals to the region during recent years demonstrate increasing awareness of religious divide. As

far as I can remember, royal family members have alternated travelling to the southern provinces to offer help in alleviating the conflict and improving the quality of life of Muslim Thais. The recognition of the Muslim Thai's status by the King and his family, to a great extent, helps ameliorate the tension between Buddhist Thais and Muslim Thais in southern Thailand.

The Islamic insurgency of southern Thailand is a complicated problem which involves many sensitive issues. The root of the problem is the role, status, and recognition of Muslim Thais in Thailand. Improving relations in the region between different cultural and religious populations will require long-term open-mindedness. Observing the government's campaigns from an international perspective, Thailand is certainly making progress in fostering unity and reconciliation. Yet confusion still occurs when other political problems are pinned to Islamic insurgency in the south. It is crucial however, that Thailand does not stray from its current direction because of these distracting issues.

This is all about opening our minds and accepting the differences. As Mahatma Gandhi has once put it, "If we are to respect others' religions as we would have them to respect our own, a friendly study of the world's religion is a sacred duty." Back on that same old street of See Yaek Bann Kaek, I wish that the non-Muslim kids in the area would understand and know more about their Muslim neighbors than I did in my childhood.

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7 McKenna, Thomas M. "Muslim Separatism in the Philippines: Meaningful Autonomy or Endless War?" *Asia Social Issues Program*. <http://www.asiasource.org/asip/mckenna_rebellion.cfm>.

8 "It'S High Time Authorities Pay Attention to Thai Muslim Students Overseas." *Prachatai* 11 June 2007. <<http://www.prachatai.com/english/news.php?id=29>>.

9 Channel 11 News. Bangkok. 30 June 2007.

Interview: Globalization and Science Fiction

In an interview, globalization expert Dr. Howard Perlmutter offers insight into managing multinational institutions, globalization in Asia, and the possible fates of global civilization.

Recently you were named one of the 125 most influential people in Wharton's first 125 years of existence, largely for your contributions to developing the management of global systems. We can imagine how one can cultivate an interest in electrical engineering by taking apart their computer and putting it back together, or even in finance by investing money in the stock market. What life experiences caused you to become interested in globalization?

The most significant experience was teaching at the IMEDE Business School in Lausanne, Switzerland.¹ Towards the beginning, I was one of only six faculty members who taught only 50 students, most of whom became chief executives after they left the school. The students were from at least 30 different countries, and they spent a whole year there. After staying there 5 years, I got to know everyone well. I also tried, in many cases, to get to know their countries and the critical nation-building issues that they were facing at the time. This was the beginning of my first work on the global corporation and the multinational enterprise.

The next major influence was when the Polish government asked me to go to the country and act as an advisor. Although Poland was a communist country,

¹ IMEDE merged with IMI in 1990 to form the International Institute for Management Development (IMD) in Lausanne, Switzerland.

they wanted to develop a new kind of enterprise that embodied a combination of both communist enterprises and American capitalist enterprises. They were concerned about the reaction of the Soviet Union, but I said, "Let's try it. 50 companies. 50 American companies." Those ventures were called trans-ideological enterprises because they combined communist and capitalist enterprise models. The Poles really wanted to be capitalist, but the Soviet army was nearby so they could not do what they wanted. We established 50 enterprises and then the news came from Moscow that that was enough.

While I was in Poland, I got a message from the archbishop of Krakow in Poland, who had read my writings, saying that he wanted to discuss global institutions with me. I had categorized firms as either ethnocentric or geocentric. Ethnocentric institutions are only accepting of a certain home nationality, while geocentric are accepting of all nationalities, given a certain level of competence. So I spent a day with him and he asked me, "Is the Catholic church, by your definition, a geocentric institution?"

I said, "No, but maybe it will become geocentric. And the only way that the Catholic Church could become geocentric is if they made you the pope, but I have no influence on that." He said that that would never happen. He later became the Pope. He was John Paul II. He wrote me after he became the Pope saying, "I don't know if you had any influence but I am the Pope now."

The critical notion is that globalization means that the nationality

"The key idea was the geocentric idea—that capabilities, not nationalities are important."

of your passport does not really matter. That was the principle behind my work as an advisor to many companies. I worked as an advisor to IBM and helped it to choose its first non-American president, a Frenchman named Jacque Maisrouge. When I became an advisor to Samsung, I encouraged them to develop a new way of thinking about global markets because global markets do not necessarily behave like Korean ones. Also, when you are in other countries, you cannot treat employees as foreigners. You have to try to make the people who work in your company feel like they are full members and not second-class citizens. Samsung has done a very good job at that. We had many conferences where they would invite people from different countries and develop that atmosphere. The key idea was the geocentric idea—that capabilities, not nationalities are important.

