The rise of China and India: Lessons for the West

James Rooney, Martin Kenney, Dipak Patel, Minxin Pei, Sapthagiri Chapalapalli

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JAMES ROONEY: I see many parallels between what we're seeing in India and also in China to some degree, and the standard pattern of developing countries in Southeast Asia which had economies that boomed and then declined. The global economy today is changing much faster than it was, say 20 years ago. So how long is the economic boom in China and India going to last? What's going to happen as these countries go through the normal highs and lows of the development curve in a growing economy? What's going to be the mechanism of change?

DIPAK PATEL: Progress in India is slow but there's a real commitment by the government and privately owned businesses to create a growth friendly environment. Businesses have to make money and that's a very good incentive for them to make it happen. The working population of India is going to be very large going forward 10-15 years and will last for a good 40 years. And if irrigation projects go as planned in the next 10, 25 years, which will have a beneficial effect on the economic base.

MINXIN PEI: For China the biggest hurdle for sustained high growth is the demographics because China's growth is driven by high savings and that will disappear when the demographic picture changes – when the aging process accelerates very quickly 10 years from now because of the one-child policy. How do you deal with a country that grows old before it grows rich? India will have that problem 20 years from now. Developed economies find themselves vulnerable to external competition. But a developing economy in today's globalized world also finds itself very vulnerable to external shocks. China faces many potential external shocks, energy being one of them.
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Richard Bard, Forum member: Is it your assessment that the Chinese are spending money on the wrong projects to allow their economy to have the kind of productivity gains that would support the population that is all of a sudden going to retire in 10 years – what a lot of us refer to as the 2015 syndrome?

PEI: No, I don’t. I think these projects are absolutely necessary in order for China to continue to grow. The problem with China is that in terms of investment, there’s not enough balance and you can’t over invest in infrastructure. The government plays too much of a role and the marketplace plays, at best, a secondary or tertiary role. China has skewed its education policy toward higher education so it produces a lot of engineers and other professionals. But China has been shortchanging its basic education. So in 10 years you may have quite a few good people at the top but the lower level of society is nowhere educated enough. And that will have a very negative impact on average productivity. So it’s not that China is misusing its money, it’s that the balance is not exactly right.

ROONEY: What type of accord or relationship do you see China developing with the countries in Southeast Asia? Because right now in Thailand and Malaysia, the comments are that there is really nothing that can be manufactured in these and other Southeast Asia countries that cannot be done more efficiently and at a lower cost in China.

PEI: The countries in Southeast Asia seem to have accepted China’s preeminence in the region. Southeast Asia is very crucial to China in political terms because China is competing with Japan for leadership in Asia. That’s why China was the first country to propose a free trade agreement in the region. Then Japan jumped in, then India. And now the US is getting very worried because for 10 years the US paid too little attention to Southeast Asia, especially after the ’97-’98 economic crisis.

ROONEY: China and all the developing Asian nations are piling up surpluses, mostly in US dollars. How wise is this? Do you have a view on what the alternatives might be?

PEI: There are two different issues. One is the exchange rate mechanism. I think it’s quite clear that China will re-peg its currency to a basket of currencies rather than to a single currency. And that can take political heat off China because China today is the big bad boy in Washington; it gets blamed for all kinds of problems. The second issue is that China should not accumulate that much foreign exchange reserve. For a developing country to have $600 billion dollars sitting in low-yielding assets makes no economic sense.

Forum guest: How much mobility is there in India’s free enterprise system? Can somebody who’s got an idea for a business get the capital to create a company like Microsoft or Intel?

PATEL: In India in the 50s and 60s there were about 800 publicly traded companies. Today there are roughly around 4,600. If you have an idea there is money available. But you have to have an idea because the competition is fierce. You really have to be very aggressive in marketing yourself.

Guest: One of the things that most impressed me when I went to India was how many strong enterprises there are in the business sector, unlike in China. Many of these enterprises will be moving into the global economy and will be as recognizable as GE and GM. Saptha, could you comment and summarize what Tata is up to?

SAPTHAGIRI CHAPALAPALLI: The Tata Group comprises 91 operating companies in seven business sectors: information systems and communications; engineering; materials; services; energy; consumer products; and chemicals. The Tata Group was started in 1868, and today we operate in close to 50 countries. In the past few years the focus of the group has been to become a global player in the sectors
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we operate. In India all Tata group companies are expected to be market leaders (No. 1 or No. 2) in their respective segments. All the Tata group companies are required to have a global strategy in their business plan. There are signs of that happening already. This strategy is not limited to the Tata Group; it’s happening with the major Indian companies. The whole Indian private sector is looking to play a bigger role in the world rather than be limited to just India.

Bard: The issue that might be interesting to talk about is the role of US universities in teaching students the management skills they need to function globally. Because one of the things I’m seeing as a limitation to economic growth in China and India is the scarce resource called management.

MARTIN KENNEY: Business schools in the US think they know a lot about training managers. But whatever that set of skills is, it’s not valuable unless it’s effective in running a plant in Shanghai with Chinese workers. Business schools focus time and research on refining business tools, such as an MBA, down to micron levels, but they never look at what happens when you take the tools from a US environment to an Indian environment. In other words, the context in which the tools are used has never been developed very well. Now in a global economy it is the context that seems to make the difference and we’re not very good at educating and training in that dimension. There aren’t many professors who have firsthand international experience.

Donald Stevens, Institute managing director: For faculty members, nothing compares to the firsthand experience of standing in a foreign factory and asking workers where they came from, what they want to do with their lives.

KENNEY: I think the context comes from having international students enrolled because they take the tool box and deploy it in different environments. Foreign students give us their experiences, we give them ours. Since 9/11, the US has been denying entry to many Chinese and Indians. From a policy point of view, we’ve got to turn that around in order to be more competitive in this world.

Stevens: I teach a graduate course in globalization. Two years ago I had 27 students, last year I had 14. The difference was in the number of foreign students in the program. Foreign students have a hard time getting into our graduate schools now because of immigration/visa restrictions. Over the next two generations, the negative effects of this immigration policy will be as acute as the positive effects of the GI Bill which allowed hundreds of thousands of servicemen to get an education after WW II.

CHAPALAPALLI: We hire 12,000 people every year and they work in different countries. In the US, we find that many executives have limited knowledge of other cultures. Consequently, it’s hard to operate without the risk of miscommunication. But as Martin said, if you had a bunch of classmates who came from other countries, you could learn from them.

PEI: The world has changed dramatically in just the last 50 years. I don’t think there’s one perfect model that can teach international business or business.

Stevens: Whatever the model of the future is, online teaching will have a role. And if you put it together with what we’ve been hearing the last decade about having to make job and career changes every five to seven years, maybe business school isn’t a place you go for a year or two to do a bunch of things intellectually. Maybe education should be thought of as a tool that becomes an ongoing process.