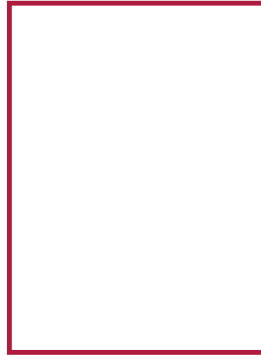


China and India on the World Stage



Photos courtesy of Colin Deaso, Rich Friedberg, Glen Vierk, and Jiawen Yang.



When today's business

leaders talk about emerging global trading partners, increasingly they're talking about China and India. The two nations have emerged as the "hot" markets not only in Asia, but all around the world. From commodities to finished goods, from the source of the supply chain to their growing consumer demands, China and India have a stake in every aspect of the global economy.

BY SARAH KUNKLEMAN



China and India have achieved remarkable growth over the closing years of the last millennium. This success, of course, has caught the eyes of businesses around the world who are increasingly hungry for growth opportunities following stagnation and recession in western markets. But entering into business in these economies also brings new challenges; “GW business students show a strong desire to understand the roles of China and India in the global marketplace,” said Robert Weiner, professor of international business and international affairs.

Politics, Policy, and the Economy

Looking at China and India, differences exist in politics and public policy. While both nations have gained enormous momentum in the global arena, it has been achieved through two fundamentally different development models: India, the great Democratic state, and China, the world’s last Communist superpower.

“It is difficult to make changes in a democracy,” explained Prabir Bagchi, the business school’s senior associate dean. “You must form coalitions and get the buy-in of several groups that have varying allegiances in order to implement new policies. In China, the single-party system can enact policy without these considerations.”

Under the leadership of Deng Xiaoping, China began economic reform and pursued an open-door policy in 1978. China moved away from a centrally planned economy and began adopting a more market-oriented system. The government started to permit a wide variety of small-scale enterprises in services and light manufacturing, allowing a small but influential entrepreneurial class to develop and, more critically for the long term development of China’s economy, promoted foreign trade and investment.

Economic reform has delivered great results. Since 1978, China has grown at more than 9.4 percent a year, and its GDP has quadrupled. Exports to the United States have doubled since that time. China now has the world’s second largest economy at \$7.262 trillion in 2004 in a purchasing power parity (PPP) basis.

After gaining independence in 1947, India enacted a socialist pattern of development, focusing on state-owned and proudly indigenous companies. The practice was to build it themselves, foregoing lessons learned in other parts of the industrialized world. The time and resources required for “reinventing the wheel” slowed down the nation’s rate of growth. The resulting two-to-three percent growth rate is often referred to as the “Hindu Rate of Growth.”

There was one area, however, where the government did not impose strict regulations and encouraged foreign direct investment: the IT sector. As the rest of the nation was experiencing slow growth, the IT sector boomed. The success of IT companies demonstrated to India’s policymakers that the Indian economy could go head-to-head with foreign competition. As a result, India began the deregulation process and welcomed large-scale investment in 1991. Recent reforms include liberalized foreign investment and exchange regimes, industrial deregulation, reductions in tariffs and other trade barriers, reform and modernization of the financial sector, and safeguarding intellectual property rights. Today, India is experiencing annual growth rates of about seven percent, and in 2004 it was the world’s fifth largest economy at \$3.319 trillion in terms of PPP.

Business Considerations

“China’s infrastructure is more integrated than before,” said Jiawen Yang, professor of international business and international affairs. “Today all major cities in China are connected by air. The frequency of trains between Beijing and Shanghai has increased to once every seven minutes in one particular hour each day.”

China’s infrastructure does fall short of demand, especially in rural and western areas of the country, but large sums of money are being spent to upgrade it. Railways carry over one-third of cargo and passengers. Plans are in place to increase both cargo lines and construct new high-speed train lines. In addition, China plans to construct 200,000 kilometers of roads that will connect 93 percent of villages across the country. China’s coastline hosts 200 seaports, which handled 2 billion tons of goods in 2003, up from just 483 million tons in 1990.



Infrastructure in India still lags. The lack of roads, seaports, and airports causes a huge obstacle to manufacturers wanting to get their products to the global market place. “The social infrastructure—schools, clean water, medical care are also in need of great repair,” said Bagchi. “But many are hopeful that as India increasingly opens itself to foreign investment, more emphasis will be put on building the nation’s infrastructure.”



