

GETTING CHINA AND INDIA RIGHT

Leveraging the World's Fastest Growing Economies



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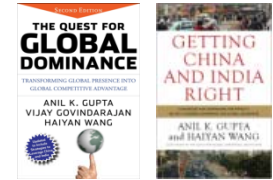
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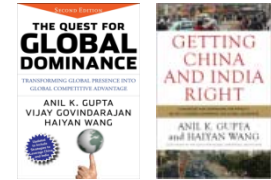
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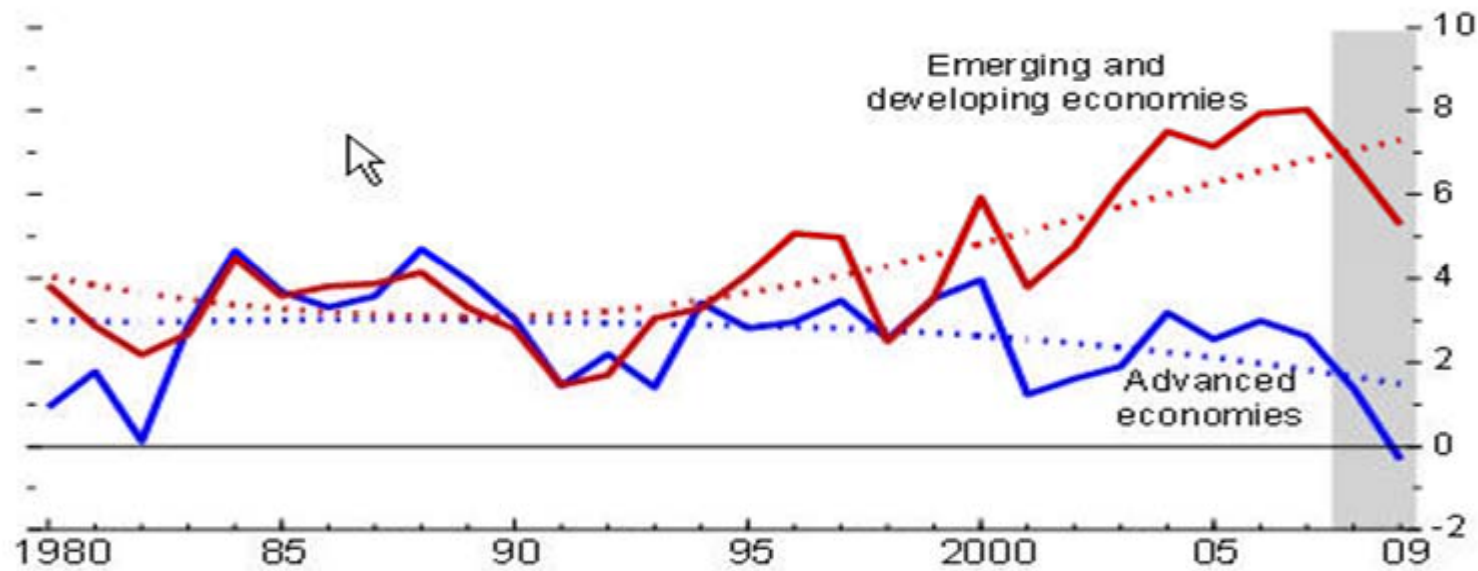


The Changing Global Landscape

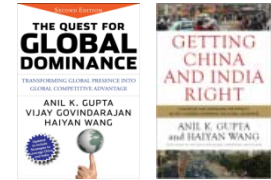


The Emergence of Emerging Economies – A Recent Phenomenon

Trends in Real GDP Growth Rates (%)

