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Senior Leadership



Enterprise Leadership

GLOBAL ENTERPRISES face a constantly changing business environment, whether they are expanding into new markets, hiring new managers, incorporating new technologies, or merging with other companies. Compounding that are external factors—such as macroeconomic instability, changes in government policy, and war—that threaten these firms’ ability to maintain their strategic vision. Through it all, strong leadership is the key to survival. In this series of articles from *Knowledge@Wharton*, faculty experts and corporate leaders from around the world articulate what it takes to keep today’s global enterprises competitive.

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When K.V. Kamath became CEO of ICICI, India's second-largest banking and financial services conglomerate, it was a financial institution hamstrung by political constraints. As a key member of the team that led the organization into new businesses such as insurance and banking, Kamath used technology effectively to pry open market expansion. In an interview with Michael Useem, Wharton professor of management and director of the School's Center for Leadership and Change Management, Kamath discusses ICICI's foray into rural banking and other challenges.

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This year's convening of The World Economic Forum in Davos, Switzerland, brought together approximately 2,400 corporate executives, heads of government, and leaders of organizations to debate issues ranging from global warming to the rise of the Internet and the future of the Middle East. Michael Useem, director of Wharton's Center for Leadership and Change Management, attended the 5-day event and offers a report on what he calls Davos' "culture of transcendent leadership."

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In 2001, SEG's \$9 million acquisition of the Tokyo-based Japan Akiyama Printing Machinery Company received significant attention, largely because of its successful integration of the acquired entity. In the 5 years since the deal, the new Akiyama International has booked \$500,000 in sales per person, up from \$250,000; profit margins have exceeded 20 percent; and, most importantly, morale among the Japanese employees at Akiyama has risen to what it had been before the acquisition. Hu Xiongqing, Akiyama's president, is a well-known turnaround expert in the domestic printing industry, and he talked about his experience managing the company in a recent interview with *China Knowledge@Wharton*.

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China International Marine Containers (Group) Co., Ltd (CIMC), based in Shenzhen in Southern China, is a global leader with more than 50-percent market share in the international container business. Its relative freedom from state interference, ability to make acquisitions across different geographic areas of China, and balanced shareholder structure make CIMC unique among Chinese companies. In an interview with Wharton Management Professor Marshall Meyer, Mai Boliang, president of CIMC since 1992, talked about what it takes to run a global powerhouse in the container industry.

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Despite unquestionable advances made in terms of macroeconomic stability, sustained growth, the emergence of democratic governments, and a favorable business climate, Latin America continues to show signs of weakness that conspire against its full-fledged inclusion in the competitive new world order. To remedy these problems, experts clamor for social, fiscal, and financial reforms, as well as reforms of the labor market. Scholars interviewed by *Universia Knowledge@Wharton* agree that a real difference can be made when there is a national policy for investing in education and for raising public and private sector spending on research and development.

ICICI's K.V. Kamath Shapes a Business Plan in Rural India's Uncertain Financial Terrain

K.V. KAMATH, CEO OF INDIA'S second-largest banking and financial services conglomerate, ICICI, is a man in a hurry. When he took over the driver's seat at ICICI more than a decade ago, it was a financial institution hamstrung by political constraints. Kamath was a key member of the top team at ICICI, including chairman Narayanan Vaghul, that led the organization into new businesses such as insurance and banking. Kamath, who spent his early years with the Asian Development Bank in Manila, used technology effectively, including online banking, to pry open market expansion. Today, his top challenge is to retain the talent ICICI trains, which is keenly sought by other financial services players. In an interview with Michael Useem, Wharton professor of management and director of the School's Center for Leadership and Change Management, Kamath discusses ICICI's foray into rural banking and other challenges.

USEEM: *What are two or three of the bigger challenges that ICICI faces as you look to grow globally and to hit the target of being a Top 50 or maybe even a Top 25 bank in 5 years?*

KAMATH: The key challenge is to look to new horizons. Our growth so far has been based on our ability to identify opportunity horizons very early and build businesses to scale those horizons. In our case, we had to get the capital right, get the people right, get the technology right and get the processes right.

We believe that to break into the top league of global banks, ICICI will have to follow a course that few banks in the world have done—and that is, leverage the rural economy. This is something that most banks don't do because it requires hard work. Market share is not easy to achieve because you need to widen your product tree. An even greater challenge is that you need to learn to do business at a fraction of the cost that you are used to.

So our challenge is to invent a new business model where we can create a distribution

base effectively in 600,000 villages in India and to learn to do that at one-tenth the cost of urban India. Just to put that on a scale that someone could understand, we believe that to succeed in urban India, we need to be able to do business at one-tenth the cost of the West. The reason is that the ticket size of the banking product in India is one-tenth that in the West. If it is a deposit of \$10,000 in the West, it will be \$1,000 in urban India and \$100 in rural India. Loans operate at a similar scale.

“We believe that to break into the top league of global banks, ICICI will have to follow a course that few banks in the world have done—that is, leverage the rural economy.”

We need to be able to conceptualize how to deliver value to this market at an extremely low cost. That's where the challenge is, as well as the opportunity and the excitement. The challenge is to be able to work with partners, because we believe that the branch-led model will not work in this context. The branch-led model would simply replicate our existing structure, and even though we might try to scale things down, the costs are unlikely to go down as much as we need to succeed in rural India.

That is why we need to work with partners who are either already present in the local community or who need to be there. For example, we might partner with a local financial institution, a micro-finance agency, or a company—someone who is already in the village for a business purpose. We might even partner with someone who is selling fertilizer or seed or tractors. How can we leverage these partnerships to do business? That question drives the need for a new business model to reach out to this market. If we can do this—and we are fairly sure that we can—I think the rewards could be enormous.

Meeting this challenge of lending to India's farmers also involves other complexities. Agriculture here heavily depends on the monsoons or rains. The biggest risk is the failure of the monsoon. Now can you lend to rural India without fixing this risk? What we did was to ask if this was an insurable risk. Could we get such insurance? The answer was yes. Could we then sell this insurance to the farmers? Again, the answer was yes. Finally, we asked if this insurance could be further reinsured outside India so that the risk was shared even more widely. Yet again, the answer was yes.

This strategy allowed us to develop a viable proposition where we could scale up the rural lending model realistically. I don't believe anyone has implemented this model before. The typical approach to rural lending has been through micro-loans, and that has certainly had some degree of success. But a large-scale rural banking model where you are ultimately trying to reach a population of 600 million people has not been done. That is our challenge—and also our opportunity.