I emphasized the same thing to the French government when they asked me to plan Paris as a global city—as a geocentric city. I wrote a plan in which I said that *Paris est une ville où on n'y a pas les étrangères seulement les êtres humaines avec les passeports différents*. Paris will be a city where there are no foreigners, just people with different passports. They said, “That is really beautiful, but it will not work for Paris because we are French you know.” But they established a science city for that purpose, which was for scientists from all over the world.

Now the main point, the main theme of my work is how you move from the stage where you feel there is only one right nationality to the stage where you feel comfortable with people of all nationalities. A truly global company cannot go to another country and assume the people will adapt to their ways. On the other hand, a global company cannot adapt to any particular local culture. So you have to learn from everybody, everywhere around the world.

You mentioned that ethnocentrism is an obstacle to creating global companies and institutions. How do you define ethnocentrism, and how does it detract from developing global institutions?

Ethnocentrism is a mixture of xenophobia and pride in one’s own background. It is not just the fear of foreigners, but the trust of only those who speak your own language. A very

ethnocentric person would probably say that something does not sound as good because it is being expressed in a different way. Ethnocentrism is not necessarily fear; it can be pride. Americans tend to be very ethnocentric because we are a big country, and we are superior in many respects to other nations. But what is happening in the world today is that ethnocentrism is not working.

Other nations, such as China, have tried breaking away from ethnocentrism. I spent a lot of time in Shanghai and I was teaching about globalization. The Chinese were extremely interested in it. The mayor at the time was Zhu Rongji, who later became Premier of China.² He wanted to make Shanghai a global city, which he made a lot of progress in doing before Beijing told him he had gone too far. He had said that he wanted to make it a city where everybody felt comfortable, and that you did not have to be Chinese. The idea was that you would have a geocentric city where nothing on your passport mattered except that you were in Shanghai, the global city. That is what Zhu Rongji wanted, and he got away with it for about 40 years. The goal was to attract company headquarters and scientists from all countries to Shanghai. The scientists had to feel that Shanghai was a place where cutting-edge scientific research was taking place. It worked out pretty well.

The French did the same with that science city I mentioned because they could then bring scientists to France. If they had just brought them to Paris, they would not have felt the same level of comfort.

Since you mentioned China, what role do you think China will play in the globalizing world?

I think that there is an interesting shift happening right now. There is a new book you should take a look at called *The Second World* that describes this shift.³ America’s power is declining. Iraq and Afghanistan are probably not going to work out. The point is that the two big rising powers in the world are in what is termed the “Second World.” They are India and China. There are a billion people in India

² Zhu Rongji served as Mayor and Party Chief of Shanghai from 1987 to 1991, as Vice-Premier from 1991 to 1998, and as Premier from 1998 to 2003.

³ Parag Khanna, *The Second World: Empires and Influence in the New Global Order* (Random House, 2008).

Howard Perlmutter is a Professor Emeritus in the Management Department of the Wharton School. His ideas regarding meeting the challenges of an emerging globalized civilization have received worldwide attention since he wrote “The Multinational Firm and the Future” in 1972. Professor Perlmutter was the Keynote Speaker at the first two World Economic Forums, and was named in Wharton’s list of its “125 Most Influential People and Ideas” in celebration of its 125 years of history in 2007. He is currently writing a book titled The Race: First or Last Global Civilization. Professor Perlmutter teaches a seminar on Global Problem Solving during spring semesters.

“I see it as a period where we can either begin to treat the foreigner as the enemy, or learn that when there is a crisis of this kind, we have to achieve a higher level of cooperation worldwide.”

and they will soon have a 1.2 billion people. China’s population will stay at about 1.3 billion. These are the leading countries in the BRIC group, the new developing group of countries.⁴ What is curious about them is that they are not that democratic; of these nations only India calls itself democratic. Brazil is mildly democratic. Russia is trying to pretend it is like China, which is not democratic, but from the ground up has local elections. These nations constitute this “second world,” which in the view of the author will replace the first world. Certainly their populations are, and will continue to be very large.

