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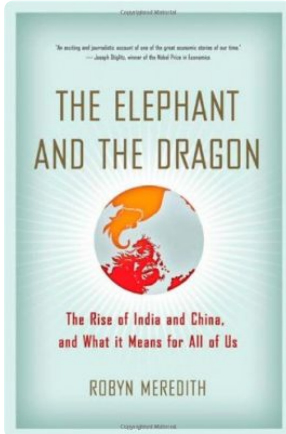

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The Elephant and the Dragon

The Rise of India and China, and What It Means for All of Us

Robyn Meredith • W.W. Norton © 2007 • 272 pages

Economics / Economic Theory
Manufacturing / Supply Chain Management
Politics / Globalization

Take-Aways

- China and India are "the two fastest-growing big economies in the world."
- China is the world's main factory; India is the world's vital back office.
- Despite India's capitalist tradition, it sometimes adopts a populist, antibusiness stance.
- China, an authoritarian communist state, is almost always strongly pro-business.
- Offshoring work to China and India has eliminated millions of Western jobs.
- At the same time, Western consumers have benefitted from lower prices.
- Modern policies in both countries have raised hundreds of millions of their citizens out of desperate poverty.
- Western companies eagerly pursue the prosperous Chinese and Indian populations as markets for their products and services.
- The two nations' energy needs will increase in future years, adding to pollution.
- Innovation is the best way for Western nations to compete with China and India.

Recommendation

As China became the world's manufacturing center, millions of Western factory workers lost their jobs, yet countless Western consumers benefit from cheaper Chinese goods. India handles much of US companies' back-office work. While this puts Western white-collar employees out of work, it allows Western companies to operate more efficiently, delivering increased value to investors. Robyn Meredith, a foreign correspondent at *Forbes* and a Hong Kong resident, discusses the positives and negatives of the ascension of China and India. Though this treatise hasn't benefitted from the passage of time, *getAbstract* recommends Meredith's work, with its resemblance to the Silk Road, where every stop is exotic, accessible and interesting.

Summary

The Chinese Dragon and the Indian Elephant

For many years, the economies in China and India stagnated, and their vast populations remained desperately poor. This changed dramatically in China in 1978 when communist leaders removed the stifling restrictions that had kept the economy moribund. At the time, India stuck to its tired, unproductive course. China surged ahead as India remained in neutral, going nowhere.

> *"As the Indian and Chinese economies grow and take hold of a larger slice of the global economic pie, both are growing more connected to the rest of the world, not more estranged from it."*

By 2003, international organizations had invested upward of $700 billion in China, more than the US spent on the Marshall Plan for rebuilding Europe after World War II. Foreign companies constructed hundreds of thousands of manufacturing plants in China. Millions of poverty-stricken Chinese went to work, earning more than they had ever thought possible. For the first time in their lives, these working Chinese had disposable income, and millions of people could afford to buy cars, computers and cellphones. India stayed frozen in time, with a significant proportion of its citizens living in wretched conditions.

> *"China is still far ahead, but India is finally on its tail."*

By 2003, some 25 years after China had opened economic opportunities for its citizens, the average Chinese income was 100% higher than the average Indian income. Though India is home to more than 30 languages, many of its people speak English – the world's lingua franca – while most people in China speak Mandarin and, until the reform, only a few spoke English. India is a democracy, with a well-established court system. China was an authoritarian state and had no standardized legal system. Yet, communist China raced past democratic India.

Compare and Contrast

Despite India's capitalist tradition, it sometimes adopts a populist, antibusiness stance. China, a rigid communist state, is almost always strongly pro-business. Today, business creates a common thread between the two nations.

> *"Chinese factory workers, whether making light bulbs, talking toys or tennis shoes, earn each day about what Americans pay for a latte at Starbucks."*

In 1991, India instituted its own major economic reforms in a two-year program led by Prime Minister P.V. Narasimha Rao and Commerce Minister P. Chidambaram. As a result, business boomed quickly. While India's planned economic initiatives have been erratic since the early 1990s, the nation has eliminated much of the bureaucracy that formerly stifled its business community. "We started reforms late, but now reforms have taken off," says N. Chandrababu Naidu, chief minister of Andhra Pradesh in India.