USEEM: *You have already built an outstanding senior management team. As you look ahead, how will you ensure that your top executives bring the leadership skills and capabilities to these areas and that they have the skill sets they need to do what you hope to do by 2010?*

KAMATH: You need to go back a bit in time. The way we built this organization was to take the talent that was there in 1996—by and large, that was the talent that built the bank, with some exceptions. This talent did not have any of the core skills required to build or run a commercial bank. What this team had, at that point in time, was the core skills needed to run a finance business. They also had something else—rare intellect and entrepreneurship.

To build a successful business, you have to be able to pick entrepreneurs very early and get them embedded into the business. They need to go out into the ecosystem, demonstrate their abilities, nurture the business, and build it up. We have succeeded in doing this. Sometimes we may have made wrong calls, but those have been few and far between. Our organization has now learned to use this as a core skill—the ability to empower people and to let them grow the business. That will be exactly the same way we are going to build this new business.

Today ICICI is an organization with a lot of other strengths. We have good HR practices, the ability to train and mentor people, and we have excellent technology capabilities, which is crucial for success in this business.

USEEM: *In a sense you have had people learn by doing. How did you learn to lead and to develop your own capacities? What do you point to as your formative experiences?*

KAMATH: I was lucky to be mentored by two outstanding leaders, two former chairmen of ICICI. One...chaired ICICI until 1985, and he was followed by N. Vaghul, who took over as chairman in 1985. Both were extraordinary people with outstanding intellect. They both believed in giving you a lot of space and allowing you degrees of freedom, when other leaders might have hesitated. So I guess what I learned from them was how to put my mind to good use and also to give my team space to do things.

USEEM: *Did you seek out their mentoring, or did they volunteer it before you asked?*

KAMATH: This was during the period when I was working with them, so it was learning on the job. In 1996, when I came back, we formed an organization that had this great team of people. But they probably were getting caught in what I would call a time warp. This was because the whole structural business in India had been turned upside down. And we as a product finance company operated in a closed, regulated market and now had to deal with customers who did not know how to manage these problems.

Some of these things came as hard shocks; and frankly, our first action was a holding action. The first thing we needed to put in place was enough capital. We had good people whom we could point in the right direction, but we were running short of capital.

Then we realized we needed to diversify. Initially we thought we would diversify within our own corporate customer arena; but within a year, I realized that this wouldn't take us very far. We needed to go in a much deeper growth direction. We needed to get into something that we had not tried before. We needed to enter the consumer credit market, which we saw as an emerging opportunity. That is where our directional change began—and it has taken us

to where we are today with leadership in the market and a one-third share of the consumer credit market.

It was a bold decision, but frankly we didn't have a choice. The biggest task at that time was selling this concept to the board. Surprisingly, the team never once felt that this was not doable. For me, that was an important lesson. You need alignment of interests for a team and a strong belief in your ability to execute. You need a can-do attitude. After that, you need to pick entrepreneurs who will lead businesses. We went out and hired people who had the skill sets we needed for production and distribution in the consumer credit market, and then we launched our new business. The whole process began with creating confidence. Then the entrepreneurial spirit kicked in, and we delivered.

When I look back and wonder if I would do it again, I would say yes because, frankly, I had no choice. But would I do it with the same degree of fearlessness that I had back then? Probably not. In hindsight, it is now clear to me that we took a huge risk. Although we had no alternative, it was a frightening step that we took.

USEEM: *I'm going to ask you a question, though I think you may have already answered it. Throughout your career at ICICI, what has been your single biggest, or most challenging, or most consequential decision?*

KAMATH: The one I just described, because it involved venturing into the unknown. That's why when my colleagues say they are venturing into the unknown today, I feel we are much more confident. Another decision we made, which wasn't under the most stable conditions, was the decision to go global 3 years ago. There again, except for one or two of my core team, nobody believed that this was a terrible decision. Again, we faced many unknowns, and we had no skill sets. But we did it with a lot of confidence because it was not a do-or-die sort of situation.

USEEM: *Let me ask you about the role of the board in each of these decisions. For the first one, the board needed more convincing; for the second one, less so?*

KAMATH: That is right. The board had fewer issues when ICICI decided to go global than when we decided to enter the consumer credit market.

USEEM: *What gave you the sense of confidence—you called it "fearlessness"—knowing that some people on your team and many members of the board did not see the decision to go into the consumer market as wise?*

KAMATH: My team saw it as the right decision. The board did also; there was a healthy dialogue with the board. I don't think the board ever sensed a doubt in our minds. If it did, I probably would have started to wonder, but no one doubted that we would succeed. The board asked questions, and we answered them, and then the board backed our decision in the end.

USEEM: *Do you lose sleep over these decisions?*

KAMATH: No.

USEEM: *Do you look back at these decisions?*

KAMATH: Yes, when I look back sometimes I think that you truly need to believe that you have very long legs to cross that chasm. But other than that, I don't lose sleep.

USEEM: *If you were to look back, would you do anything differently, not about the biggest decisions but within those decisions?*

KAMATH: I would do a few things differently, probably by sequencing a few things differently. I would ensure that I had the ability to hire the right people. These are lessons you learn as you go along. In our case, they did not harm us. You are wiser for having gone through it.

USEEM: *How do you know when you have the right people working for you? What do you look for?*

KAMATH: You need four or five key attributes. First, I look for intellect or a high level of competence. Second, I seek out entrepreneurial leaders who have the ability to pick the right people. That means looking at how the person has performed in other contexts to build teams. People who have the ability to build and manage teams are very valuable. Third, the person must have a can-do attitude. What sort of reaction do you get when you talk to him or her about a challenge? Will he go for it, or is it a problem? Fourth, the right people have the ability to withstand shocks without getting flustered or losing direction. Finally, whether this is an entrepreneurial quality or not—I think it is an important quality that I look for in people

whom we pick as leaders—it is the ability to focus, focus, focus without getting diverted from the core business.

USEEM: *So a final word to the wise. If somebody would like to know the secret of ICICI's success in the last 10 years and would like to know why you are going to succeed in the next 5, what would you point to?*

KAMATH: I think it's the outstanding human talent that we have and the ability to leverage that talent to enhance our value. This is seen in the execution capability, the ability to run businesses seamlessly, the ability to learn to live with diversity, to live with ambiguity, and yet to stay focused and do our job. I have given you four or five attributes, but I think the first two are really the key—the right mental make up and the right ability to execute it.

One thing I tell people when I am mentoring them is, "Don't look for clones." I've had to say that to a lot of very bright people. I use a very simple example. If you enter a public building where there is a doorman and there are several people you need to see, you need people to unlock the doors for you.

