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Sino-Indian Economic Dialogue

Global Business Plan for an Asian Century

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When Rajiv Gandhi visited China in 1989, Deng Xiao Ping said to him: "An Asian Century is only possible when India and China come together". A quarter century later, India and China share a complicated relationship with diverse strands. There is the long civilizational connection built from the time of the Buddha. Then there is the more ominous overhang from the 1962 conflict which has left a trail of hurt, anger and suspicion, especially in India. Whilst trade between the countries is booming, it remains a on a highly skewed trajectory with India as the deficit partner. What about tourism between the two most populous countries in the world? The only answer is: 'pathetic' (just over half a million both ways). There are worries about Chinese goods (with their infamous 'China price') swamping Indian markets if allowed to do so, as well as security concerns about Chinese investments in India. However, while there is recognition of the potential of both countries as growing markets, these remain largely invisible to each other, divided by language, information deficit, poor institutional support and the absence of concerted strategy and effort.

I
ECONOMIC ENGAGEMENT: IN THE INTERESTS OF INDIA AND CHINA

It is entirely in India's interest (and in China's too) to engage strongly with each other in economic terms across a wide range of activities and sectors. The benefits will not just be in terms of economic growth, but will spill over to creating mutually improved understanding, greater regional economic integration, more effective cooperation in multilateral fora, the prospect of faster innovation and creative approaches to common problems, and a great contribution to the stabilization of the world economy and polity. Of course, there will be several choices to be made and hurdles to cross, and the paper spells these out. But at the end of the day, strong economic engagement should result in considerable evolution if not transformation in mutual political and security perceptions.

As the world struggles to regain momentum after a serious financial crisis which is yet to play itself out fully, many emerging markets show that they have coped with the crisis relatively better. In particular, Asia has emerged with its growth trajectory dented but not derailed. And within Asia, China and India (and several other countries) continue to show strong growth potential for the next few decades. In a recent article (December 31, 2011) The Economist newspaper forecast that China would overtake the USA in 2018 in terms of Gross Domestic Product at market rates, and in 2023 in terms of overall consumer spending. Though India is some way behind, our growth prospects are even better, given a better demographic profile, unless we choose to let slip the window of opportunity this affords us. Truly, China and India will be two strong locomotives hauling the train of the world economy forward in the future.

It is for this reason, no doubt, that so many of the worlds' largest companies have connected with India and China over the last two decades. Today, there is scarcely a single global player of note in any industrial domain who is unrepresented in China, and to a lesser extent, this holds true for India. The story of foreign investment in China and India (both direct and portfolio) is too well known to bear repetition here. It therefore remains ironic that the economic inter-connectivity between the two Asian giants is weak, to say the least. The trade figures (over US$ 60 billion) look impressive but India's exports are mostly natural resources and raw materials. Two-way investment and tourism numbers are way below potential. From the perspective of a business person, the sky is the limit. How to go about it would involve an assessment of each others' needs, an appraisal of one's own strengths, and a clear-eyed view of goals as well as constraints. So what are the opportunities and challenges?

II
WHAT CHINA OFFERS?

As China proceeds with her 12th 5-year Plan (2011 -15), the openings that this heralds for foreigners become increasingly visible. There is a clear focus on the Plan to rebalance the economy by increasing the share of consumer expenditure. Overall economic growth will slow down from the hectic pace of yesteryears, but there will be a greater variety of goods and services in demand.

At the same time, the economy will experience a push towards higher added-value manufacture, as higher wages push low-cost items such as toys and garments into lower-wage economies such as Bangladesh, India, Vietnam or even interior China. There is a chance here for India and South Asia to opt into this manufacturing boom. At the same time, huge investments in China's healthcare and education sectors will call for a range of services and products---medicines, medical equipment, scientific research, English language training materials, consulting, legal services, marketing and advertising etc. With the World Tourism Organization forecasting that China will send 100 million tourists outbound annually by 2020, even a modest 5% share would be a bonanza for our tourism industry. More importantly, it would generate huge employment as tourism is a livelihood-intensive business.

