

Firms must adjust to rise of Asian consumers

New realities force a rethink; S'pore's hub status may be hit

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(SINGAPORE) At the 15th Singapore Economic Roundtable on Monday organised by the Institute of Policy Studies (IPS), one of the participants - head of an international business organisation in Singapore - made an important observation. His bottom line: the way the region is developing, Singapore's 'regional hub role' may not be what it is now for much longer.

One of the big changes underway is this: some of the large economies of the region - notably China, India and Indonesia - are transforming rapidly. In particular, their domestic consumption levels are taking off. As this process gathers pace, more multinational corporations (MNCs) will view them not just as production platforms to export from, but as critical markets in their own right.

MNCs will come under pressure to shift more of their operations to these countries, including strategic planning, product design, marketing, treasury, and even headquarter functions perhaps. For many companies, it will no longer be tenable to manage their China and/or India and Indonesia operations at arm's length, out of Singapore, as they currently do. To that extent, Singapore's 'regional hub' role may diminish - or at least change.

The take-off of Asian consumption, led by China and India, is certainly on the cards, if not already underway. According to a 2010 study by economist Homi Kharas for the OECD, Asia's middle class (defined as households with daily per capita incomes ranging from US\$10 to \$100 per day in purchasing power parity terms) currently accounts for just 23 per cent of total global consumer spending. By 2020 it will be 42 per cent, and by 2030 it will swell to 54 per cent - more than five times that of North America.

China, especially, is designing policies to rebalance its economy to rely less on exports and more on domestic consumption (which stands at about 35 per cent of GDP, among the lowest ratios in the world). It is raising wages in its factories, gradually allowing its exchange rate to strengthen and expanding its social safety nets. All of these measures will, over time, boost domestic consumption.

India, which has a higher proportion of consumption than China relative to GDP, is nevertheless taking steps that will raise consumption further. For example, over the next decade, India's economic planners see a dramatic acceleration in the spread of rural banking, aided by the use of biometric devices. A rural consumption boom could be one result. Given that the majority of India's population lives in the countryside, this will be a big deal. Indonesia too will be a big consumption story. Surveys reveal that Indonesian consumers are among the most optimistic in the region.

Not only MNCs but also Asian companies will have to adapt to the region's accelerating consumption over coming years. To be sure, many consumer-focused MNCs as well as some Asian companies are already active and thriving in China and India, a few of them having entered only in recent years. But there are still a lot of companies, including in Singapore, which

view China mainly as a production platform - the fulcrum of a supply chain which, in the end, serves mainly the American and European consumer.

Many companies view India through a similar lens, but in the context of services: India as the back-office, the place to offshore operations or locate call centres or contract out research. China and India will retain these roles but will also, together with Indonesia, take on other roles - those of dynamic and attractive domestic markets, and not just in the big cities.

To do business with these economies, many companies will have to ask questions they have never asked before: who are the Chinese, Indian and Indonesian consumers? Where are they concentrated and how are they segmented? What drives their behaviour as consumers? What do they spend their money on and how can they be reached? Asian companies will also have to join MNCs in operating in these highly competitive domestic markets, including in semi-urban and rural areas.

If companies want to ride the next big wave in the region - the rise of the Asian consumer - many of them will have to prepare for a quite different type of engagement with the large economies of Asia compared to what they have today.