China is one of my favorite topics. The Chinese have about 400 million poor people. Their progress is still remarkable because their 800-900 million strong middle class is a very large middle class. But there is still a lot of poverty, especially in the countryside. Reducing that poverty will take some time. I wrote an article about the futures of China. One of them had to do with China, now one of the leading countries of the world, growing not by developing an empire, but by developing a series of partnerships around the world. The Chinese follow this to some degree with a few exceptions. In Africa, for example, the partnerships are limited because African nations are kept at the level of resource countries with little developing industry.

Nevertheless, I think it is interesting to note that China still struggles with the concept of what constitutes a “global corporation,” which I write a lot about. I define a global corporation to be a corporation that is both viable, which means it makes money, and legitimate, which is to say that it must satisfy the stakeholders. In my experience, many companies and leaders in China misinterpret stakeholders to be shareholders—and I mean them very differently. Stakeholders are comprised of a wide variety of groups in society that are affected by a company’s actions. Not understanding this concept of legitimacy in global corporations can be problematic. If a company is only interested in viability, measured by the bottom line and by profits,

⁴ BRIC is comprised of the Federative Republic of Brazil, the Russian Federation, the Republic of India, and the People’s Republic of China.

it is liable to run into trouble because it will choose cheaper products, some of which could be dangerous. It will be happy to do this because it is making money. In the case of the Chinese, they might begin to put poisonous glycol into foods or make toys which have various degrees of questionable paint.

As a professor of social architecture, I encourage Chinese leaders and corporations to move from being enterprise builders to social architects. Social architecture differs from enterprise building in that it builds institutions that are both viable *and* legitimate. Legitimacy is defined not by the institutions themselves, but by the stakeholders who judge whether or not the institution has a positive impact on society. In the United States, an institution that is not legitimate in the way I have described is liable to be sued. In China, legitimacy is not as reliably enforced.

Keep in mind that we have reached, in the twenty-first century, a new kind of social architecture of the enterprise that is subject to a very transparent world. If you make a mistake, such as putting poisonous things in food, which you sell to the United States, it is going to be in the headlines the next day and you will have the worst publicity you can imagine. Likewise, if Mattel sells toys with paint that has some arsenic in it, you cannot keep it quiet. In the transparent world we have today, bad news travels quickly.

The Chinese need to develop an understanding of this new sort of enterprise in a transparent world, because the general conception in China is that as a capitalist, you are only concerned with doing what you do to make money. The whole notion that the Chinese enterprise of the future must be viable and legitimate is new. When I talked to Zhu Rongji, I said that he had to watch this, because it will take a long time to recover the confidence of the people. So we begin to see the evolution of what I call the twenty-first century enterprise. The speed of what I call the “transparent” or “naked” enterprise is the theme.

You described how globalization facilitated the diffusion of unsafe products. How do you view such interdependencies that globalization has caused?

I spoke with a group of people from China who said this problem with recession

is an American problem and it comes from low limits of lending and mortgages and so on. Unfortunately, it is not just an American problem, and everyone else, including the Chinese, are going to feel the effects of it. Although in the world we now live in, constructive global interdependence is possible, so is destructive interdependence. If, for example, you are loaded with dollars as China is, and you want to invest in American companies that are going through a recession, your dollar is not going to be worth as much.

Interdependence makes bad things travel fast too. So it is very unlikely that we are going to have a recession that is isolated; it is going to be global. It certainly will not be just in the United States. We are watching a spiral take place where what happens in one country economically affects the other. It is very hard to stop this unless you just sit on your cash, and never invest it in any other place because by now, the interdependencies are so great. We are going through a very difficult period, and I do not know where the bottom of the recession is.

What reaction do you anticipate from different nations to this potentially global recession? How do you think these interdependencies will impact the political decisions that affect the economy?

Certainly the reaction of the Democrats will be to limit imports from China and other foreign countries with the goal of creating jobs in America, even though products will cost more. There is this notion that the only way to cope with a rapid diffusion of uncertainty is to put the borders up. What was the global environment will become a much more protected environment because each nation will not want its people to be unemployed. The unemployed are voters too. We have this complex period where the farther the recession goes, the more protected the world becomes everywhere.