> *"China now exports in a single day more than it sold abroad during the entire year of 1978."*

After undergoing startling transformations, China and India linked their economies to the rest of the globe, and they are now "the fastest-growing big economies in the world." The widespread effects are apparent: super-low prices on many products, job loss in the West, and increased pollution in both China and India. Western companies now look to these two Asian giants for future workers and customers.

From Mao Zedong to Modern Reforms

Guangdong Province in southern China has become the world's toy box: It is home to 5,000 toy factories (and thousands of manufacturing facilities in other industries) and is the primary production center for the $85 billion global toy industry. This centralization is typical of industries that manufacture in China, the manufacturing locus of the world. China exports a third of all shoes worldwide. In 2005, it exported almost $9 billion worth of auto parts. In 2004, it sold $180 billion worth of computers and other electronics.

> *"On the average, if China exports a shoe that sells for $100 in the United States, just $15 of the price stays in China in the form of workers' wages, transportation costs or other value."*

This is a contrast from the days of Chairman Mao, who instituted the People's Republic of China in 1949 and collectivized China's farms in 1955. Three years later, as part of his Great Leap Forward initiative, Mao ordered Chinese peasants to give about a third of their crops to local officials for distribution in the cities.

> *"The shockingly widespread corruption of government officials is sapping the incomes of ordinary Chinese and spawning dissent nationwide."*

To transform China into a steel powerhouse, Mao forced the Chinese masses to turn in personal belongings to the same officials. All their pots and pans went into "backyard furnaces" to make steel. Busy with their amateur steel-manufacturing activities, peasants had no time to gather their harvests, which rotted in the fields. Rural peasants had no food, and famine prevailed. From 1959 to 1962, some 30 to 40 million people starved to death in China.

> *"Some of the world's biggest IPOs are those of Chinese companies controlled by the Communist Party, capitalism's new best friend."*

In 1966, Mao promulgated the bloody, disruptive Cultural Revolution. Communist zealots punished and purged anyone they considered to be Mao's rivals, including intellectuals and other "capitalist roaders." By the time Mao died in 1976, China was an economic disaster. Deng Xiaoping became China's leader. In 1978, rebellious peasants in the village of Xiaogang, in Anhui Province, banded together to thwart the ruinous collective farming rules. The result was a harvest nearly four times as large as the previous year's yield.

> *"India and China each add more college graduates to their workforces annually than are produced by the United States and Europe combined."*

Prompted by the brave actions of the Xiaogang peasants, Deng instituted farming reforms throughout China. This proved to be the bold first step in China's transformation to a robust market economy. What started out as agrarian reform grew to become a national rebuilding effort.

China turbocharged its economy by developing the world's most modern "export-friendly" infrastructure, an essential factor in the rapid transport of manufactured goods. China provides foreign investors with attractive tax breaks and special economic zones, which have paid tremendous dividends for the country. Western companies appreciate China's low labor costs and are glad to sell their goods to the hundreds of millions of Chinese workers who constitute a massive new market for Western-branded goods. Thanks to China, global companies can manufacture products cheaply, resulting in both lower prices for consumers and increased corporate profits.

> *"College graduates in India are happy to land a job answering 800-number customer service calls to listen to Americans complain."*

However, foreign corporations in China now benefit more than Chinese firms. Of China's top 25 export businesses, only four are Chinese companies. The rest are foreign-owned firms. Thus, "Made in China" really translates as: "'Made by America in China' or 'Made by Europe in China'."

The "Disassembly Line"

China's communist leadership deserves the credit for the country's radical transformation. But China became the world's manufacturing powerhouse by replacing Henry Ford's famous assembly line with a new tactic: the disassembly line. Most companies do not assemble their products in one plant. Instead, different manufacturing and assembly plants worldwide add different parts to the same products.

> *"India's invisible human infrastructure is the nation's mighty resource now that it has reconnected to the global economy."*

The Internet, sophisticated technology, advanced logistics software, superior supply chain management and ultramodern global transportation systems make this possible, allowing disparate points in the product manufacturing and assembly process to connect seamlessly. By breaking their products into separate components and relying on subassembly operations at widespread plants, manufacturers cut production costs substantially. Imagine that a giant retailer like J.C. Penney wants to order 100,000 shirts. It can buy yarn in Korea and ship it to Taiwan for dying and weaving into cloth. Then Penney's can source its buttons from a Japanese factory in China and send them to Thailand, along with the cloth so workers there can produce the shirts. To save time, five different plants in Thailand will handle 20,000 shirts each.

