



China Rising

Why the Rise of China and India is Inevitable Jagdish N. Sheth

The genesis of this idea goes back to the late 1980s, when I became advisor to several governments for branding, positioning and marketing of nations. It became obvious to me that while the 20th Century was driven by the economic and political ideology of advanced countries, the 21st Century will be driven by the markets of emerging nations. In other words, the 70 plus percent concentration of trade and GDP among the 15 advanced countries of the world, which included 12 European common market nations, the United States, Canada and Japan was not sustainable in the future. Nor was it going to benefit the emerging economies of the world, despite their postwar decolonization and political freedom.

In other words, no matter what ideology one followed to uplift growth of emerging economies, whether Communism, foreign aid, or access to markets, it was not sustainable for several reasons. First, all advanced countries were aging, and aging fast! They had low to no domestic growth as exemplified by Japan, Germany and France. The United States was the exception because it was aging less rapidly mostly due to second wave of immigration from all around the world, and especially from non-white populations from Mexico, Latin America, Asia and the Caribbean. Thus, market access for political or economic reasons was not sustainable and any outsourcing of work, such as manufacturing or services, would result in domestic political turmoil.

Second, political leaders of all advanced nations realized soon after the first energy crisis of the 1970s, and more recently after the collapse of Communism, that what matters most to people in elections across national and cultural boundaries are the hard core realities of economic growth as manifested in jobs and wealth creation for the masses. In other words, getting elected or re-elected was more due to economic boom or bust than party loyalty, personal charisma or future promises.

This was clearly evidenced when George Bush Sr., who was the most popular US President both domestically and internationally (soon after and as a consequence of the first Gulf War in 1990), lost the bid for reelection in 1992 because there was an economic recession; and Bill Clinton was elected

on the now famous platform: It is the economy, stupid! Similarly, Helmut Kohl, the longest surviving Chancellor of Germany, made the fatal mistake of integrating the East German economy with West Germany on an equal footing, which resulted in the most unprecedented unemployment in Germany since the Marshall Plan. Finally, questions of the Japanese government's leadership became an annual event all through the late 1980s and the early 1990s because the Japanese economy remained deflationary despite very low, giveaway interest rates.

And this was not limited to advanced and politically mature economies. It happened in India with the defeat of the incumbent BJP Party whose "India Shining" campaign failed to deliver jobs and economic growth to non-urban masses. It was also true in Brazil, Bolivia, Argentina and so on. Consequently, economic pragmatism replaced ideology and rhetoric forever in politics.

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A third factor for the rise of market forces was the dramatic and sudden collapse of Communism as an ideological counterbalance to the market forces of capitalism. And this was a worldwide phenomenon not limited to the Soviet Union. Economic bankruptcy of Communist nations forced them to embrace capitalism, and they have embraced it with fervor and zeal comparable to what a convert manifests in religious conversion. Indeed, the best capitalist nations of today are mostly ex-Communist nations including China, Vietnam, Russia, others in Eastern Europe and to some extent India, which had embraced a socialistic pattern of society and implemented Fabian economics through what is referred to as the "License Raj."

I have always been puzzled about why ex-Communist nations would or should do well with a capitalist mindset. And the answer seems to be the resource based advantages of ex-Communist countries. Despite all the ills of Communism, it created two key resource based advantages for the nation, mostly related to human capital. First, they made primary and secondary education mandatory and further invested in post secondary technical and vocational education to produce skilled workers for the factories and the military. Second, they made gender a non-issue. It did not matter whether you were a man or a woman; both had to go to school or work for the state. This resulted in an enormously large pool of talented and skilled people, both men and women, even in small countries.

If, in addition, the nation was also blessed with natural resources, especially industrial raw materials such as coal, oil, gas, copper, iron ore, and bauxite, it provided additional resource advantages to these ex-Communist or ex-socialist countries such as China, Russia, and India.

A final and more recent reason for the growth of emerging economies is access to global capital and technology. Most of the emerging economies, most notably China and India, are attracting enormous capital, whether it is Foreign Direct Investment (FDI), private equity or debt capital. Access to capital became easier through liberalization of trade, contract manufacturing and the re-emergence of their own stock market exchanges. The world became flat not just in terms of information technology (especially the mobile phone) and entrepreneurship, but also with respect to global access to capital, and global agricultural or industrial resources.

