History Repeats Itself

Disappointment and even disasters are more frequent than success for most foreign firms investing in Asia. These are often associated with the break-up of joint venture relationships and the consequent deterioration of the company’s investment. Sometimes the break-up is reasonably amicable, sometimes it can end in a protracted court case. An acquisition, too, is more likely to disappoint than prosper, and can be even more expensive if a firm paid a premium for what it thought was a rising star, only to discover it was a black hole. In many cases, Western companies decide to cut their losses and withdraw, but those who do often return to the region later, unable to resist the lure of those untapped markets, only to...
make similar mistakes. History repeats itself because few people listen sufficiently the first time around, and rarely are mistakes dissected. People are normally too busy ducking for cover.

The following true stories illustrate some of the most common reasons why attempts to be Big in Asia all too often lead to a retreat from Asia.

**Chinese Takeaway**

A typical disaster was that experienced by Asimco, a Beijing-based investment company set up in 1993 with three US majority shareholders; TCW Capital Investment Co., Dean Witter Capital and General Electric. By 1999, it was one of the biggest investors in China, having put US$450 million into 15 auto-related joint ventures and two breweries.

In the auto industry, its strategy was to take majority stakes in promising Chinese component makers and provide them with management expertise and new technology. In 1996, it paid US$7.5 million for a 60% stake in a Chinese company, CAC Brake Ltd, run by a Guangdong entrepreneur. The company produced auto brake components and clutch disks, and appeared to have a healthy order book, so the investors simply put in a financial manager and left the entrepreneur (who was vice-chairman of the board) and his team of deputy general managers to run the company.

Subsequent events would have come as no surprise to those with experience in China. The entrepreneur proceeded to strip the company of as much money as possible via a series of simple but effective frauds. For example, employee housing which remained under CAC’s control was rented to the joint venture, with the proceeds going to the entrepreneur. Another ruse was to raise mortgages from a local bank for two new buildings, supposedly for additional factory space even though the existing space was ample. Although they were actually built, the shoddy workmanship and low ceilings made them unsuitable for use as factories but the entrepreneur was able to take his cut anyway. As a grand finale, the entrepreneur opened up letters of credit (LCs) to pay for non-existent equipment and, in the last few months before he left town, stopped paying vendors and took the cash himself. In December 1996, he disappeared during a business trip to the US, having looted the company of over US$6 million.

**Moral:** Don’t run your joint venture at arm’s length. Make sure that you keep a firm eye on what is happening, put in your own senior finance people and check the books.