> *"As China has famously become the factory to the world, India is becoming the world's back office."*

With this sophisticated subassembly process, it takes only five weeks from the date of Penny's initial order for all 100,000 shirts to be manufactured, packaged, shipped and shelved. Because China offers every type of high-tech manufacturing plant, low-cost labor and a modern transportation infrastructure, it garners a large proportion of the world's subassembly production work.

Hundreds of Thousands of Millionaires

Merrill Lynch estimates that 320,000 millionaires now live in China. These "gold-collar workers" work for large multinational companies operating in China. The other newly prosperous include the dan Shen qui zu, "single aristocrats" who manage foreign firms; the bo pu zu, or intellectuals; the yue guang zu, middle-class big spenders; and the you pi, also known as xiao zi, or "little capitalists," who earn upward of $12,500 annually.

> *"Every dollar of spending that US companies transfer to India creates $1.46 in new wealth." – McKinsey & Company."*

Despite Chinese communist leaders' innovative and enlightened economic actions, they remain embroiled in a cold war with their own citizenry. The Chinese populace has few civil rights and no free press. China tortures its prisoners. Its judicial system is not equitable. Many citizens cannot openly practice their religion. More than anything, the communist leaders of China fear instability. Fault lines that could conceivably threaten communist rule are present in China today.

India: Former Jewel of the British Empire

India's storied past as a premier British colony continues to shape the huge South Asian nation long after it gained independence. Due to its British colonial heritage, more than 100 million Indian citizens speak English. This is an important asset and a main reason India became a prominent call-center locale for American and other English-speaking organizations around the world.

> *"Westerners fear job losses as China and India ascend, but the most troubling element of their industrial revolutions may instead lie in their soaring energy needs."*

Many Western jobs have moved to India, as they have to China. "The US will lose 3.3 million jobs to offshoring by 2015, about 2% of the entire US workforce." The jobs leaving the West go beyond answering phone calls. Thousands of Indians work in computer programming, investment banking, accounting, research, production development and other white-collar fields. In 2005, Microsoft, Intel and Cisco announced plans to invest $1 billion in business operations in India. That year, IBM significantly upped the ante, announcing that its investment in India would be $4 billion. Some 80% of the world's 500 biggest companies have moved "middle-class work" to India in a dramatic offshoring exodus.

> *"Both India and China will be making big investments in pollution control, an opportunity for Western companies with sophisticated technology."*

Western companies often conceal their offshoring activities so many Americans and other Westerners have no way of grasping the scope of offshoring. When General Motors employees phone the operator at GM's famous Detroit building, they hear, "Welcome to General Motors, my name is Andy, how may I help you?" The speaker is Amit, who is located in Mumbai. Because he is educated and speaks English, he has a job that pays extremely well in comparison to many other people in India. The lowest salaries in Indian offshoring, in the ubiquitous call centers, average $275 monthly, a decent sum in a nation where most people still earn about $2 per day.

Approximately 70% of Indians live in small, countryside villages that lack electricity or running water. India must provide more jobs for its population, which is expected to grow to 1.45 billion people by 2030. In contrast to China's authoritarian society, where leaders readily order big changes in the national economy, India is a democracy and therefore must persuade – not command – its citizenry to bring about change.

Hungry for Oil and Other Natural Resources

To meet the increasing future needs of their growing populations, China and India will demand more of the world's limited natural resources, including oil. If China and India were to use the same amount of oil as America, the world would not have enough for the remaining nations. China and India will add substantially to current pollution levels. Disturbingly, the United States and China are locked in a "quiet arms race." India does its best to operate independently of both China and America.

The nations of the world, including the US and Western powers, must accept the juggernauts of China and India. The West should not dabble in protectionism against them. It must understand that while offshoring transfers jobs to Asia, it also means lower-cost goods for Western consumers. To counter the economic rise of China and India, and remain competitive, the US and other Western nations must become more innovative. The Council on Competitiveness, which is primarily composed of US university and business leaders, puts it this way: "Innovate or abdicate."

About the Author

Robyn Meredith, a Hong Kong resident and former correspondent for *The New York Times*, is a foreign correspondent for *Forbes* magazine, covering China and India.