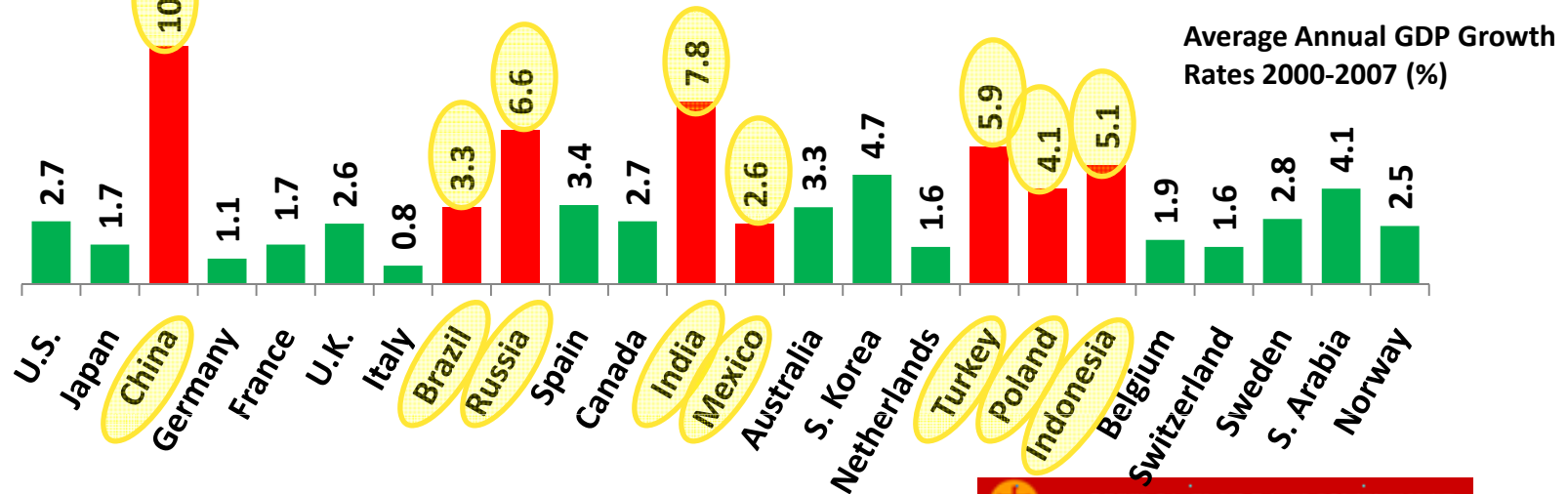
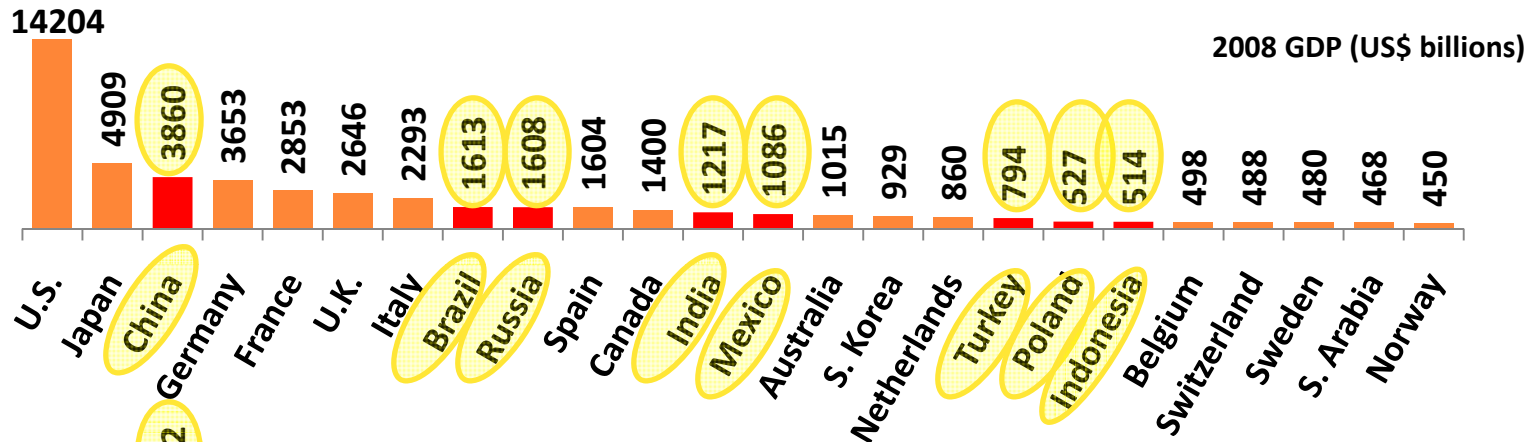


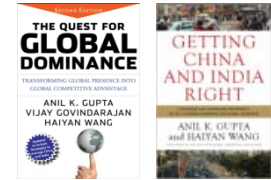
Source: IMF staff estimates.



Emerging Economies Gather Bulk

(World's Top 24 Economies = 84% of World GDP)



