The Insight Bureau

From the Desk of...

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The great misconception about India and China; companies compete but countries do not. People are somewhat blind to the real potential and synergy between these two giants.

September 2006: An important economic insight, as profound as it is ignores, is that while companies compete, countries don't. People somehow imagine that countries are like gigantic corporations that slug it out competitively in the global market. Nothing is further from the truth. This misunderstanding is especially misleading when it comes to reporting on China and India. A media industry has been created comparing China and India, and it is almost always assumed that the two are in competition with each other. These are at best meaningless comparisons and at worst they blind us to the real potential, which is the synergy between China and India.

This synergy is firmly grounded in the respective comparative advantages of China and India. China's labor efficiency, calculated in terms of output per worker, is almost double that of India's.
Indian companies, on the other hand, have much higher capital efficiency, about 35 to 45% higher than their Chinese counterparts. They are virtual mirror images of each other. And in the context of global competition, they need each other.

Joint operations by Chinese and India companies will also enjoy tremendous combined "home market" advantage. On the supply side, they will have the highest numbers of young professionals (university level trained knowledge workers under the age of 30), dwarfing those in other emerging markets as well as in the OECD countries. On the demand side, the combined size of their middle class (defined as those earning US$5,500 per annum and above) is expected to reach 1 billion people by 2020.

The potential synergy of Chinese and Indian companies, when they start to cooperate, will be truly impressive. A whole new business model will likely evolve as a result, making them a super business powerhouse of the 21st century.

"*The Corporate Superpower of the 21st Century: Synergy between Chinese and Indian Business*", Insights Report Series, 3Q 2005 full report available at http://www.insightbureau.com/Reports/MasterCard Insights.2005Q3.pdf

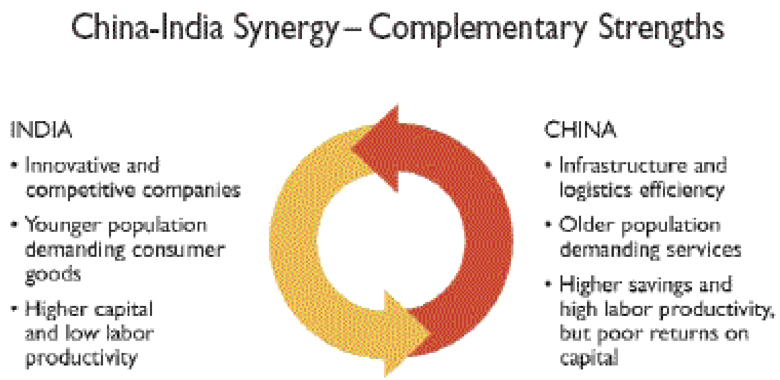
In 1700 both China and India accounted for close to a quarter of global GDP. Three centuries later, a new and exciting tripartite world economy is re-emerging.

September, 2006: The media's hype of China being the world's factory notwithstanding, the fact is that the US is the true factory of the world. In 2005, the total value-add of the manufacturing sector in the US is almost twice as big as that of China's. This does not mean, however, that claims of China transforming the global economy are wrong. The impact of China on the global economy is in fact profound, but it is also more subtle and complex than superficial characterizations like "the factory of the world" would suggest.
In recent years, China's entry into the global economy has been akin to a combined positive supply and demand shock. One of the consequences is that China is now the hub of a "pan-Asian supply chain" that is rapidly changing how Asia produces. All key Asian markets have learned to leverage the

"China advantage" to plug into this pan-Asia supply chain to become more efficient. Simultaneously the rapid emergence of a mass consumer market in China is also helping to change how Asia consumes. This combined supply and demand shock in turn affects how businesses compete, regardless whether they are local companies or large multinationals. To succeed in this new global economy, businesses must re-think and re-engineer the deployment of their value chains and re-fashion their competitive strategies to take into account the "China advantage".

In 1700, both China and India accounted for close to a quarter of global GDP; roughly the same share as Europe, with the remaining accounted for by the rest of the world. It was a tripartite economic world order then. Three centuries later, a new and exciting tripartite world economy is emerging. Shaped by the US, Asia, and Europe, that is structured by increasingly more open and dynamic global partnerships.

"China and the New Global Economy", Insights Report Series, 3Q 2006 full report available at: http://www.insightbureau.com/Reports/MasterCard Insights.2006Q2.pdf



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The full reports are available for complementary download at **www.insightbureau.com/HedrickWong.html**

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The Insight Bureau represents a number of leading authorities on global economics, world affairs, business strategy, emerging markets, industries and management, injecting insight into conferences, client forums and confidential briefings – helping board members and senior management to make better business decisions. The Insight Bureau is an independent organisation. It represents Dr. Yuwa Hedrick-Wong for speaking and briefing assignments in Asia and throughout the world.

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