Here is another example based on a team game like football or soccer. In these games, you need people who will throw the ball so that other people can score on behalf of the whole team. So you need to make sure you have people who can throw the ball when you are in the right position to score. You may be an outstanding scorer, but you will have to wait all day or all year if no one passes the ball to you. Anybody owning a business very quickly understands this.

USEEM: *If there is one thing that you could point out in the field of execution that is critical, what would that be?*

KAMATH: I would say it is the ability to correct your course when things start going off track. In executing any strategy, whether you are setting up a new business unit, or trying to reach profit or budget targets, things never happen quite the way your models may have predicted. That is why you need the ability to correct your course as you go along. A CEO basically has to keep his or her eyes on several instruments at the same time. If you see the oil pressure

doesn't look right, you have to pump up the oil; if you look at the gas tank and you're running out of gas, you need to fix that as well.

If CEOs fail to do such course correction, they won't succeed. I have seen this over and over again. You can't depend on someone else down the line to do it for you. You need to do it yourself. You need the ability to keep your eye on several things. But of course no CEO can succeed by micromanagement. You ought to know when to give someone space and when to push.

"In executing any strategy, things never happen quite the way your models may have predicted. That is why you need the ability to correct your course as you go along."

USEEM: *As you look to become a Top 50 or even a Top 25 world bank, what would be the one or two features out there in the landscape that you would look at that would tell you to course correct?*

KAMATH: For example, let's say a particular business is not going the way it should, and this could have an implication on the budget. What do you need to do to get the budget trimmed? What you need is the ability to say, "I see that the budget is going wrong, and I need to do A, B, C, and D to get the budget right. You need to fix the problem as you go along. You have to keep scanning the environment and your own situation and be proactive about it. These are critical qualities in a CEO. You have to be proactive in identifying what could go wrong and take preventive measures before things do go wrong.

USEEM: *As you look ahead over 5 years, many things can go wrong. What do you most fear in the Indian economy and the global economy that could derail your plans?*

KAMATH: I guess in the Indian context, I would say something that is unforeseen, like social strife, because we are living in a world of haves and have nots. And there is a divide. Now is this going to be something that could bother us? To me, this is the single most important thing which could impact business. ■

The World Economic Forum: A Call To Exercise Global Leadership, Not Just Self Interest

THIS YEAR'S CONVENING of The World Economic Forum in Davos, Switzerland, brought together approximately 2,400 corporate executives, heads of government, and leaders of organizations like the World Bank and Human Rights Watch to debate issues ranging from global warming to the rise of the Internet and the future of the Middle East. Michael Useem, director of Wharton's Center for Leadership and Change Management, attended the 5-day event. Below, he offers his report on what he calls Davos' "culture of transcendent leadership," which he defines as "a willingness by those with company or country responsibilities to make decisions that benefit those far beyond the decision maker's own organization or nation."

A Unique Marketing Platform

For many participants, the 2007 annual meeting in Davos provided unique opportunities to discuss wide-reaching business concerns, such as the state of the auto industry, as well as public policy concerns, such as the need to move free trade negotiations back onto the front burner. It presented an exceptionally unique marketing platform as well, especially for country leaders envious of the enormous rise of foreign investments in China. For example, in a session attended by more than 1,000 people, Brazil's recently re-elected president, Luiz Inacio Lula da Silva, declared that during the past 4 years, his policies have lifted 11 million citizens out of poverty and created 5 million new jobs. The message for those in the audience running multinational companies and private equity funds was clear: Being bullish on Brazil is good strategy.

Mexico's newly elected president, Felipe Calderón Hinojosa, declared that his country had "decided in favor of the market and democracy;" and although the country has not yet reached the "promised land," it was growing rapidly. By 2040, he predicted, Mexico would join the world's largest developing economies—Brazil, Russia, India, and China, known as BRIC. At that point, Calderón suggested, the acronym should



be changed to "BRIMC." Again, the message was that foreign investment is not only welcome but also needed to help make this happen.

Central to the culture at Davos is an emphasis on transcendent leadership—the idea that standing above all other values is the ideal of a joint commitment to bettering the planet.

Pakistan's Prime Minister Shaukat Aziz reported that his country's per capita income had doubled over the past 8 years, in large part because of liberalization of the economy, downsizing of state bureaucracy, and a growing "absorbive capacity for reform." He observed that foreign direct investment in Pakistan has grown more than 15-fold since he introduced the reform initiative, from \$300 million in 1999 to more than \$5 billion this year. Pakistan's liberalization has come with a social component as well. The Prime Minister noted that eight of his cabinet ministers are women, as is one-fifth of the parliament. These economic and social reforms should also make Pakistan an attractive target for the world's investors.

A Culture of Transcendent Leadership

Yet while the pursuit of such tangible benefits as increased foreign investment brought many

to Davos, the event also served to define and reinforce a shared culture among participants. Central to that culture is an emphasis on transcendent leadership—the idea that standing above all other values is the ideal of a joint commitment to bettering the planet. Corporate and political leaders, said speaker after speaker, should deploy their resources not just for company or country gain. Those most responsible for the globe’s greatest institutions must, they contended, also devote their energies to collective goals.

Some speakers, for example, warned that unchecked globalization is heightening inequality, displacing millions, and destabilizing countries. German Chancellor Angela Merkel declared that everybody would “have to look beyond their own noses” if globalization is to become a fair and equitable force. “I’m convinced,” she said, “that the essence of globalization today provides the world with many more opportunities than risks,” but for it “to benefit everyone, we have to create a new balance of power—in world trade, in the consumption of resources, in education, in the fight against AIDS.... To put it in a nutshell, we need a global economy which complies with the rules of a fair regulatory environment.”

Jordan’s King Abdullah warned that the era’s political imperatives require joint action as well, since all will suffer if the problems remain unresolved. In particular, he argued, bringing the Israeli-Palestinian discord to an acceptable end is essential. “We must act,” he concluded, “and we all have a contribution to make.”

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Several prominent figures argued that the flattening of the world is reducing the normal tradeoffs between private interest and public purpose, making the embrace of transcendent leadership less costly at home. British Prime Minister Tony Blair, for instance, told a packed hall that countries, companies, and other institutions have become so interdependent that their self-interests are increasingly

coincident with global interests. “If we let Sudan and Somalia slip into the abyss,” he said, “the consequences will extend far beyond the region.” If Afghanistan and Iraq “fall back into failed states,” he warned, it will affect us all. If global warming is left unchecked and trade protectionism allowed to increase, all will bear enormous costs.