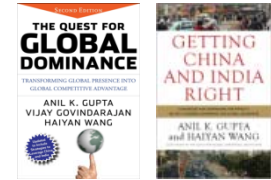


Today's Reality



The Wall Street Journal, June 25, 2009

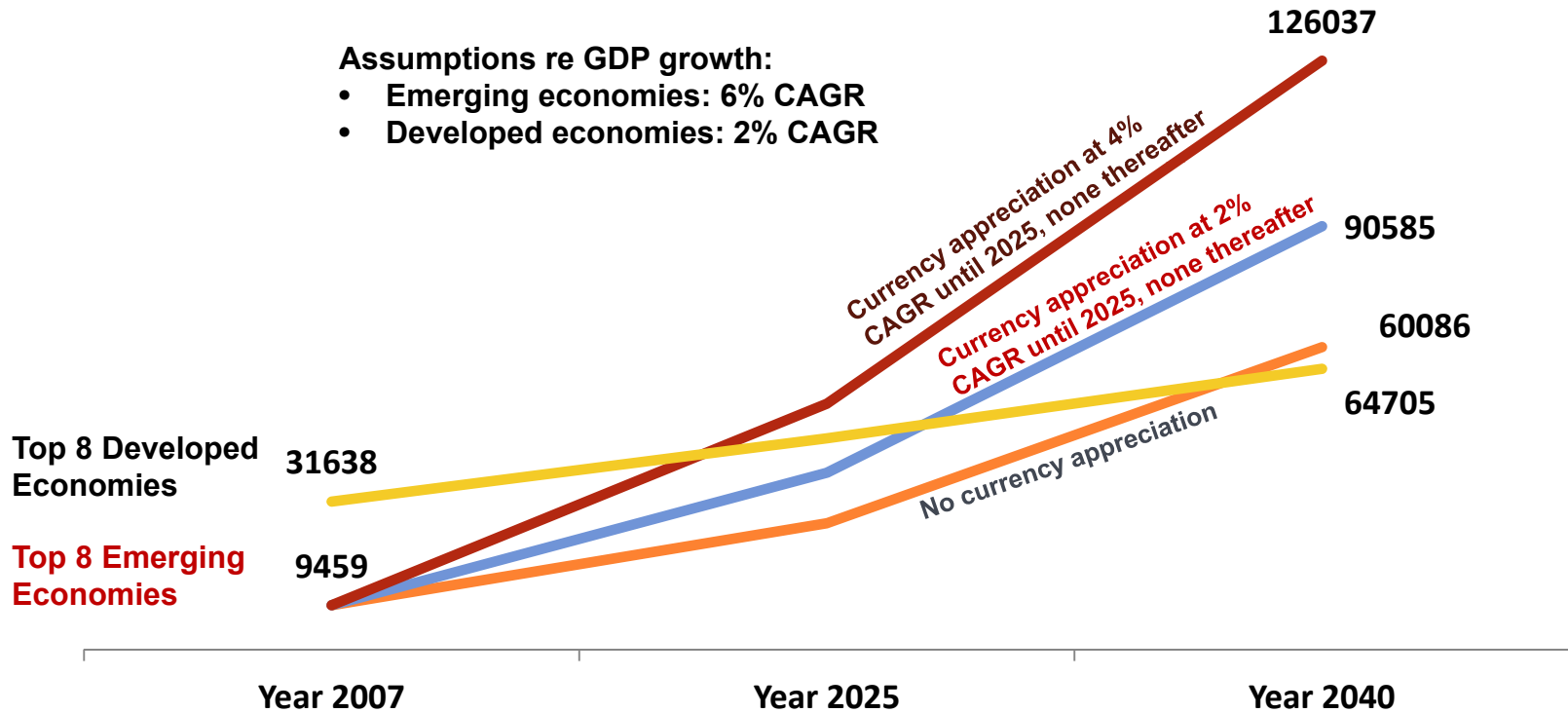
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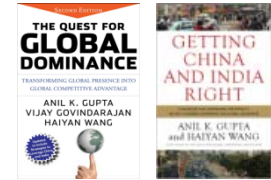


The Future?

(All data in 2007 US\$b)

- Assumptions re GDP growth:
- Emerging economies: 6% CAGR
 - Developed economies: 2% CAGR





Global Motor Vehicle Industry

Top 12 Motor Vehicle Producer Countries - 1999

Top 12 Motor Vehicle Producer Countries - 2008

Country	Million units
USA	13.0
Japan	9.9
Germany	5.7
France	3.2
Canada	3.1
Spain	2.9
S. Korea	2.8
U.K.	2.0
China	1.8
Italy	1.7
Mexico	1.5
Brazil	1.4
WORLD	56.3

Country	Million units
Japan	11.6
China	9.3
USA	8.7
Germany	6.0
S. Korea	3.8
Brazil	3.2
France	2.6
Spain	2.5
India	2.3
Mexico	2.2
Canada	2.1
Russia	1.8
WORLD	70.5

Developed = 44.3m

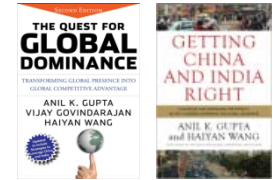
Emerging = 4.7m



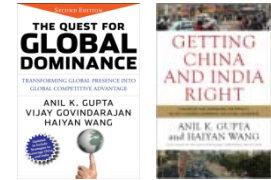
Developed = 37.3m

Emerging = 18.8m

Source: International Organization of Motor Vehicle Manufacturers (www.oica.net)



Making Sense of China and India



A Broad Brush Perspective

Long history of harmony

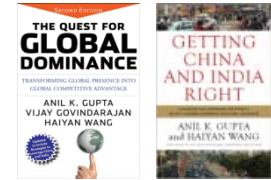
- Buddhism travels from India to China
- 8th Century: Indian scientist appointed president of China's Board of Astronomy
- 15th Century: Zheng He's travels to India

Naïvete → War → Cold peace

- 1954: "Hindi Chini Bhai Bhai"
- 1959: India gives asylum to Dalai Lama
- 1962: India loses border war to China
- Till late 1990s: Cold peace