The telecommunications infrastructure in India, however, is well developed.

“You don’t need roads for fiber optic cables,” said Pradeep Rau, professor of marketing, “and people took the initiative to lay lots of cable throughout India.” Recent deregulation and liberalization of telecommunications laws and policies resulted in rapid change. Today India is well-equipped to handle the voice and data transfer demands of global business. “Telecommunications are so well developed you can call in the morning for a LAN line and it will be installed later that day.”

For many companies thinking about developing business in India and China, intellectual property rights and rule of law have become a concern. In a recent speech to the Dallas Federal Reserve, Richard M. Fisher, president and chief executive officer of the Federal Reserve Bank of Dallas, cited India’s “enormous advantages...foremost among them a respect for intellectual property and the rule of law.”

“There is no question that the legal system in India is closer to what U.S. companies are used to,” said Rau. “That is not to say that the legal process is not slow in India, but at least there is a process.”

A lot of attention has been given to issues related to China on intellectual property right protection. In June, U.S.



GW WELLING PROFESSOR LEADS POLICY FORUM ON CHINA AND INDIA

This spring GWSB hosted a policy forum on China and India with Tarun Khanna, the Jorge Paulo Lemann Professor of the Harvard Business School and GW Welling Professor, Shantayanan Devarajan, the Chief Economist of the World Bank's South Asia Region, and Harry Harding, former dean of the Elliott School of International Affairs. The event, "The Dragon and the Elephant: China and India on the World Stage," gave students, staff and friends an opportunity to learn more about India's and China's emergence in the global economy and their roles in the world's political economy.

Earlier this year, GW selected Khanna as one of its Welling Professors. Khanna is a well-respected scholar across many academic disciplines. He has published articles about corporate governance, alliance strategies, economic institutions, entrepreneurship, technology strategies, and economic development in top journals, and citations of his work number in the hundreds. Khanna is known as an outstanding teacher in the Harvard Business School case tradition. He also has led professional development workshops for the Academy of Management and Academy of International Business. Khanna's strengths in teaching and research and his emphasis on global management complement the business school's strategic direction. In addition to the public event, Khanna met with several GW faculty members to discuss institutions and development.

"We are very pleased to have selected Professor Khanna as this year's Welling professor," said Robert Weiner, professor of international business and international affairs. "It is a great value to the school to work with such an accomplished scholar." Robert Holthausen, a chaired professor of accounting and finance at the University of Pennsylvania's Wharton School, and Jagdish Sheth, a chaired professor of marketing at Emory University's Goizueta School of Business, have served as Welling Professors in GWSB in years past.

Devarajan is the current editor of the *World Bank Research Observer*. His research covers public economics, trade policy, natural resources and the environment.

Harding is a professor of international affairs and political science. His expertise is in Chinese domestic politics, Chinese foreign policy, U.S.-China relations, and international relations of the Asia-Pacific region.

Jiawen Yang, professor of international business and international affairs, moderated the discussion. He teaches courses in international trade and finance, emerging markets, and China's business environment. His current research focuses on exchange rate pass through, international capital flows and their impact on emerging markets, international business strategies for small and medium sized economies, and the Chinese economy.

Commerce Secretary Carlos M. Gutierrez visited China to address corporate America's concerns over piracy. Some are hopeful though that there may be a change on the horizon as applications for patents from Chinese companies are steadily increasing; this suggests China is now developing its own innovations and will want to protect them.

As more and more jobs become available in China's coastal cities, more people have migrated out of the countryside and into the cities in search of work and wealth. Workers in foreign invested enterprises can earn incomes well above the national average.

In 2003 it was estimated that 22 percent of the Chinese labor force worked in the industry sector and 29 percent in the service sector.

Relatively high levels of fluency in English has allowed India to excel in services such as IT outsourcing, call centers, and medical dictation. 23 percent of the labor force is employed in the services sector, and services account for 50.7 percent of India's total GDP.



COMMERCE IN CHINA (ABOVE) AND INDIA (BELOW) REFLECTS THE INCREASE OF MULTI-NATIONAL BRANDS IN BOTH NATIONS.