Business leaders, the British prime minister suggested, must therefore move beyond “corporate social responsibility” to embrace a “strategic engagement with the moral imperatives of the era.” Rather than modest engagement in good works, he contended, individuals everywhere must take active leadership in what he sees as the three most important issues of the day: climate change, world trade, and African poverty. To do so is not only in the public interest, suggested Blair, but increasingly in countries’ own interests as well.

Ukraine Gets an Earful

Forum participants were told many times, in many different ways, that each has a contribution to make to improve the economic environment for all citizens. The candid dialogue prevailing in some Davos sessions helped political and business leaders leave with a more realistic appraisal of exactly what their contribution should be.

Consider a private luncheon focused on the future of Ukraine. Prime Minister Viktor Yanukovich reported that he was strengthening his country’s democratic process, creating better transparency in national decision making, improving corporate governance standards, achieving 7-percent annual growth, and joining the European Union. Yet four subsequent speakers explicitly cautioned the Prime Minister—now seated next to them on the luncheon stage—that his momentum behind these improvements was not yet sufficient. Latvian President Vaira Vike-Freiberga warned him that “the speed of reform in Ukraine has been too slow.” Investor George Soros said that the country required “greater transparency.”

The European Union Commissioner for Enlargement, Olli Rehn, cautioned that Ukraine must still embrace “the rule of law.” The former president of Poland, Alexander Kwasniewski, urged that Ukraine engage its neighbors in more active dialogue. Former U.S. President

Bill Clinton said in a videotaped message that Ukraine “will need to open its economy to go for EU membership.” The Latvian President told the Ukraine prime minister in closing, “Make up your mind, do it, and we are with you!”

Though rarely scolding, candor and criticism wove through other sessions as well. And just as at any corporate offsite event, lighter moments lessened the tension. Having promoted reform for 7 years against deeply entrenched interests, for example, Pakistan’s Aziz said he would like to rewrite Newton’s Third Law: For every action there is an equal and opposite reaction. While applicable to the physical universe, Aziz said that in his political universe, the Third Law should instead read: “Every action brings an unequal and gross reaction.”

Gordon Brown, Britain’s Chancellor of the Exchequer and likely successor to Prime Minister Tony Blair, found ironic delight in a slogan that he had seen at a recent rally: “World-Wide Campaign Against Globalization.” And a beleaguered Tony Blair, anticipating that he would return to the Forum’s next annual meeting as a private citizen, said, “I look forward to coming back to Davos to tell other country leaders how they went wrong and how easy the job is.”

A Call to Action

The Forum’s motto, “Committed to Improving the State of the World,” was emblazoned virtually everywhere, a reminder of the responsibility that the participants have for addressing global challenges. The Forum’s more prominent figures reinforced this point during the event’s final meeting. E. Neville Isdell, CEO of Coca-Cola and co-chair of the Forum, warned that the outside world sometimes viewed Davos as “the epicenter of ego”—and that the calling was now for all participants to make it, instead, “the epicenter of commitment.” James J. Schiro, CEO of Zurich Financial Services and another co-chair of the Forum, followed with a call to action. “I’ve been coming here for 15 years, and what’s evident is the rise of a focus on leadership and change.” Consequently, “I would ask everybody, when you return home, to exercise your leadership.”

Accepting the values of the Forum will not necessarily translate into what the business and political leaders will do at home. Culture and behavior are not always consistent, and in a final underscoring of the Forum’s ultimate purpose, WEF founder and Executive Chairman Klaus Schwab closed the entire gathering with this pointed comment: “We invite back those who are concerned about the world and will do something about it.” ■

Hu Xiongqing, President of Akiyama International, on How To Manage a Multinational Company

AMID CHINA'S RAPID ECONOMIC GROWTH and the increasing trend toward globalization, more and more Chinese companies are eyeing overseas acquisitions. But mergers and acquisitions represent a complicated process, and post-acquisition integration often proves difficult. Along the way, many Chinese companies—from electric appliances giant TCL to automaker Shanghai Auto—have learned important lessons about how to map out a global strategy, adjust to the international legal environment, overcome obstacles to reform, bridge cultural differences, and allocate resources.

Shanghai Electric Group (SEG) is the largest industrial equipment manufacturing group in China, with more than 60 core firms, net assets of 152 billion RMB, and more than 40,000 employees worldwide. Printing Machinery is one of its six business units. Faced with heated competition at home and abroad, SEG identified advanced technology and international market experience as part of its acquisition strategy. In 2001, SEG's \$9 million acquisition of the Tokyo-based Japan Akiyama Printing Machinery Company received significant attention, largely because of its successful integration of the acquired entity.

Hu Xiongqing, a Chinese native and CEO of the printing machinery business unit of SEG, was heavily involved in the deal and was appointed president of the new company, which was renamed Akiyama International Co., Ltd after the acquisition and remains based in Tokyo.

In the 5 years since the deal, the new Akiyama International has booked \$500,000 in sales per person, up from \$250,000; profit margins have exceeded 20 percent; and, most importantly, morale among the Japanese employees at Akiyama has risen to what it had been before the acquisition. Hu Xiongqing is a well-known turnaround expert in the domestic printing industry. Akiyama International was the fourth printing enterprise he has helped during the last 20 years, following one in the city of Wuhu and two in Shanghai. Hu now spends

his time between Shanghai and Tokyo. In an interview with *Knowledge@Wharton*, Hu talked about his experience in managing a multinational enterprise.

KNOWLEDGE@WHARTON: *Why was Akiyama picked as the acquisition target?*

HU: Founded in 1948 as a family business, Japan Akiyama evolved into the No. 6 manufacturer of printing machinery in the world and No. 3 in Japan. At its peak, it employed 460 people and generated 18 billion yen in sales. Although its scale was still small-to-mid-size, its technology was among the best in the world. It had more than 50 patents. In 1995, Japan Akiyama invented a double-page color printer, and that printer has had a stable market share ever since. The technology and markets enjoyed by Japan Akiyama can complement what Shanghai Electricity Group has, and that's why it makes it an ideal target for us.

KNOWLEDGE@WHARTON: *Had Shanghai Electricity Group already thought about becoming global?*

HU: Our plan is to build in Shanghai an internationally recognized manufacturing base for printing machinery and to build in Japan an R&D center and a global sales center. To realize these goals, the company needs to invest a lot in R&D and to hire top management talent. Going forward, Akiyama International's strategy is this: The Japanese and the Chinese will gradually move toward producing mid-level printing machines together, while the Japanese headquarters will retain its leading position in R&D. Continued investment in R&D and the advantage associated with "made in Japan" will guarantee Akiyama International's global strategy.