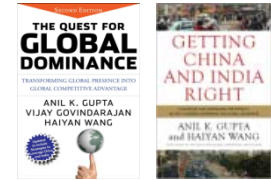
New realities → A new dawn

- Late 1990s: India wakes up to China's future as a superpower
- 2000+: China begins to accept India's rise
- 2005+: Rapid growth in economic ties
- Looking ahead: Co-opetition



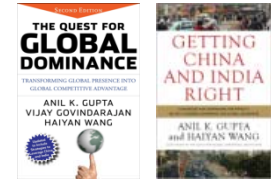
More Similar Than Different

- Two of the oldest civilizations
- The two most populous countries on earth
- The world's two largest economies for much of the last 2000 years
- Today, the only two countries to feature “four stories rolled into one” (mega-markets, cost efficiency platforms, innovation platforms, source of new fearsome global competitors)
- The world's two fastest growing major economies (by 2050, likely to be the world's two largest again)
- Simultaneously “rich-and-poor”
- Large and growing internal economic disparity (billionaires vs. paupers, urban vs. rural)
- Two of the biggest consumers of energy
- Two of the biggest emitters of CO²
- An underlying common Asian culture (centrality accorded to face, family, children, education, savings and investment)



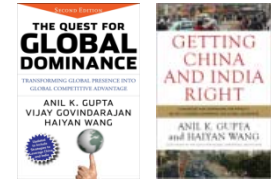
Key Differences

- $C = I * 3$
- $I = C - 12$
- China's overwhelming advantage in physical infrastructure and manufacturing
- India's overwhelming advantage in IT and IT-enabled services
- India's demographic advantage (Median age: China 32.6 yrs, India 24.3 yrs)
- China's lead over India in health and basic education
- Economy: Advantage China
Companies: Advantage India
- Radically different political systems
- China: More pragmatic than India
India: More spiritual than China



China and India: Four Stories Rolled Into One

1. Mega-markets & mega-growth (but micro-customers)
2. Platforms for global cost reduction
3. Platforms to boost a company's innovation capabilities
4. Springboards for the emergence of new global competitors



1. Mega-Markets and Mega-Growth

- 10% of world GDP
- > 25% of Δ world GDP
- 40% of world population

Autos:

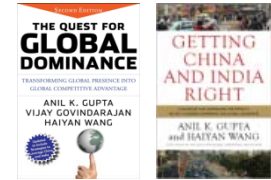
- 15% of world demand
- > 50% of growth in world demand

Pharma:

- >25% growth rate in China and India
- Asia accounts for > 40% of world market growth

Mobile Telephony:

- 30% of world's mobile subscribers
- 30% of annual growth in world's subscribers



2. Platforms for Cost Reduction

Blue Collar Wages in Tier 1 Manufacturing Locations:

- China: < \$2.50/hr
- India: < \$1.50/hr

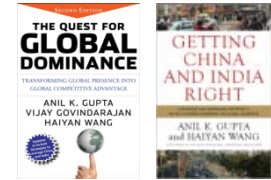
National Average for Total Cost of Software Engineer:

- China: ≈ \$20K
- India: ≈ \$15K



A one-billion
dollar question?





3. Platforms for Innovation

Output of Bachelor's Degrees in Engineering, Computer Science, and Information Technology

(000)	2001	2002	2003	2004	2005
US	114	121	134	137	134
China*	220	252	352	442	517
India	82	109	129	139	170



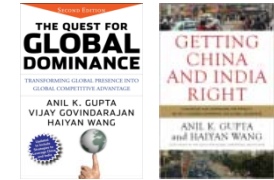
*China figures include "short cycle" degrees typically completed in 2-3 years.
 Source: Pratt School of Engineering, Duke University



Patents Granted by USPTO

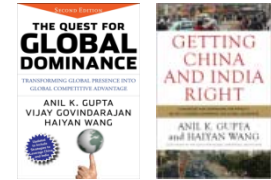
Country Origin	2004	2007	CAGR
Germany	11367	10012	-4.1%
UK	3905	4031	+1.1%
France	3686	3720	+0.3%
Italy	1946	1836	-1.9%
China	597	1235	+27.1%
India	376	578	+15.2%

Source: U.S. Patent and Trademark Office



4. Dragons and Tigers on the Global Stage

Industry	Incumbents	Credible Challengers
Steel	ArcelorMittal, Nippon Steel	Tata Steel, Baosteel
PCs	Dell, HP	Lenovo, Acer
IT Services	IBM, Accenture	Tata Consulting, Infosys, Wipro
Mobile Telecom	Vodafone, T-Mobile	Bharti Airtel, China Mobile
Internet Services	Google, Yahoo, EBay	Alibaba
Automotive	GM, Toyota, Ford	Tata Motor, Chery, BYD
Pharmaceuticals	Novartis, Pfizer	Dr. Reddy's, Cipla
Wind Turbines	Vestas, Siemens	Suzlon, Goldwind
Home Appliances	Whirlpool, GE	Haier
Telecom Equip.	Cisco, Nokia-Siemens	Huawei
Construc. Machi.	Caterpillar	Larsen & Toubro
Comm. Aircraft	Boeing, Airbus	China Commercial Aircraft Corp.
Power Tools	Black & Decker, Bosch	TTI



