

Old world, new opportunities.... exchanging knowledge with East Asia

Summary of advisory report 25

Asia's emergence

A country's contribution to the worldwide development of knowledge depends on its level of prosperity; as regards science and technology, the exchange of knowledge is primarily confined to the rich, industrialised countries. In Asia, until recently, only Japan counted on this score. Now the Asian tigers, like South Korea and Taiwan, are rapidly jumping on the bandwagon and are increasingly making their mark on the world's technology stage. Other countries are following in their wake, particularly the larger ones. In practically all the countries of East Asia, national incomes are growing by 5 to 10% per annum, a figure unequalled anywhere else in the world. In combination with their huge populations - half of the world population lives east of Pakistan: 200 times as many as in the Netherlands - the centre of the world economic stage is shifting fast to East Asia.

The dynamics of the growth centres in East Asia is being reflected in employment in Europe. Some branches of industry have virtually disappeared altogether, such as large-scale shipbuilding. In other sectors, major parts of new business activities, such as electronics and the car industry, have ended up in Asia. The emergence of these industrial sectors is resulting in a sharp rise of Asian countries on the R&D ladder.

Opportunities for Dutch businesses in Asia

The emergence of East Asia also creates opportunities; a powerful consumer market is being created from which European companies can benefit. Food, oil and chemicals are industrial sectors in which Asian companies are less prominent. And that applies equally to IT-related services, the most rapidly growing sector of the economy. If the Netherlands manages to attract jobs in this domain, the emergence of Asian industrial countries will not constitute a threat but will in fact offer opportunities. To be able to take advantage of these opportunities, we first have to ensure that there is a sound training infrastructure in our own country. The quality of the scientific and technological base at home are the main link in the exchange of knowledge, also between the Netherlands and Asia.

Individual companies can improve their competitive edge by having some of their production done in countries where wages are low and people are clever and service-minded. Overall corporate activities may increase in scale as worldwide distribution enhances companies' competitive position on an expanding world market. This in turn may boost employment in general and in Europe in particular. One can illustrate how great the growth in the world market frequently is from the investments that are needed in China alone to achieve its goals in the field of telecommunications; every year three times as much will have to be invested as the total amount West Germany had to put into East Germany after German unification.

Viewed as a whole, the Netherlands does not score badly in East Asia. From an international point of view the Netherlands is a trading country and an investment country and this is a profile that emerges in Asia as well. The Netherlands accounts for 10% of all the trade between the European Union and East Asia, 10% also being the percentage of the Netherlands in the total trade of the EU (excluding trade between the member states). By comparison, the Netherlands accounts for approximately 5% of the EU's Gross Domestic Product (GDP). In the domain of direct foreign investment, the Netherlands position is even stronger, certainly in comparison to other EU countries. Only companies in the United Kingdom invest more in Asia than Dutch

companies, both in absolute figures and as a percentage of GDP. Other European countries lag far behind; Dutch companies invest more in East Asia than French and German companies put together.

Cultural differences

Companies and institutions that want to take advantage of the growth prospects on the East Asian market will have to do business there. To be able to do so successfully, they have to take into account the local culture. Generalising, one might say that Asians are more collectively orientated and Europeans more individually orientated. In East Asia emphasis is more on tradition and family ties than in Europe. Agreements are much more readily concluded between persons rather than between companies and the economy follows the path of the unwritten law rather than law of the statute books. This distinction does not imply that all countries in East Asia are identical, any more so than the countries of Europe are. If anything diversity in East Asia is greater than in Europe; Japan culturally is a continent in itself differing dramatically from the other archipelagoes and the Asian continent. International companies have specific approaches to each country because of these cultural differences. In Japan and South Korea, people prefer to work for a (major) national company while in Taiwan the highest ideal is to have one's own business. The possibilities for Western companies also differ from country to country, as emerges from the company profiles in the individual countries. In Japan and South Korea the economy is almost entirely concentrated in the hands of local companies, while Taiwan and Singapore have many major firms which are owned by foreign parent companies, including Philips and Shell.

Business locations policy

To be able to take advantage of opportunities on the changing world market, the major multinationals in particular carry out large-scale studies. They have their own staff for this and they are also advised by specialist companies including banks. These studies are ranked among these companies' corporate secrets. However, one can readily gather from investment decisions what the relatively sound options are: these are the places where many businesses have already been set up. If one company comes to the conclusion that a certain location is a favourable one, there is a big chance that another company in the same sector will reach the same conclusion. US and Japanese companies wanting to set up a distribution centre in the north west of Europe on the whole will follow their fellow countrymen who have already opted for a distribution centre in the Netherlands.

A company that is the first to set up business in a place is reminiscent of those pioneers hacking their way through the jungle. A second person that comes along can take advantage of the track that has been formed and as time goes by a path is created that many can use. This creates opportunities for smaller companies who would otherwise be unable to pay the price of pioneering work on the East Asian market. Dutch universities seeking cooperative ties could opt for Asian institutions which are located on a path that has already been cleared away by a Dutch business. The Netherlands for example is the distribution country of Europe so, when it comes to cooperation, there are gains to be made by opting for places which function as distribution centres in Asia, such as Singapore, Hong Kong, Shanghai and Tokyo.