The goals set by Akiyama International are, first, to continue expanding its market share in Japan; second, to develop China's and other markets; and third, to develop products that are

high quality but low cost. If the combination of “China’s low-cost advantage” and “Japan’s high-quality advantage” can prove very competitive, Akiyama International is right on track to establish an international standard. In addition, the continued inflow of talent will constitute the core of its sustainable development.

KNOWLEDGE@WHARTON: *What kind of changes did you make after taking over Akiyama International?*

HU: We reformed the way employees get paid. Instead of looking at how long they have been with the company, we advocate looking at how big of a contribution they make to the company. After the reform, although some employees have seen their salaries decrease, overall their salaries have gone up. Those measures have greatly motivated employees to improve their efficiency and competency levels.

We then reformed the personnel function. We made some adjustments to Japan’s traditional “life-long employment” system and reviewed the performance of all the employees at Akiyama International. Some of them were let go due to their poor performance. For instance, we fired a manager responsible for procurement. At the same time, we promoted some young people to key posts. The average age of the managers at Akiyama International used to be 60 years old. Post-acquisition, through internal training, promotion, and hiring, [we now have] a group of managers in their 30s.

“If the combination of ‘China’s low-cost advantage’ and ‘Japan’s high-quality advantage’ can prove very competitive, Akiyama International is right on track.”

We also took measures to reduce production costs. Akiyama International had long pursued technological advancement at the expense of costs, thereby leading to persistently high production costs pre-acquisition. At that time, the company didn’t shop around for materials and never did comparison shopping. After the acquisition, lowered production costs helped drive up profit margins from a negative number to 20 percent.

KNOWLEDGE@WHARTON: *Have you encountered any obstacles while making those changes? And how did you deal with those obstacles?*

HU: Initially, there was some resistance on the part of the Japanese employees. The most effective way to overcome that is “communication.” We made it clear to them that their own opportunities lie with Akiyama International and that they are not only employees of the company but also its owners.

At the same time, we made sure that everything we do is fair and objective, which helped us establish management’s credibility. Lastly, the very fact that Akiyama International turned profitable proves the strongest evidence of our reforms’ effectiveness.

KNOWLEDGE@WHARTON: *What do you think are the key cultural differences between Japanese companies and Chinese companies? Have those differences in any way affected your ability to run the company? And how do you deal with it?*

HU: Key to us is to pay enough attention to the cultural differences and to understand the Japanese culture, which centers on perfection and excellence. The biggest difference between the two cultures lies in the way we go about doing businesses and the degree of seriousness.

Of the 170 employees at Akiyama International, only three are Chinese, with the rest Japanese. So the Chinese managers have to do their best to respect and recognize their culture without appearing weak or too compromising. We stick to our principles, as evidenced by the measures we took to reform the personnel system. At the same time, we emphasize communication as a way to reduce any resistance to our reform efforts.

KNOWLEDGE@WHARTON: *How did you manage to retain and motivate the Japanese employees?*

HU: Shanghai Electricity managed to both retain existing employees and encourage those who had already left to come back. There were only 53 employees remaining at Akiyama International under the acquisition contract. But on the first day of operation, the number of employees exceeded 70, and the company has been hiring employees back ever since. The number of employees has reached about 160 so far. To expand further, Akiyama International plans to

hire more locally, including both Japanese and the Chinese who are studying here.

KNOWLEDGE@WHARTON: *How have you allocated resources to achieve efficiency?*

HU: The efficiency is first reflected through costs. After Akiyama International was bought by Shanghai Electricity, it naturally adopted China's low-cost advantage. The reduction in supply costs has helped its profit margin. In the meantime, the combination of Shanghai Electricity's cost advantage and Akiyama International's technology advantage positioned the company to compete better in China's printing business.

A second measure of efficiency is human resources. Post-acquisition, there has been greater cooperation between Shanghai Electricity's own printing unit and Akiyama International. With its relatively advanced core technology, Akiyama International periodically sends its engineers to the Chinese unit to share their technological know-how. The Chinese unit also periodically sends people to Akiyama International to be trained there. The parent company also organizes frequent communication between the two, with the Japanese appointed as chief technology officers and the younger Chinese working with them.

A third measure of efficiency is production management. While we thoroughly reduced the production costs at Akiyama International, we

also improved our management skills by learning from the [employees there]. For instance, the Japanese employees have demonstrated a greater level of professionalism than the Chinese. So we enhanced our evaluation of Chinese employees' performance and better motivated them to improve their efficiency.

KNOWLEDGE@WHARTON: *How do you define success?*

HU: As a professional manager, career for me tops everything, and I'm very loyal to my career. My success will be reflected in the company's position in the industry, its recognition by customers, its return to shareholders, and its contribution to employees' lives.

KNOWLEDGE@WHARTON: *What kind of advice would you give other Chinese managers of foreign enterprises?*

HU: They must be willing to learn and work hard. There are enormous things for a Chinese manager to learn when he or she faces managing a multinational company, but the time for learning is also very limited. Meanwhile, a company's success depends on teamwork, and it's especially true when it comes to a multinational company. So the manager must have the ability to bring everybody together. It's management, and art, too. Lastly, I want to repeat my own management philosophy: There is no lackluster employee, only a lackluster manager. ■

Navigating the “Grey Areas” of Business Management: An Interview With Mai Boliang, CEO of China International Marine Containers Co.

CHINA INTERNATIONAL Marine Containers (Group) Co., Ltd (CIMC), a listed company based in Shenzhen in Southern China, is a global leader with more than 50-percent market share in the international container business. Its main products range from containers to trailers and airport equipment. With total assets of RMB 16.9 billion (\$2.08 billion), it has more than 30 subsidiaries and 28,000 employees all over the world.

Started in 1980, CIMC is one of the first container manufacturers and sino-foreign joint ventures in China. In 1987, CIMC’s largest customer, the state-owned company China Ocean Shipping (Group) Company (COSCO) joined in, making it a tri-party joint venture. In 1994, CIMC went public on the Shenzhen exchange.

Apart from its leading position in the global market, CIMC’s ability to make acquisitions across different geographic areas of China, its balanced shareholder structure, and the fact that the whole group went public (which is against the normal practice in China of a single subsidiary going public), all make CIMC a unique example among Chinese companies.

“In China, the grey area [in business] is too broad to ignore, and it takes ambition, wisdom, and skill to deal with it.”