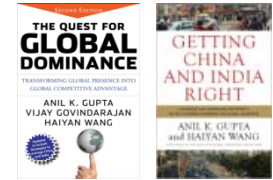
Tata Nano (India)

- Launched April 2009
- Base price \$2500
- 67 mpg, top speed 65 mph
- Optimized for 95th percentile of American men
- “Enjoyable to drive. Feels reassuringly stable.”
– *The Economist*
- Expected to sell European & U.S. versions for about \$7000 by 2012

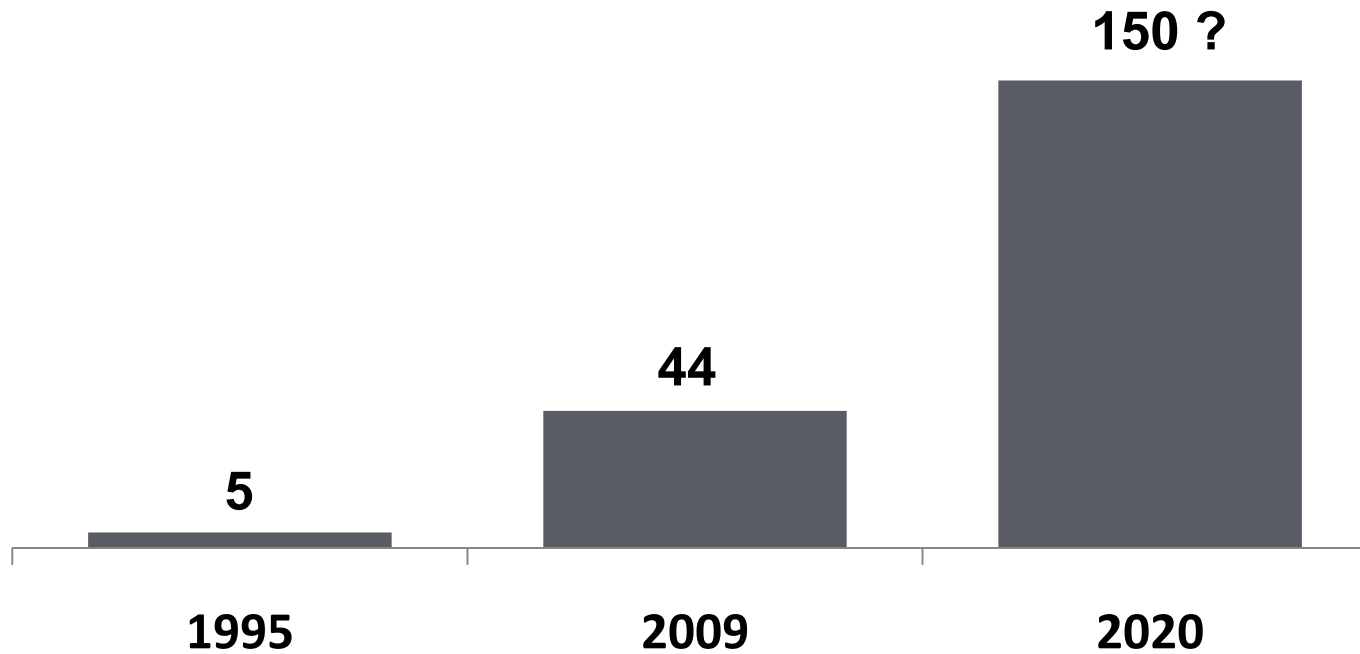
BYD F3DM (China)

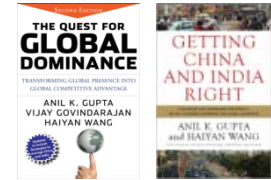
- World’s first plug-in hybrid
- Expected to launch the world’s first all-electric car
- Warren Buffet owns 9.9% of parent company





FORTUNE “GLOBAL 500” - COMPANIES FROM CHINA AND INDIA





Back to the Future?