The 5-year Plan also calls for special development of seven 'strategic industries' in areas such as nanotechnology, biotechnology, alternative energies, environmental protection etc. These are also areas of vital importance for India. Is it not possible to work out arrangements where some areas can be the subject of joint research efforts, with agreement on how the benefits will be shared? In this way, companies and institutions with particular strengths in one or more of these areas can lead the team, use the larger resource pool that such collaboration will bring, and make the results available to all.

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III
MAPPING THE OPPORUNITIES AND CHALLENGES

Both China and India have large, diversified and rapidly growing economies. Therefore, there will be 'enough space' (to paraphrase Prime Minister Manmohan Singh) for each economy to engage in the other. While there are areas of rivalry and competition, there are even more opportunities to collaborate and work together. For brevity, this paper will only focus on the opportunities and challenges that China presents to Indian business.

Few years ago, the Confederation of Indian Industry (CII) along with a firm of consultants did a detailed study ("CII-Avalon") that revealed many niches of opportunity. It showed, for example, that in the area of automobile components, India and China are both competitive and complementary, in that it is possible to import some components and export others, both profitably.

The study also revealed, quite notably, that the notorious 'China price' is not simply the result of government subsidies, as popularly believed in India. There is a whole network of factors—amongst which subsidy is but a minor one—which work together in the Chinese system to make the final export product available at an advantageous landed price to the buyer. These include: better infrastructure, lower energy costs, lower financial costs, better logistics and supply chain arrangements, higher productivity, larger scale of operations etc. The study went on to recommend what measures State and Central Governments could take to ensure that (at least in areas controlled by the Government) the competitive playing field for Indian companies is rendered less unfavourable compared to their Chinese counterparts. These include rationalization of taxes, abolition of octroi, improved road and rail infrastructure, warehousing and trans-shipment arrangements, easier terms for financing etc.

Despite all these problems pushing up their cost of producing goods or services, several Indian companies have notched up significant successes in China. For example companies in the information technology and I.T. education space. TCS, Infosys, Wipro and NIIT are all well regarded in China and held up as companies that their Chinese counterparts need to emulate. This is truly a case where the old chestnut about Indian software and Chinese hardware rings true since in the I.T./telecom hardware space, the Chinese have recorded similar successes globally with Lenovo, ZTE and Huawei.

This is not just a matter of having a better product or service and pushing sales in China like in any other global market. Above all, it depends on a deep knowledge of the market and on astute business strategy. TCS, for instance, is among the few Indian companies who, early in their entry into China, decided to collaborate with the Chinese Government and Chinese Universities in order to jointly develop R & D facilities. This stood them in good stead and they have since been able to enter the Chinese banking system as systems providers. The Indian I.T. industry is well equipped with the creative skills and quality control to generate similar applications for niche areas in Chinese business.

Similarly, in the pharmaceuticals sector, Dr. Reddy's Laboratories is today the top Indian generics company in China. This was achieved after a long and patient struggle for a decade, during which some other Indian players in the same sector wound up and exited. The lesson here was to focus on specialized and difficult-to-manufacture products which would be of interest to the Chinese but which they did not have the capacity and/or technology to make to the same cost and quality standards. Given the outlays in the health sector in China in recent years, and bearing in mind what China's 12th 5-year Plan has in mind for the sector, the pharmaceutical sector should be a target for Indian business, but only after careful study to identify the particular niches that suit their competitive profile.

INVESTMENT, INFRASTRUCTURE AND CONNECTIVITY

When Prime Minister Manmohan Singh said two years ago that G20 countries should examine investment opportunities in rapidly-growing emerging markets, he had in mind marrying investible surpluses with good project opportunities. As it now turns out, huge investible surpluses lie in China and in the oil-exporting nations. Any investor will have his expectations—economic, political, or both--and we need to

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figure those out well in advance. The pattern of China's investment strategy has been to invest heavily in infrastructure and resource extraction, to provide cheap loans at highly concessional terms, and link repayments to long-term delivery contracts at pre-agreed prices. These are attractive terms indeed but the Chinese are hard bargainers, and some countries have found that hastily-drawn agreements have worked to their disadvantage. But in India they might meet their match as they face an equally hard-nosed and commercially astute business tradition.