Government support

The role of the government is limited. The government must in any event not seek to set a trend by itself opting for suitable places for Dutch businesses to move to. Nor can it do so in view of the fact that the embassies employ only a fraction of the people who work for companies on location analyses. The government has to latch on to the choices already made and tread the well-worn paths. Should the occasion arise, embassies can explain where those paths are and where good guides are to be found. To be able to fulfil this briefing role well, it is important for the focus of embassies' work to shift more profoundly from diplomacy to business activity than has currently been catered for in the latest foreign policy review. By having greater resort to people with a lot of business experience in the countries in question, a relatively high-quality service can be provided.

It is unnecessary for the base for these activities to be in the embassies; the British Council, to judge by the way it works, is an example that springs to mind. In Indonesia and Japan, the Netherlands has similar agencies. The Netherlands ought to be developing back-up activities in more countries for example by setting up Holland Houses; places where people can meet for cultural exchange but also for services to Dutch businessmen, just as university business centres cater for new entrepreneurs. It would be financially impossible to set up a Dutch agency in each country, but it would seem relevant to do so for China at any rate.

The European Union should be encouraged to create a more pervasive presence on behalf of the member states. Where such a path is difficult of access, the Netherlands could seek cooperation with small countries in north west Europe so that they can develop activities together.

Exchange of knowledge

For the private sector, knowledge is a weapon in the competitive battle that either has to be kept secret or has to be protected by means of patents. In the private sector, knowledge is being exchanged by means of partnerships between parent and subsidiary companies, by exchanging licences, by entering into joint ventures etc. It is in this way that knowledge exchange is possible between the Netherlands and East Asia, for example between Philips in the Netherlands and its Asian subsidiaries or between Fuji in Japan and its Tilburg establishment.

Subsidiaries which now play an explicit role in the transfer of knowledge frequently started as sales and distribution outlets. Trading relations that are set up now in East Asia could constitute the seeds from which future knowledge trees grow.

For the exchange of knowledge in the public sector, the opportunities are partly determined by the difference in emphasis between Asian and Western countries. In the West the emphasis is on science and in East Asia the stress is on technology. As a result, Asian efforts in the scientific field do not appeal greatly to the Western imagination. The Asian emphasis on technology is connected with cultural factors and is reinforced by the fact that emerging industrial countries as a rule first devote themselves to upgrading existing technologies. As countries become more prosperous, scope arises for pioneering developments in the field of technology but also in science. Compared to Europe and the US, the East Asian countries still devote comparatively little time to long-term research so that there is relatively little scientific knowledge to be obtained there.

To prevent Dutch universities operating like tiny mosquitoes randomly biting an Asian elephant, the Council would advise that individual institutions enter into twinning partnerships with fellow East Asian institutions. To some extent these already exist, but frequently they are relationships between unequal partners set up on the strength of objectives related to development cooperation. In the case of exchange of knowledge, equality has priority. Dutch students, graduates and lecturers who study or work for some time in East Asia will serve to enrich our own society.

Until now the emphasis in the exchange of knowledge has been on conveying knowledge to the country in question, for example by having Asian students study in the West. By taking greater advantage of the opportunity of acquiring knowledge abroad, the flow in the other direction should be given greater priority. We are not talking here solely of theoretical knowledge but also applications of that knowledge. Not just knowledge from books, but knowledge from experience. More attention needs to be paid to *cross-cultural learning*.

One point to latch on to for strengthening mutual cooperation could be Japan's need to strengthen its scientific orientation. The Netherlands could take advantage of Japan's lead in the technology field by having engineers gain experience in Japan.

The Council believes the activities must not be confined to encouraging exchange within the university world. Exchange between universities and companies is important. At the moment a modest start has been made on this by means of a programme that annually allows twenty young graduates from the Netherlands to train with a company or institution in Japan. The

Council would advocate that this programme should be dramatically expanded both in terms of numbers (thousands rather than dozens), but also in terms of target group (not just graduates) and the country of destination.

Summary for the fast, action-oriented reader.

The philosophy for a relationship with East Asia in the knowledge domain is:

- Follow the path already trodden by Dutch companies.
- Continue unabated with attracting Asian companies in the Netherlands.
- Do not confine the knowledge relationship to purely substantive knowledge; encourage *cross-cultural learning*.
- Devote more attention to acquiring knowledge rather than conveying knowledge so that the score is more evenly balanced.

The main action points are:

- Strengthen embassies' economic orientation and their briefing function for companies; make use of people with business experience in Asia.
- Set up *Holland Houses* in Asia; meeting places for cultural exchange-cum-business centres for Dutch entrepreneurs starting new businesses in Asia.
- Encourage twin ties between Dutch and Asian universities.
- Set up a large-scale programme for the practical training of Dutch people (also from companies) in Asia.