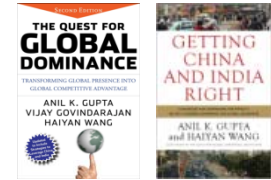
% Of World GDP (PPP adjusted)



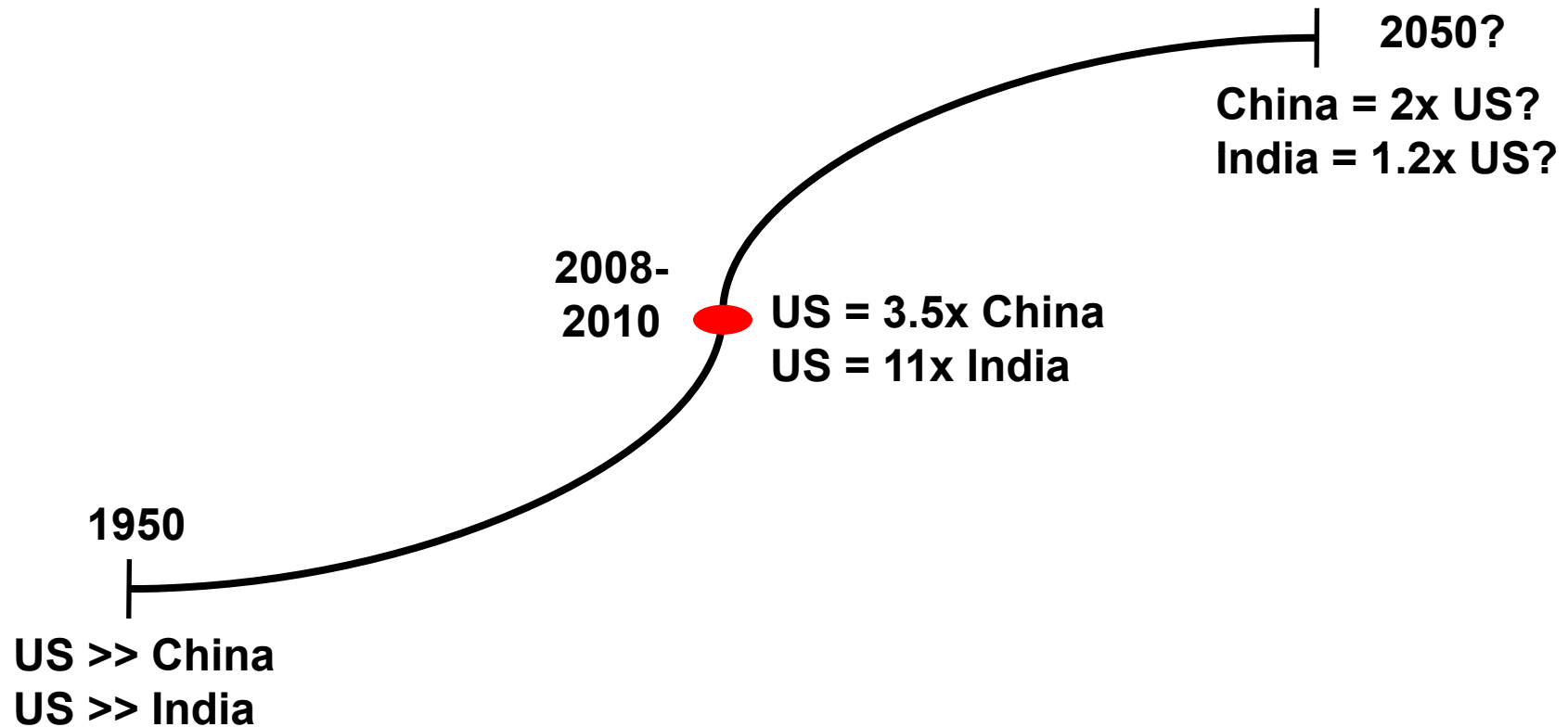
	USA	EU	China	India
1000	< 1	13	23	29
1500	< 1	24	25	25
1700	< 1	30	22	24
1820	2	32	33	16
1870	9	32	15	11
1913	22	47	9	8
1950	31	39	5	4

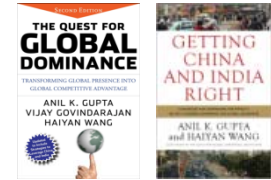
Notes: Europe includes Russia and other countries not currently part of EU

Source: Angus Maddison, *The World Economy: Historical Statistics*, Paris: OECD, 2003.



A Turning Point in History?





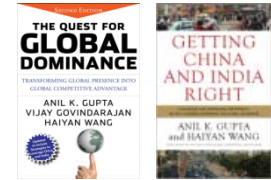
Growing Economic Integration Between China and India

**Bilateral Trade Between
China and India (US \$b)**



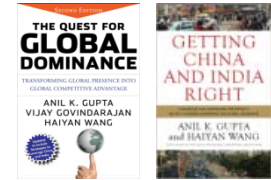
Year	Volume (\$b)	% Growth
2000	2.9	+ 47%
2001	3.6	+ 23%
2002	4.9	+ 38%
2003	7.6	+ 54%
2004	13.6	+ 79%
2005	18.7	+ 38%
2006	24.9	+ 33%
2007	36.0	+ 45%
2008	52.4	+45%

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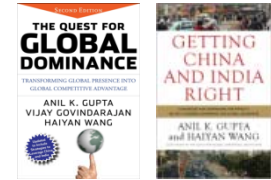
The Ties That Bind

- Large and rapidly growing trade linkages
 - ✓ India was founding member of GATT → WTO
 - ✓ China joins WTO in 2001
 - ✓ Both China and India have signed FTA agreements with ASEAN (+ ongoing discussions with Japan & S. Korea)
 - ✓ Ongoing India-China FTA discussions
 - ✓ Complementarities
- Market dominance in the other's economy becoming critical for major companies from each country
- Integration via 3rd country MNCs
- Integration via 3rd country acquisitions by Indian and Chinese globalizers
- Cooperation in global negotiations around environment and trade issues (e.g, stance on Kyoto, agricultural subsidies, etc.)