But the Chinese cannot afford to do that, and neither can the Indians. They need exports, and 90% of their exports are still coming to the United States. There is not enough of a market in China to absorb all of these products. Most of the products were not designed for China anyways. I see this as a period where we can either begin to treat the foreigner as the enemy,

or learn that when there is a crisis of this kind, we have to achieve a higher level of cooperation worldwide. There is great potential for both a retaliatory, competitive economic war and a new, even greater level of cooperation. I am hoping we will go in the direction of the latter because everyone will be hurt by a war of protectionism. It could be a new stage for what I call the first global civilization.

Can you give us a preview of the book you are working on that discusses the topic of the first global civilization?

The title of my book is *The First or Last Global Civilization: The Race*. A global civilization is defined by the different domains that constitute a civilization. There are, in my view, ten civilization domains, which include politics, economics, society and culture, science and technology and others. With globalization, there are many promising prospects for each of these civilization domains. This is the first global civilization, for example, which is expanding into space. But in my view, while the first global civilization has many prospects, it is equally likely that the first global civilization will be the last one. In each of the domains of civilization, there is an apocalyptic scenario, such as global warming. Al Gore wrote a book called *An Inconvenient Truth*. Sure, he sold a lot of books, but not much is being done. Certainly China and India are not going to be wild about environmental protection measures. From such apocalyptic scenarios, each domain of global civilization can deteriorate into fatal scenarios.

For example, globalization can lead to such a fatal scenario in inter-religious conflicts because of the contact that it allows between Islam and the West. The conflict is complex because in Islam, in the extreme, there is a fundamentalist reverence for death. Death is the purpose of life. That is why you can convince a jihadist to commit suicide and the family does not mourn for him. They believe that he is going to a better life. The West, on the other hand, tends to have a reverence for life. Although there is an obvious incompatibility, as long as there are no serious weapons involved, we can let a

“While the first global civilization has many prospects, it is equally likely that the first global civilization will be the last one.”

few jihadists blow up. But Pakistan has 60 atomic weapons. Mr. Musharraf, who was just at the World Economic Forum in Davos, said that he is very confident, but he is only one bullet away from not being confident. As we all know, Benazir Bhutto is no longer with us. The Al-Qaeda group could use 60 atomic weapons. North Korea could be selling atomic weapons, and they were going to teach the Syrians to make them. I talk to friends in the Middle East, who have said that the moment the Iranians get an atomic weapon, the Saudis are going to have one, and the Egyptians are going to have one. The Syrians will find them, and the Israelis have five hundred already. So it is not difficult to draw what I call apocalyptic scenarios for the Middle East. They are not imaginary. There are series of things that are difficult to control, and they are set in motion by two or three people. I call these scenarios apocalyptic scenarios. Some of them spread to become catastrophes. In my book, I discuss how you move from catastrophes to final scenarios.

Let me give you an example of a final scenario. There is an interesting article called "The One-Man Rule." This is the one in which, within twenty-five years, a single scientist, through nanotechnology, can alter the atmosphere of the planet and completely end life. One person can do this. I do not have a solution for this one, except to have extremely open surveillance of everybody. So we are now dealing with what we call "the transparent person." We are now interested in the motivations of people, which is getting pretty personal. Sir Martin Rees, a great astrophysicist, has written a book called *Our Final Hour*. He says that there is only a 50-50 chance that we will survive the mid-21st century because the knowledge that will be spread cannot be controlled.

Also, of the 100 suitcase bombs that went missing when the Soviet Union broke up, many are still missing. Somebody has them. Who do you think has them? Do you think they are good people? Are they waiting for the highest price? One thing that is for certain is that we are very worried because each bomb is the size of a suitcase. That is not big. Atomic bombs used to take a lot of apparatus. Now they are smaller and more powerful. There is now also nanotechnology. Every great technology has a destructive capability. So what you will not read from the optimists and what I have tried to write about are the fatal and

final scenarios coming from technologies. They can come from anywhere: from oppositional groups, fundamentalist groups, or even individual scientists. This is not Asia-oriented, but Asia is part of the problem and part of the solution.

In light of these apocalyptic, possibly final scenarios, do you believe there is any credence to the anti-globalization view?

Global has positive aspects because good ideas can go anywhere in the world, but so can bad ideas. I think this is the point. I started out thinking that globalization would be wonderful if somebody found a cure for cancer. I used to work for the World Health Organization. I was very interested in our world-wide meetings because we had doctors from all over the world sharing information. This was globalization. But then I thought that there might be meetings of people involved in drug smuggling; they have their meetings too.