Mai Boliang, who has worked with the company since its beginning, has been president of CIMC since 1992. Aided by a tight group of well-educated executives, he orchestrated strategic mergers and acquisitions to achieve his vision of running a global powerhouse in the container industry. He has also created an efficient industrial corporation relatively free from state interference. In a recent interview with Wharton Management Professor Marshall Meyer, Mai talked about his management style and other issues.



MEYER: *How would you describe your management style? Do consumer product companies and nonconsumer product companies demand different management skills? Also, does running a European or American company require a different approach than running a Chinese company?*

MAI: I would rather leave it to others to comment on my style. If you ask me to evaluate myself, it would be: straightforward, decisive, and ambitious. The skills needed to run Chinese companies are different from those required to run European and U.S. companies. Europe and the U.S. have relatively complete legal systems, which results in relatively stable management styles. But it takes more ambition to run a Chinese company. Here’s an analogy: If you manage a company in Europe or the U.S., the line between the red-light area and the green-light area is relatively clear, while there is only a narrow grey area in between. But in China, the grey area is too broad to ignore, and it takes ambition, wisdom, and skill to deal with it.

MEYER: *Could you give an example of how to use your wisdom while in the grey area?*

MAI: For example, CIMC is currently developing its trailer business. Because this is a new business in China, rules and regulations have yet to be completed. There are now a lot of irrational, unclear, and contradictory rules. Customers also lack understanding of the related rules. In other words, we have to meet customers' needs on the one hand, and on the other hand, we have to [obey] the rules and regulations, however unclear they are. To do so, we must have a good understanding of reality. We definitely won't do anything that would cause great harm to society and is clearly banned under rules and regulations. But if the rules are vague, and there are demands from customers, we may choose to meet customers' needs.

MEYER: *What's your biggest challenge as a manager?*

MAI: It's not difficult for a manager to make decisions when most people agree with you. It's most challenging to make decisions when you face a lot of opposition. I'll give you a few examples. In 1995, we were about to start the "reefer" [refrigerated] container business. At that time, 95 percent of the reefer containers worldwide were made of aluminum. A lot of industry experts and people within the company all agreed that aluminum was the best, and customers preferred aluminum products, too. Back then, Germany and Japan led the world in the field. The Japanese chose aluminum, while the Germans told me the future was stainless steel. After a careful analysis, I believed that the future belonged to steel equipment. Amid a lot of opposition, I decided to use stainless steel. That decision turns out to have been the right one, given that nowadays 95 percent of ISO reefer containers are made of stainless steel. But it was a big challenge for me to make that decision.

Here is another example. CIMC started entering the Japanese market in 1998, but it met big setbacks over the next 3 years. In 2000, we needed to decide whether to pull out of the Japanese market or continue. At that time, support for pulling out was growing because, first of all, the Japanese demand very high-quality products and are very picky; second, the Japanese are not used to foreign products; and third, we hadn't succeeded in entering the market during the previous 3 years. A lot of people thought we should

pull out because even the Americans had not been able to make it. My final decision was to continue. CIMC has had huge successes in the Japanese market. But back then, it was very difficult to make that decision.

MEYER: *People say you read a lot. Where do you get your new business ideas from?*

MAI: I get my business ideas from work and life. For example, I get ideas from reading books, chatting with friends and colleagues, consulting with experts, interacting with politicians, and traveling. Of course, when it comes to big events such as the changing environment after 9/11, it's not a matter of instincts, but a matter of judgment and decisiveness.

MEYER: *Sales at CIMC grew to \$3 billion in 2004 from \$1 billion in 2002. Part of the growth was due to acquisitions and expansion into ground transportation. During such a rapid growth period, what kinds of challenges do you see when it comes to management? And how do you meet those challenges?*

MAI: My life philosophy is to do what you believe in. In practice, you won't go wrong as long as you are headed in the right direction; you have to have priorities, be calm, and progress steadily. During an era of rapid development, the whole management team must have a consensus about reform in order for the company to adapt to changes. But the consensus-forming process can be painful sometimes.

MEYER: *How should a company be reformed to adapt to the era of rapid development?*

MAI: From the company's perspective, the institution needs to make changes, and the people need to change, too. Unlike European and U.S. companies, in a Chinese company, such changes could give rise to many conflicts. For example, the purchasing we did in the past was pretty random, with each enterprise having purchasing power. Now we need to centralize purchasing, and there is a lot of opposition to that. In addition, we need to centralize cash management. Again, there is a lot of opposition to that as well because people don't want to give up the power. Tomorrow I'm going on an 11-day business trip with my management team, and what's the purpose? Why does the whole team have to go together? Our purpose is to test out the idea of centralization. Now,

each subsidiary has its own ideas, its own money, and does things its own way. Nobody wants to give that up.

MEYER: *Do you think it's more difficult to reform a Chinese company than to reform a European or a U.S. company?*

MAI: I think it's more difficult in China because a lot of people in the state-owned enterprises only care about their own interests. Of course in Europe and America there is also a problem of individualism, but at least the individuals have more understanding about organizations. It's relatively easy to make people at European and U.S. companies understand the importance of reform; but here, it's very difficult to convince people of that.

MEYER: *So do you mean individualism is more of a problem in China than in the West? That's very interesting. Do some studies show that individuals in China are more sensitive to competition?*

MAI: In certain conditions, such as when there is a lot of pressure from the outside, it's easier for the Chinese to get united. But in an era of peace, Chinese people are different. It's like the traffic here, with every driver driving his own way.

MEYER: *CIMC stands out among Chinese companies because of its leading position in the global container business. What kinds of challenges do you face while running such a leading company? And how do you deal with those challenges?*

MAI: Our biggest challenge right now is how to create value for our customers, to pursue a healthy growth in the business, to make more valuable contributions, and to become a leader respected by both our peers and our customers. It's very common for new competitors to enter the business while it is growing. We'll continue to establish, reinforce, and enhance our leading position in the industry.

MEYER: *The ownership structure at CIMC is also quite unique for a Chinese company. You have two shareholders that are controlled by the state and have equal stakes in the company. How does such a structure benefit CIMC? Will it also benefit other Chinese companies?*

MAI: The biggest benefit is that the system guarantees sound decision making. A share-holder

can't make decisions on its own. It has to be agreed upon by the majority. It's crucial for a company to have a sound decision-making process and a motivating system.

MEYER: *Is this model suitable for other companies?*

MAI: I think it can inspire other companies. But is it that only this structure can guarantee sound decision making? Are there other structures? I haven't done my research yet. What's crucial is the system.