CHINDIA'S GLOBAL IMPACT

Among the large emerging economies such as Brazil, Russia, Nigeria and Indonesia, it is the rise of China and India (Chindia) which will have (and already has) enormous business implications during the first half of this Century, mostly beneficial to the world.

First, both nations will require enormous natural resources, not only because they are manufacturing and service centers of the world, but because of their own rapidly expanding domestic consumer markets. And this demand for natural and industrial resources—such as oil, gas, coal, copper, bauxite, aluminum, iron and steel—will last for many years.

While China today is roughly nine times as big as India, it is expected that China will very soon become an aged and affluent nation, similar to what happened to Japan, Singapore, Taiwan and others, and will begin to plateau its economic growth. Also, it will outsource manufacturing to other nations, especially in Africa and other resource rich nations. The rapid aging of the Chinese population attributed to its one child policy implemented over two generations will impact its domestic economic growth. On the other hand, while India is at present one tenth in size of China, it will experience accelerated growth in less than ten years with better infrastructure, political reforms and financial transparency.

Also, India will refocus on manufacturing both for global supply as well as for its domestic demand. Unlike China, however, India's manufacturing will be selective and largely concentrated on high-end aerospace, military, space and consumer durables including automobiles and appliances. It will begin to catch up with China and some experts even believe that its growth rate will surpass that of China. In any case, both nations, with more than a billion people each, will have enormous need for industrial, agricultural and other natural resources and raw materials. Since a vast majority of these untapped

resources are in other dormant or emerging economies in Africa, the Caribbean, Latin America, Central Asia and Russia, the rise of Chindia will create economic boom for them which did not happen for nearly 200 years of colonial rule.

Second, the global integration of China and India will be radically different. India's economy and enterprises will be globally integrated, especially with other advanced countries (Europe, US, Canada, UK, Australia, Singapore, Japan, South Korea) through large scale acquisitions of well established and well respected foreign companies with technology, branding and manufacturing assets. The journey has already begun with Mittal Steel's acquisition of Arcelor, Tata Steel's acquisition of Corus Steel, and Hindalo's acquisition of Novelis (largest North American sheet aluminum company). And it will not be limited to industrial raw materials or to the private enterprises of India. For example, several large public sector units (PSUs) of India such as ONGC (Oil and Natural Gas Corporation), Indian oil and SBI (State Bank of India), who have the domestic scale and capital reserve, are starting to flex their acquisition muscles. Similarly, Wipro, an information technology (IT), engineering services, as well as consumer products company, has recently made several worldwide acquisitions (including Infocrossing, a data center company in the US, and Unza, a personal care consumer products company in Singapore).

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Finally, Ranbaxy and Dr. Reddy's have become significant players in the global pharma industry, largely through acquisitions. So have Mafatlal and Raymonds in fashion and garments. In other words, India will contribute to global growth as much, if not more—through revitalizing and investing in Western assets—as it would through growth of its domestic consumer markets.

On the other hand, China's growth will be proportionately more domestic and only on a selective basis through global acquisitions. This is due to several reasons. First, China has begun to focus on domestic demand, especially in consumer markets such as consumer electronics, appliances, automobiles and financial services. It has the physical infrastructure as well as large scale domestic state-owned enterprises such as Haier, Lenovo, China Mobil, Petro China and China Development Bank to capitalize on domestic demand.

Second, the advanced world seems less willing to sell their assets to China (especially technology assets) due to what I believe are myopic misperceptions about the peaceful rise of China (in contrast to rise of India). For example, Chinese oil company CNOOC's attempt to buy Unocal, as well as Haier's (the largest Chinese appliance company) attempt to buy Maytag Company in the US met with political resistance. The obvious exception is IBM's sale of its personal computer (PC) business to Lenovo.