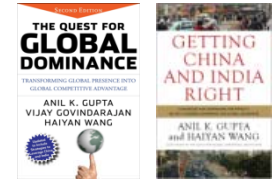
China-India Tensions

- **Geopolitical power**
- **Unresolved border disputes**
- **India's trade deficit with China**
- **Prestige/respect**
 - ✓ **Role of Indians vs. Chinese in US & European corporate hierarchies**
 - ✓ **Acquisitive power of Indians vs. Chinese companies**
- **Control over energy and other raw material sources**

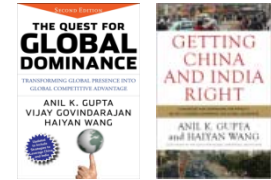


China India 2020?

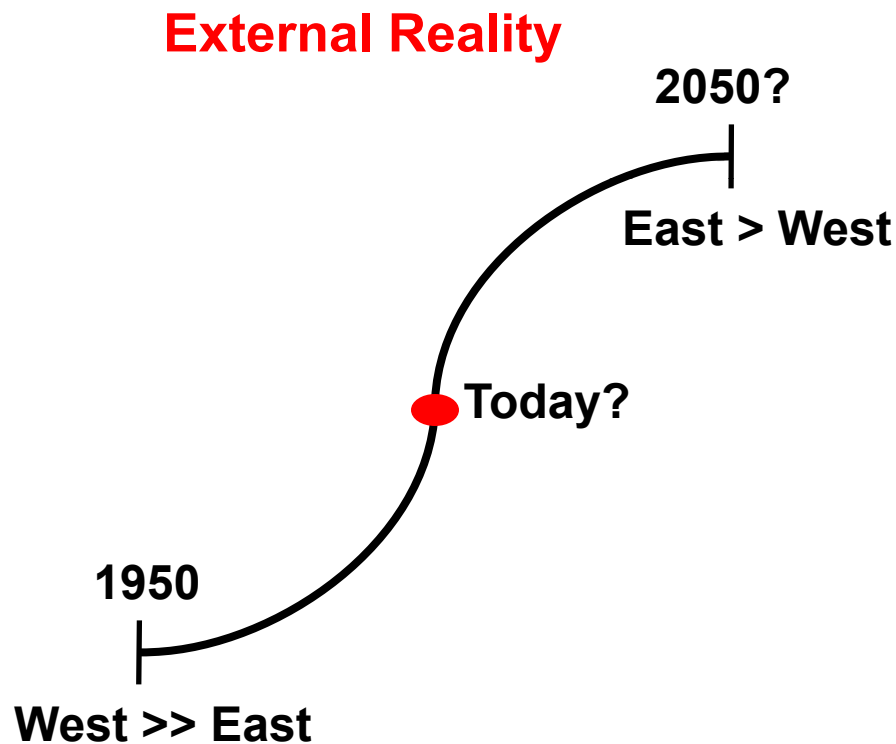
- India & China are likely to be among the four largest economies in the world
- India-China trade linkages likely to be among the world's top 10 bilateral trade relationships
- Companies with origins in India or China likely to constitute ≥ 150 of the Fortune Global 500
- In many industries, half of the top 10 global giants likely to have their origins in India or China
- However, the winning global enterprise of 2020 is likely to be simultaneously a European, an American, a Chinese, an Indian, and a Japanese company
- Thus, at the level of large companies, terms such as an "Indian" company vs. a "Chinese" company would become increasingly meaningless.



Global Strategy in the Age of China and India



Opportunity \neq Understanding

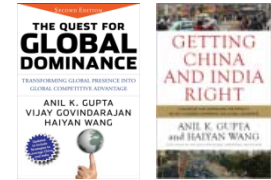


Internal Reality

Asia Today:

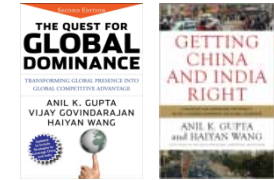
- 34% of potential market
- 14% of sales
- 7% of employees
- 5% of assets
- 3% of R&D
- 2% of top 200 leaders

Source: BCG study of large Western companies



Mindset Challenges for MNCs

1. “Differently” different
 - ✓ Different along multiple dimensions
 - ✓ Simultaneously “Rich-and-Poor”
2. Large and diverse
3. Rapidly changing