MEYER: *Is the ownership structure at CIMC a model for other Chinese companies?*

MAI: It seems that a lot of people, including those in the central government and state-owned enterprises, are all considering our structure. The central government, after having studied our model, now is encouraging Chinese companies to [adopt] a diversified ownership structure. Of course, I don't have proof that they formed their opinion based on our model. But I feel our model is very valuable for them in terms of being a reference. It's possible that they made the decision only after they studied CIMC.

“It's relatively easy to make people at European and U.S. companies understand the importance of reform; but here, it's very difficult to convince people.”

Recently, they also brought up the idea of having outside directors on companies' boards. Such a structure can at least lead to sound decision making because in the past, there was only one big shareholder and only one dominating director. Such a director can do whatever he wants to do. Now that half of the directors come from outside, it's easier to guarantee sound decisions.

MEYER: *The global economy goes in cycles and so does the shipping industry. What kinds of measures is CIMC taking to maintain its rapid growth in the next 5 to 10 years?*

MAI: I think it's only natural and necessary to have cycles. Almost everything in society is like that. Our current strategy is to diversify

our businesses. R&D and acquisitions are our common strategies.

MEYER: *What kind of new transportation businesses are you preparing to enter?*

MAI: We've done the container and trailer business, and in terms of what's next, we're interested in railroad, shipping, port equipment, and various container-related businesses. The goal is to provide equipment services for modern transportation. After 5 years, we plan to have our footprint in all kinds of businesses, including container, airport equipment, port equipment, and services. After 10 years, we may very well make airplanes (with a laugh).

MEYER: *CIMC is headquartered in Shenzhen. Does such proximity to Hong Kong benefit the company? Will the Pearl River area, including Hong Kong, continue to be the center for international banking and foreign investment? Will the Yangtze River area catch up? Or do you think there will be some kind of good competition between the two?*

MAI: Having our headquarters in Shenzhen indeed is an advantage. I think both the Yangtze River triangle area and Pearl River triangle area will have their own healthy development. The competition between the two is good. The advantages the Pearl River triangle area has are: first, Shenzhen as well as Hong Kong are both very vibrant cities; second, it has the "9+2" strategic advantage (which means the nine provinces in the south, plus Hong Kong and Macau), and the joint-development strategy holds a lot of potential for the area; third, the cooperation with Southeast Asian countries, including Singapore, Indonesia, and Malaysia, makes the area more attractive than the northern areas in China. There are a lot of ethnic Chinese in Southeast Asia, and they all have their roots in the "9+2" area.

MEYER: *Based on your experience, what kind of advice do you have for the younger generation?*

MAI: It's the same advice I give to my colleagues in the company: Be an honest person, and put your heart into the work you do. ■

What Latin America Needs To Do To Be More Competitive in Global Markets

LATIN AMERICA CONTINUES to show signs of weakness despite the unquestionable advances made in terms of macroeconomic stability after the deregulation reforms of the 1990s, the sustained growth in the last couple of years, the unprecedented emergence of democratic governments, and the favorable business climate. In addition to the acute social inequality that continues to generate tension throughout the region, a series of other factors conspire against Latin America's full-fledged inclusion in the competitive new world order. They also impede its ability to deal more effectively with the world's most dynamic economies, especially China and India. Experts clamor for social, fiscal, and financial reforms, as well as reforms of the labor market. They agree that a real difference can be made when there is a national policy for investing in education and for raising public and private sector spending on research and development.

With the notable exception of Chile, which is the only country in the region that has an outstanding spot in global indices of competitiveness, Latin America's ratings fall far short of China's. Last year, China achieved significant progress in its rating by the International Institute for Management Development (IMD), jumping to the 19th spot from the 31st spot a year earlier. Based in Switzerland, the IMD annually evaluates the competitiveness of 61 countries. Its rankings are based on four major aspects of competitiveness: economic performance, government efficiency, business efficiency, and infrastructure. Each one of those factors contributes 15 percent to the overall rating. India, which is the second largest power in Asia, ranked 29th.

According to the IMD, the top five economies in the world, in terms of competitiveness, are the United States, Hong Kong, Singapore, Iceland, and Denmark. Chile occupies the 24th spot. In Latin America, Colombia ranks as the second most competitive and the country that has improved the most in the past year. Colombia jumped from the 47th spot to the 40th position.

However, the region's overall weakness can be clearly seen in the distant rankings of the three largest economies: Brazil is in the 52nd position; Mexico is 53rd; and Argentina is 55th, although it improved by three spots. The index ends with Venezuela, in the 61st position.

Latin America's weaknesses impede its ability to deal more effectively with the world's most dynamic economies, especially China and India.

In the case of the Index of Global Competitiveness of the Global Economic Forum, Chile confirmed that it was the leading economic performer in the region, ranking 27th among the 117 countries covered by the index. Chile also outranked its neighbors by a wide margin. Chile not only ranked higher than 13 of the 25 members of the European Union, but it was the only Latin American country that surpassed any European Union member-state. Argentina, which ranked second in the region and 54th in the world, was seven spots behind Greece (47th), the weakest country in the E.U.

The Weaknesses

When it comes to competing against other emerging regions, Anita Kon, professor at the Pontifical Catholic University in São Paulo, believes that one of the main barriers facing Latin American countries is the fact that in other economies such as China, Europe, and Eastern Europe, there is a long-term effort to plan structural reforms aimed at development. Even after there are changes in governmental leadership, these goals and yardsticks are not abandoned; they continue to be pursued. "In Latin America, political instability and changes in the government almost always lead to the abandonment of the initiatives taken by previous administrations, where they have existed. When plans are started up again, the priority is on the short term, and they do not wind up being carried out in their entirety," says Kon.

Another barrier to competitiveness is that there is no conscious decision to orient production towards markets that are outside the region, notes Jorge Fallas, director of the Center for Research into Economics and Finance at the Andres Bello University in Santiago de Chile. "Without doubt, this is more evident in the cases of the economies of Brazil and Argentina [which are trying] to maintain a protected market in MERCOSUR. They still have the view that regional integration must be deepened and that this could be enough to improve growth. Unfortunately, the main economies of the region have had a history of great instability and lack of contractual compliance, which makes them not very reliable partners."

Another obstacle is the greater dependence of the region on exports of raw materials and industrial products that don't require much skill and have very modest prospects for future growth. "This makes them complementary to the economy of Chile, in many cases. That is what happens with the copper that Chile sells to a country. Profits are made from this exchange, but they need to advance towards exports of more finished products."