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Consequently, Chinese enterprises that have the scale and incumbency advantage to dominate the domestic Chinese markets will end up expanding globally by first going to other emerging economies such as countries in Africa, the Caribbean, Latin American and the ASEAN countries, as well as in Central Asia and India, both through trade and foreign direct investment (FDI). In addition, despite their history and current uneasiness with the rise of China, it is inevitable that both Japan and South Korea will quickly integrate their economies with China, just as Taiwan has already done. This will result in rapid growth in bilateral trade as well as reciprocal foreign direct investment between China and Japan and China and South Korea. Consequently, the largest trading bloc will be Asia, especially with free trade with India. This will require formation of a new currency comparable to the Euro; and it will become the dominant currency of the world, similar to the rise of the dollar as a global currency after World War I.

While the global integration paths taken by China and India will be different, their impact on businesses worldwide, either as suppliers, customers, partners or competitors will be beneficial and enormous. In fact, it is no exaggeration to state that the future survival of most admired enterprises from all advanced economies including the United States, Canada, Europe, Australia, Japan, and South Korea will depend on how quickly they participate in the ensuing rise of China and India, even if they have to distance from their own government's politics and public opinion. This includes companies such as General Electric, HSBC, Mercedes Benz, Siemens, Alcatel and many others.

CHINDIA'S GEOPOLITICAL AND CULTURAL HEGEMONY

Finally, it is inevitable that as China and India become the largest economy of the world, its geopolitical and cultural hegemony will expand. I firmly believe that the G-8 Forum will invite and integrate China and India to become the G-10 Forum—for its own relevance and survival. Similarly, most world forums (from Davos to climate change) and world agencies must encourage significant involvement of bureaucrats and professionals from China and India. This includes the World Bank, IMF and various UN agencies such as WHO, ILO, UNIDO and UNESCO. Indian professionals are more likely to be invited and encouraged to become leaders and advisors of the world bodies due to language, culture and political compatibility as compared to Chinese professionals and bureaucrats.

Rudyard Kipling, who proclaimed that “East is East and West is West and never the twain shall meet” is already proven wrong with respect to the Westernization of heritage-rich and tradition-based China and India. He will be proven wrong again as we witness what I refer to as the Easternization of the world. Indeed, the West will more readily accept and adopt the arts, culture, fashion and *traditions* of China and India because of their pro-change cultures. The Western world will also embrace the spiritual and meditation practices of the East. For example, Emory University (where I am a Professor) recently formally inaugurated the Emory-Tibet Partnership with His Holiness, the Dalai Lama as the Presidential Distinguished Professor! The Emory-Tibet Partnership will attempt to blend the Tibetan Buddhist meditation practices with modern science, using brain imaging techniques to study how mind and body work together. Similarly, Emory University has invested in archiving Salman Rushdie's writings for scholars to research on contemporary authors. In exchange, Rushdie has also agreed to be a Professor at Emory University.

In short, it will be less a clash of cultures and more a fusion of cultures across arts, architecture, science, law, engineering, medicine and management traditions and perspectives.

THE REAL SHOW STOPPER: THE ENVIRONMENT

In my view, the only show stopper to the economic rise of China and India will be the environment, not geopolitics. Both nations, and the rest of the world, will realize that to carry out their economic journey will require understanding the impact of their economic growth on the environment and proactively protecting it. In other words, sustainability is in their self interest and survival. Nature, like the human body and other living organisms, has a way of resisting its depletion and destruction.

Unlike the first Industrial Revolution, which garnered the industrial age at the expense of the environment, this second industrial age anchored to emerging economies will be wiser and more experienced to manage economic growth conservation through breakthrough innovation and cloning of natural and biological resources.

Cloning of sheep, chicken, pigs and other living organisms is now a routine science. And, just as we in the last Century substituted plant, vegetation and animal based medicine with modern pharma, biotech and bioengineering technology, we will innovate to preserve and duplicate nature's resources. At least this is my hope, in addition to my forecast.

The rise of Chindia is not only inevitable, but it will be beneficial to the world economy. It will be, of course, beneficial to businesses and entrepreneurs, but also to the masses at the bottom of the pyramid (people who earn less than two dollars a day). It will generate unprecedented innovation, probably more dramatic and breathtaking than the first Industrial Revolution, by making existing technologies more affordable and accessible and by inventing or discovering ways to replicate natural resources. Finally, both the advanced countries and the emerging economies will rapidly learn to innovate for conservation, sustainability and cloning of nature's resources. 📌



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