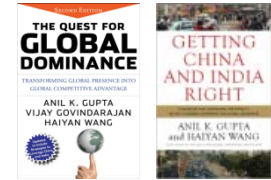


Common Mistakes

Mental Traps:

1. Narrow lens of off-shoring and cost reduction
2. “N+2” mindset
3. Shanghai & Beijing = China
Mumbai & Bangalore = India
4. Legacy mindset:
“Rich-and-Rich” &
“Poor-and-Poor” vs.
“Rich-and-Poor”





How IBM Does It

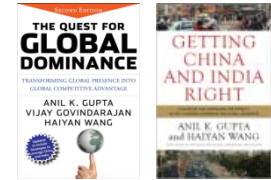
1. Leveraging for Cost Efficiency

India:

- 2004: 9,000 people
- 2008: 90,000 people

China:

- Sources over 30% of hardware from China
- 2006: Relocated Chief Procurement Officer to Shenzhen, China



How IBM Does It

2. Leveraging for Innovation



IBM Research Labs:

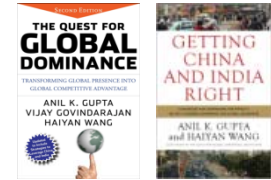
- US
- Japan
- Switzerland
- Israel
- China
- India

Center of Competence for:

- Future embedded systems & devices
- Resilient and pervasive infrastructure
- User interaction

Center of Competence for:

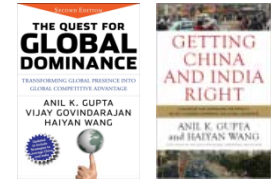
- Mobile web technologies
- Telecom software development
- AIX



How IBM Does It

3. Gunning for the Market

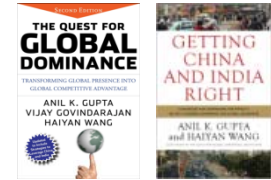
- Clear market leader in IT services in both India and China
- Ahead of Indian IT majors on their home turf
- Open to business model innovation (e.g., partnership with Bharti Airtel)
- Currently working on new ultra-low-cost solutions e.g., for homeland security, intelligent electric grids, e-Government (+ other)
- Looks at globalization as a two-way street (bring solutions from India & China back to the US)



How IBM Does It

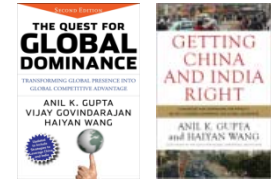
4. Taking on the Indian Tigers

- Built a capability base in India to rival TCS, Infosys, and Wipro
- + Bigger scope (services + software + hardware)
- + Much larger geographic footprint
- + Much deeper domain knowledge and consulting relationships across industries
- + Stronger balance sheet and deeper pockets
- + Higher brand equity

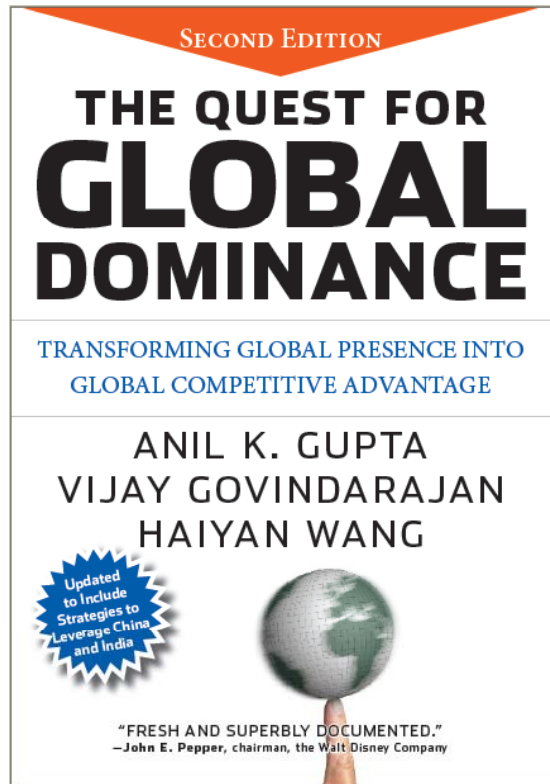


Getting Your Strategy for China and India Right

1. Think China and India, not China or India
2. Take on the dragons and tigers on their home turf
3. Pursue a multi-track strategy for each economy
4. Go wide-and-deep (especially the middle market)
5. Master the art and science of frugal innovation
6. Market-centric, market-centric, market-centric
7. Make China and India two of your global hubs



Thank you!



Jossey-Bass/Wiley, March 2008



GETTING CHINA AND INDIA RIGHT

STRATEGIES FOR LEVERAGING THE WORLD'S
FASTEST-GROWING ECONOMIES FOR GLOBAL ADVANTAGE

ANIL K. GUPTA
and HAIYAN WANG

COAUTHORS OF THE QUEST FOR GLOBAL DOMINANCE, 2ND EDITION



Jossey-Bass/Wiley, Feb 2009