“India’s greatest resource is its people,” said Bagchi. “Furthermore, it is estimated that India will be the only major country with surplus population in the 15 to 30 age group in about 30 years.” Seventy percent of India’s 1.1 billion people are literate and about half are under 30. Bagchi said the significance of this is that, “as the rest of the world experiences declines in the working population, India will be called on to supply labor to nearly every country.”

As part of its ascension the WTO, China has made several reforms that affect businesses.

Chinese and foreign businesses can now import and export on their own, and are allowed to sell products without going through a government middleman. The agreement also opens



itself to trade, China has moved 300 million people out of poverty. A rapidly emerging Chinese middle class means the retail market in China is expanding rapidly. In most large cities,

up new opportunities for U.S. providers of services like banking, insurance, and telecommunications.

The changes in China have been dramatic. “Every year there is something new; you really have to go back to China every few months just to keep up with the changes,” said Yang. “Now when I return after a trip to China, the United States seems so quiet, so routine. In China you feel the vibration of the economy everywhere.”

Per capita GDP in China reached \$5,600 in terms of PPP in 2004. Since opening

Coke and Kodak films are as common as in the United States. McDonald's and KFC restaurants have gained increasing presence in China's large cities. Wal-Mart stores are spreading out rapidly in China.

This massive retail growth has sparked a new advertising industry in China, which is now the second largest in Asia, behind Japan.

Per capita GDP in India reached \$3,100 in terms of PPP in 2004. Some experts predict that India's total population will exceed that of China by 2050, which would make India the world's largest consumer market.

Selling in this enormous consumer market can be a challenge though, as 25 percent of the population lives below the poverty line which is officially considered by UN agencies to be living on less than \$1 per day. A large and growing middle class of 320-340 million people, however, has disposable income for

consumer goods. To tap into the rewards of the market, Bagchi said, "you have to appeal to those at the bottom of the economic pyramid. If you can offer a product that is in demand with some of India's poorer citizens, you've instantly created a consumer market of a billion people for your product."



Recognizing the need to price their products to meet the market conditions, one Indian computer manufacturer has recently announced plans to sell a basic PC for about \$100.

GW students have several oppor-

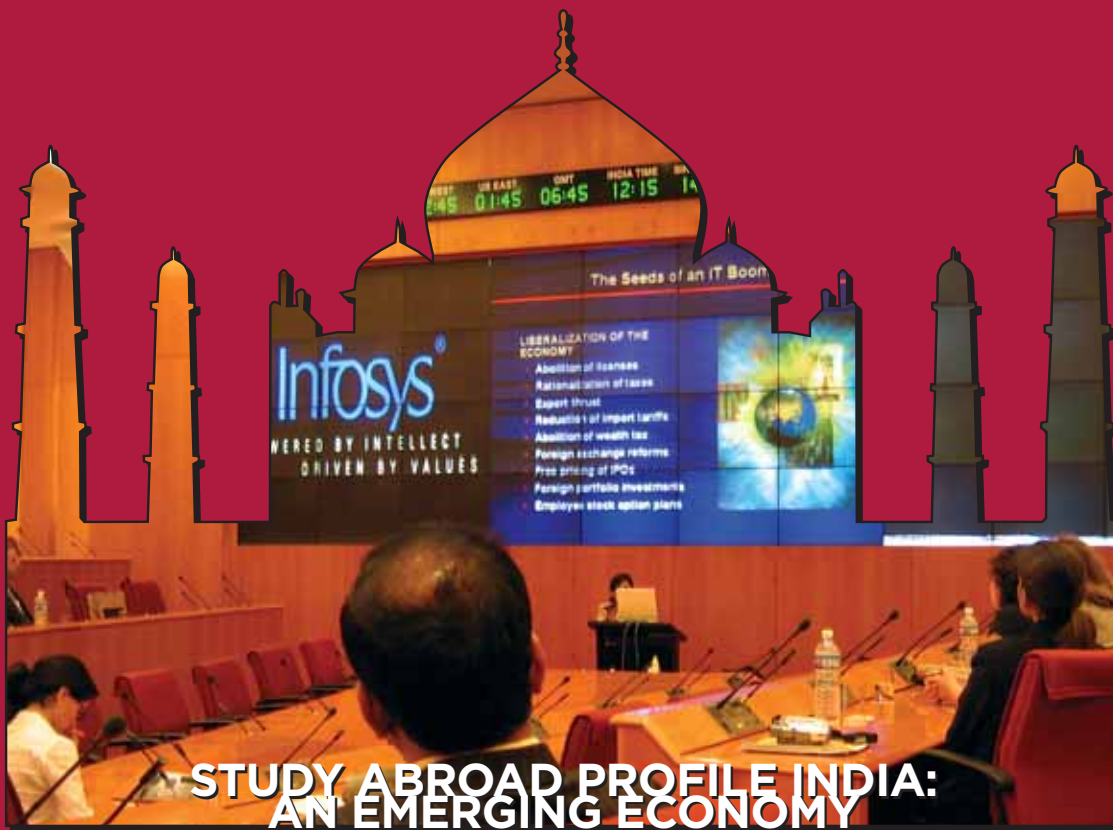
tunities to learn about doing business in India and China. "The International Business Department ranks in the top 20 for undergraduate programs and the top 25 for graduate programs. Our wide range of courses in international finance, marketing, and strategy, coupled with our proximity to the