The judicious utilization by India of Chinese companies who can compete for and win global tenders for power generation, dam-building, ship-building, roads and railways would solve two problems at once. It would help address India's enormous need to build and upgrade national infrastructure. Next, it would help reduce India's balance of payments deficit with China. Indian ingenuity should be able to tackle and solve the problems created by large-scale import of Chinese labour—for instance by awarding long-term and multi-project engagements linked to phased inputs and training of Indian skills. Indeed, given the availability of consulting and management talent as well as English speaking skills in India, it may even be possible to innovate a collaborative format where Indian management and Chinese technological skills can be put together to create globally competitive entities.

One of the benefits of a hugely enhanced focus on infrastructure by and within India will be to improve our connectivity with our neighbours. The poor shape of physical links between India and its South Asian neighbouring States is one reason (amongst many) for the poor inter-connectivity of their economies and peoples. India's own growth potential as also those of her neighbours could be enhanced by improved South Asian linkages. The same goes for trans-Asian connections, by land, air, sea, and cyberspace.

IV
DOING BUSINESS IN CHINA

Indian businesses often complain that they compete against unfair odds with local Chinese counterparts, and that 'non-tariff barriers' operate against them to their disadvantage. But surely, whilst they must play by the same rules as all others, do Indian companies invest enough in understanding the local market and the local socio-political scenario? Do they formulate their partnership proposition in a way so as to demonstrate a lasting benefit for China (as represented by State or Centre) apart from the commercial one? Do they make it clear that there is a long-term commitment to China? After all, these are the very requirements that Indians would seek from a foreign company wishing to do business in India. In fact, very few Indian companies have tied up with State-owned enterprises (SOE) or with the State or Central Government entities—they have preferred joint-ventures with private parties. In China, this is taking the low road. Admittedly, it is time-consuming and cumbersome to wend one's way through the Chinese bureaucracy (as it is in India), but the big bucks and high growth plans are with the SOEs. But this is where investment in learning about how China works---through language skills, business practices, cultural norms and guanxi networks—pays off. In many cases, it is as simple as ensuring that Indian negotiators are well-prepared, well-briefed, prepared to be patient and tenacious, and above all, have reliable and expert interpreters. (It is surprising how often this simple requirement is overlooked or short-changed!)

It is important also to create the institutional structure to support business. US and European companies based in China can draw on the support of compatriot firms who provide legal, consulting, verification, research and advisory services. A well-developed network of chambers of commerce and business support services exists to disseminate, update and exchange information and in resolving minor disputes. India could also do with creating good orientation programmes that can help Indian executives (and their families) understand the language, customs, business practices and culture of China. Why do not Indian apex business institutions and academia come together to undertake such a venture?

Finally, why cannot Indian business and the Central Government get together to develop a common understanding towards creating a 'China business strategy' for India? It is often said that India cannot replicate the process of close coordination that Chinese business has with its Government. That is true. But we can certainly do far better through improving focus, adding scale and improving coordination between the various arms of Government and the sectors of business when it comes to dealing with China. For a start, an apex consultative council composed of the concerned Ministries, the main business confederations and selected think-tanks could draw up a tentative strategy and action plan, and see where we go from there.

V
SET THE SIGHTS HIGH

When two civilizations such as India and China reconnect in the manner I have suggested in this paper, it is only fitting that the sights should be set high. For while business and economic development might be the goal to start with, it should certainly not be an end in itself. Expanded ties through business, investment and tourism will certainly create strong constituencies within each country for building relationships through maintaining peace and enhancing trust. Over a period, this should result in a greatly enhanced awareness in the public mind of the endowments, achievements as well as vulnerabilities of each country, and even more, a mind-set that encourages building bridges rather than bombs.
If the two civilizations can reconnect in this spirit, it could lead to a creative re-awakening sparked by the influence of each culture on the other. We can envision, perhaps, grand joint projects which address the problem of making the Himalayan waters available to all, ending poverty and ill-health, creating a zero-pollution car, a $ 20 computer, a Colombo-to-Canton railway via Kolkata and Kunming---the list can go on. Tagore and Sun Yatsen envisioned a new world order formed by the legacy of these two ancient civilizations: based on harmonious coexistence rather than the zero-sum equation promised by Western realist international relations theory. Those theories have brought the world to the brink of financial, nuclear and ecological disaster.

Perhaps it is time to recollect Deng's words and create an Asian century.