Through the internet, you can connect anywhere in the world. So I have come up with a view that you should have a whole new set of digital global institutions to counteract the destructive ones. The key idea I teach in a course is what is called the "University of the Universe." There is a group working on this. It is concerned with how you develop a virtual university that connects all the universities around the world and develop courses that allow people to work on these key problems. The question that I am raising is whether or not, with the collective wisdom that we can get from the virtual "University of the Universe," we can find a solution to the "One-Man Rule." I do not have it myself.

It is fascinating how these apocalyptic scenarios bring things up. There are two notable works of science fictions. One is George Orwell's *1984* and the other is Aldous Huxley's *A Brave New World*. I knew Aldous Huxley. We spent some time together when I was teaching at the Menninger Foundation. I think he really believed that the human being has a fatal flaw as its design. He said that the human being is always underestimated and punished to the degree that he becomes human. I did not quite understand that. So we went to the Veterans Administrations in Topeka, Kansas and visited the catatonic ward.

"Come in Howard," Aldous said. "We are going to spend some time with them."

I said, "What are you going to do? I mean, they can't hear you."

"Well," he said, "you wait." He cut a rose from the garden outside and brought it in there. He began reciting a lovely poem about this rose. Everyone's heads began to lift up. Nobody said a word. After awhile, all these heads were looking at him. It was a lovely rose, but it was not that nice; he made it sound very nice. As we were heading out the door, somebody said, "Hey, why can't we get psychiatrists like him for a change." The whole notion that we do not really communicate to the depth of our understanding was Huxley's point—that because of our design, we make sensitive people very fragile. But with *A Brave New World* I guess you can see he gave up. I bring up these works of science fiction because we do not know what the solutions, the alternatives, to these fatal and final scenarios are. What would it take to guarantee a future life and to overcome our vulnerabilities? I do not have the answer.

What I worry about is the only solution that people have come up with, which involves surveillance. In New York City, there is surveillance apparatus at every corner. People do not mind it, because if someone is fooling around, it is on a screen somewhere. But suppose you could do that with human minds? That would be a little uncomfortable. First, how would you get 8 million people on screen? Who would watch it? Who will watch the watchers? How do we solve the problem of the vulnerability of humankind down to a single human? This is the "One-Man Rule" problem. I will not stay preoccupied with this particular solution, but I just want to indicate that one of the possible directions is to be far more suspicious of all people, particularly given the dangers of single individuals.

In the early part of the 21st century, there can be a lot of fatal scenarios. If you look farther off, you start to see final scenarios. There is a very interesting book called *State of the Future* which is published by the United Nations. There are many pages of scenarios. Many of them are neither fatal nor final, but many are serious. There is a blockage in the mind to even face fatal scenarios.

Wealth Myths in Southeast Asia: A Review of Joe Studwell's Asian Godfathers

Jeisun Wen

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The economic landscape of Southeast Asia is characterized by extremes. In a region of almost 500 million people, the vast majority live in poverty, with a tiny few enjoying gigantic wealth. Southeast Asia's Latin America-style wealth distribution indeed stands in stark contrast to notions of the Southeast Asian "Tiger Economies" so hyped in the 1990s, including Indonesia, Malaysia, Thailand, along with the deep-water port cities of Hong Kong and Singapore. How did it come to be that a region with no non-state company in the global top 500 could have boasted thirteen individuals among the top fifty wealthiest in the world and eight in the top twenty-five right before 1997's collapse? Why has the "miraculous" region been so inept at creating wealth for the vast majority of its populace, and furthermore, so lagging in its cultivation of globally competitive multinational corporations? These questions are addressed in Joe Studwell's new book *Asian Godfathers*.

Joe Studwell, who has been a writer and journalist for the *Economist* and *Financial Times* in Asia for seventeen years, is no stranger to writing books that challenge widely held beliefs about the region. In his 2000 book *The China Dream*, he contested the hype surrounding China's economic growth throughout the 1990s, and documented the mishaps of multinationals scrabbling for a piece of China's domestic market. Seven years later, Studwell returns with a new book that ultimately seeks to

reshape how Southeast Asia's development is widely appreciated. With the title's allusion to the 1972 Puzo bestseller and adapted movie series which wouldn't escape any reader, *Asian Godfathers* is an expose of the economic and political powerbrokers of the Southeast Asian economies and their claims to exceptionalism. Studwell chooses to call the tycoons of his book's focus "godfathers," not to suggest any relationships of the businessmen to mafia, but because, in his words, the term expresses the "traditions of paternalism, male power, aloofness and mystique that are absolutely part of the Asian tycoon story."