Another important barrier is the low level of domestic investment, continues Fallas. According to his figures, investment as a percentage of GDP is about 20 percent in Latin America, compared with 40 percent in China and 35 percent in the emerging nations of Asia overall. "Since external financing of domestic investment is limited, the high deficit in the current account produces instability. This means that they must make a greater effort at domestic savings, which depends on having an appropriate system of incentives." Until the beginning of the 1990s, Latin America had the highest inflation rates in the world. "They eroded the savings of many people in the region, which had an influence on the financial system's low level of market penetration."

Structural Reforms

In a recent seminar in Mexico, Rodrigo Rato, director general of the International Monetary Fund, argued that the nations of Latin America should develop common priorities regarding essential policies for developing their competitiveness. Rato said that there are reforms in five areas that can mutually reinforce themselves when it is time to

stimulate productivity and growth, and promote success in a globalized world. The first kind of reform is tax reform that broadens the base of tax revenue generation and makes it more equitable. It also achieves a lasting reduction in the debt and permits governments to tend to their social needs and to the infrastructure.

Public sector investments in basic services, particularly in health care, improve living conditions and increase possibilities for work, income generation, and consumption.

The second category is financial sector reforms aimed at promoting internal savings and developing the efficient use of savings. Third, there are market reforms for improving flexibility and promoting the development of human capital. Opening the door wider to the forces of competition leads to innovation and change. A business environment that is fair and transparent provides incentives for investment and job creation.

For Kon, the key priorities are to reform education and to invest in training for skills in the workforce. Such measures lead to an improvement in human capital and global economic productivity. "With the exception of Chile, Argentina, and Uruguay, Latin American countries have a relatively low average level of education and skill development, which makes it difficult to introduce technologies that are more modern and to improve incomes."

The region also requires public sector investments in basic services, particularly in health care, adds Kon. This "makes possible an improvement in living conditions, which results in greater and better possibilities for work and for income generation and consumption."

Fallas says that it is also necessary to provide greater incentives to private initiative. This means "a reduction in the bureaucracy and greater stability in the rules and respect for private property. In this regard, there has been very little progress; a lot is still left to be desired. In addition, you have to stimulate a higher level of saving, which permits you to finance higher levels of investment."

Chile's Retreat

Despite its privileged spot in the global rankings, Chile did not celebrate when IMD announced the results of its 2006 index. Chile was one of five economies on the list that declined the most this year, dropping from 20th spot in 2005 to 24th spot because of the advance of China, Malaysia, Japan, and Estonia. Other factors in its decline included exchange rate volatility and the country's low productivity rate. Enrique Manzur, a professor at the University of Chile's school of business and management, warns that his country must not content itself with its leadership position in the region. Nor should Chile compare itself with its neighbors. "Chile competes with small countries that are extremely competitive. Chile cannot copy the strategy of Brazil. It must be more aware about what countries like Finland, Ireland, and New Zealand are doing."

According to Manzur, Chile's weaknesses continue to be the bad quality of its national infrastructure, especially in science and technology education. Measured by those standards, Chile resembles its neighbors. "The perception in the IMD is that the Chilean educational system is deficient, occupying the 50th spot among 61 countries that were analyzed. Among other things, this is manifested in the very few possibilities that exist for exporting technology as well as the very low percentage of investment in research and development, which is less than 0.7 percent of GDP." An additional factor, adds Manzur, is "private sector debt," since the lion's share of the spending in R&D is done by the government and, to a lesser degree, by universities.

Kon agrees with this diagnosis and adds that investing in R&D is especially valuable for lowering the gap with more advanced countries. However, Kon proposes that this effort should be adapted to the specific conditions of each country's socioeconomic environment. "In Latin America, channeling investments into technology should focus not only on those areas of technology that are leading edge or more competitive overseas but also toward appropriate short-term technology for generating jobs for those workers who have less education. In the medium term, this approach generates possibilities for increased incomes and economic savings."

Returning to Chile, Manzur argues that future challenges are complex, and the country must go beyond reforming the educational system towards developing the necessary competencies and skills required by an economy that is becoming more and more globalized and more competitive. "You have to be sure that there is a reliable source of energy that is consistent with the growth needs of your country and which also takes the environment into consideration. You also need to promote investment in R&D through three-way collaboration between the State, universities, and the private sector." He stresses that there needs to be a clear association between the people who come up with scientific advancements and those who need to make changes so that improvements in productivity can be achieved.

Improving the quality of work is another important task that remains to be done in Chile, adds Manzur. "Nowadays, people who work comprise only a little more than one-third of the total population. This has obvious economic consequences when it comes to generating greater wealth. Whenever the level of employment rises, this not only reduces unemployment but also increases the workforce. That is to say, the workforce incorporates segments that are staying outside the labor market today—especially women and people who are less qualified."

However, some people remain optimistic. "If we were to make major improvements in our infrastructure and knowledge base, which would be tied to our educational policies, Chile would make a great leap forward," says Pedro Hidalgo, director of the University of Chile's graduate school of economics. "There are greater possibilities for investing more in this area if you take into account the current debate about what is the best thing to do with the surpluses that Chile is generating from the unprecedented price of copper. That's because of its role as the world's largest producer."

China and India

It would be very difficult for Latin America to achieve the same levels of competitiveness as China and India, argues Fallas. "You have to realize that the most vigorous economies of the world are in Asia and in the countries of the English-speaking world. We have serious

deficiencies when it comes to managing a second language, which would be English. In addition, although immigration to developed countries can benefit countries through financial remittances, it damages our country's growth by reducing the value of those people who have the greatest initiative—the people who make the effort to emigrate and who have a significant level of education.”

In contrast, Kon believes it is possible to reduce the gap with the Asian giants in those countries that have the most diversified manufacturing structures, such as Mexico, Chile, Brazil, and Argentina. The potential also exists in those countries that have potential for exploring a natural raw material that is an industrial input in the global economy, as in the case of Peru and Bolivia. “In this sense, the development of economic competitiveness depends enormously on the priorities of public sector assistance policies, while the distribution of governmental resources should be directed especially toward

establishing conditions for infrastructure and toward other stimuli that involve legal, foreign-exchange, and monetary policy.”

In the case of Brazil, stresses Kon, priorities have moved more towards macroeconomic policy that stabilizes the economy. “The high rates of interest, while declining, have been established with the goal of stabilizing prices and attracting foreign investment in the financial sector. However, they make it difficult to resume production, job growth, and demand, as well as to invest in modernization that improves national and international competitiveness.”

On the other hand, Kon believes that regional authorities have an unavoidable responsibility. “Governmental priorities about applying resources have focused strongly on the preservation of political power in the short term, to the detriment of effective policies for development.” ■