World Bank and International Monetary Fund, give students a unique opportunity to study, research and gain practical experience," said Weiner.

"The GW Full-Time MBA Program helped me to mingle American and Chinese business cultures," said Xi Su, M.B.A. '05. "As a VP of Technical Operations for U.S. China Business Solutions, Inc., a strategic sourcing and marketing con-

sulting firm located in Washington, D.C., I use the knowledge and skills I learned at GWSB in our operations between China and the United States everyday. Those precious GW Business experiences will continue to help me strengthen the relationships between American and Chinese businesses."

“ Telecommunications are so well developed you can call in the morning for an LAN line and it will be installed later that day. ”



STUDY ABROAD PROFILE INDIA: AN EMERGING ECONOMY

Twenty-seven M.B.A. students traveled to India during the winter 2005 intersession to study the country's economic emergence on the global scene. The Graduate Study Abroad Program in India focused on marketing and the supply chain challenges of doing business in India. It also addressed the implications of IT outsourcing and included visits to India's major business and manufacturing cities.

Students enrolled in two courses, supply chain management and advanced marketing management, to earn a total of six credits. In the courses, students read *India Business: Finding Opportunities in this Big Emerging Market* and *Strategic Logistics Management*, attended several class sessions, and received lessons about the Indian culture before heading abroad on December 27.

Prabir Bagchi, professor of supply chain management and senior associate dean, and Pradeep Rau, professor of marketing, developed the program and led the students. "We talk a lot about globalization in the classroom," said Rau. "The study abroad trip allowed students to actually experience globalization."

"Without a doubt, the India Study Abroad trip is the highlight of my M.B.A. experience," said Charlotte Oswald. "The caliber of the students who participated in this trip are some of the most impressive I've had classes with at GW. We had a great time and a number of friendships were started that will last a long time."

In Jamshedpur, the students visited Tata Iron and Steel Company, India's most-profitable and oldest steel plant. Tata organizations are also some of the most socially responsible

companies in India. Students were able to visit some of Tata's social projects, and got a glimpse of Tata's contribution to the community, society, and environment.

In Bangalore, often called the "Silicon Valley" of India, they met with representatives including the CEO of Infosys, one of the largest software companies in India, currently in the forefront of the business process outsourcing movement. To gain the perspective of non-Indian business, the students met representatives from IBM-India to learn about the challenges of conducting business in India.

They also visited New Delhi for briefings by a trade group handling IT communications technology and an NGO that uses Internet technology to promote public health and rural welfare.

"This program was extremely well-rounded given the lectures from business professionals and cultural leaders, both local and international," said Colin Deaso. "Walking the streets of Kolkata provided just as many learning opportunities. When you begin to understand the people, how they live, and what they value you can better relate to their needs and the subsequent opportunities in India."

In the past study abroad trips have been conducted in China as well; plans are being made for study abroad trips to both countries in the coming academic year. For more information on GW International Programs, including Undergraduate Study Abroad opportunities, visit our website, or contact the MBA or Undergraduate Program Directors.