Studwell's story is an enlightening one. Fairy tales told by the mass media about these tycoons are formulaic, and familiar. Godfathers are ubiquitously described as brilliant entrepreneurs, economic clairvoyants, captains of wealth creation, and self-made individuals who have seized the opportunities of liberalized markets to create diverse business empires out of practically nothing. Studwell attempts to demonstrate that, with only a few exceptions, these claims have little real substance. Studwell asserts that the godfathers create little, if any, new wealth in the six economies that he investigates—Hong Kong, Indonesia, Malaysia, the Philippines, Singapore and Thailand. Instead, he argues, the tycoons are rent-seekers who have, by some political machination or other, gained monopoly access to a limited resource (such as raw materials, port facilities, or banking or gambling licenses) and exploited it to serve as the foundation of an artificially-constructed business empire.

Asian Godfathers is organized by themes, rather than by countries or personalities. Part I is composed of an historical overview of Southeast Asia which pays especially close attention to the region's economic and immigration histories. Herein, Studwell lays his foundational thesis for the book: that each of Southeast Asia's economies are the products of a type of relationship between political and economic power which independently developed in the economies' respective colonial eras, and were sustained, with a different cast of characters, in the post-colonial era, with the basic system of exchanging favors between politicians and business elites unchanged.

Part II, entitled "How to Be a Post-War Godfather," describes how tycoons cultivate core cash flow, build functional organizations, and develop banking capabilities. Studwell argues that monopolies secured by each of the godfathers through political favors were milked as cash cows and then used to fund diversification into other businesses without any requirements to generate the technological capabilities, branded corporations and productivity gains which drive sustainable economic development. Studwell observes that the godfathers' companies do little manufacturing production themselves, but usually facilitate entry of multilaterals and extract their own cut. This seems to indicate that strongest suit of the godfather class is trading and shrewd relationship management, rather than managing production. The result is economic growth not *because* of the

godfathers, but *in spite* of them.

It is worth noting that in this section Studwell avoids analyzing stock market performance or other publicly available performance data to serve as proxies for wealth creation of the listed companies in the godfathers' business empires. Studwell understands an important lesson for a student of Southeast Asian capital markets: that listed vehicles of these economies' conglomerates are rarely indicators of overall company performance. In some cases, simply identifying the actual assets contained in the listed vehicles is a haphazard process in the ill-regulated securities markets. One cannot expect transparency or consistently reliable corporate governance in Malaysia, Thailand or the Philippines.

Part III describe the exuberance of the 1990s, and concludes with a case for political reform so that Southeast Asia can prevent itself from becoming, essentially, another Latin America. Studwell argues that centralized governments which under-regulate competition and over-regulate market access guarantee that asset traders will rise to the top by arbitraging the economic inefficiencies created by the politicians. This trend, he says, is reinforced by "manipulated democracy" that requires such big spending that it can only be sustained by direct political ownership of big business or contributions from nominally independent business which is actually beholden to politicians. The result is the creation of a godfather class of business elites, a persistent drag on economic growth, and entrenchment of widespread poverty. The lack of brands or globally competitive companies to have emerged from Southeast Asia is not very surprising, given these conditions. Japan, South Korea and Taiwan stand apart as bases of well known global corporations. That is in part because those countries implemented land reform which gave almost everyone access to some capital on which to build. They nurtured manufacturers and firms that could originate technologies, and they persevered in their painful transitions to democracy.

Importantly, Studwell does not *blame* the godfathers for their actions, past the extent that reporting his observations would itself be considered an indictment. In Studwell's view, the godfathers are a product of their environment. Politics in the region have fostered rent-seeking, high-

powered business elites who can provide a wide range of services to politicians ranging from financing to other expediencies. The godfathers, not exactly gangsters, are merely filling a niche. Real progress can only begin with a fundamental change in politics.

Asian Godfathers is an easy and engaging read, as the narrative shifts from broad economic overview to specific discussions of the godfathers' business empires and the lurid details of their personal lives. The economics presented in this book are coherent and sensible, but the book is most extensively a review of the cultural and business aspects of the godfathers' operations. It is well worth reading for anyone interested in the political economies of Southeast Asia, and the economics of developing nations in general.

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