

The Language of Awe: The Rise of China and India

By David Plott



The Elephant and the Dragon: The Rise of India and China and What it Means for All of Us

Robyn Meredith

W.W. Norton & Company, 236 pages, \$25.95



The Dragon and the Elephant: China, India and the New World Order

David Smith

Profile Books, 288 pages, £15.00



Chindia: How China and India are Revolutionizing Global Business

Pete Engardio, editor

McGraw-Hill, 224 pages, \$18.95



Dancing with Giants: China, India and the Global Economy

L. Alan Winters and Shahid Yusuf

World Bank Publications, 288 pages, \$22.95

There is something about the rise of China that exhausts the vocabulary of amazement.

Since 1979, economic reforms have unshackled forces that are reshaping China and the world.

MANY OF THE COUNTRY'S CITIES and provinces have gone from Third World to First World in just two decades, creating a factory floor for the world that has raised millions of people out of poverty and challenged the supremacy of much of the world's manufacturing sector.

History has never seen economic or social change on this scale in such a short time.

The rise of India, Asia's other great demographic billionaire, started later than China's, in 1991, and took longer to capture the world's imagination. It wasn't until the hollow fears of a Y2K computer meltdown in 2000 — when dozens of Western companies used cheaper Indian software programmers to fix their computer systems — that the world's media began to wake up to what was happening in the world's largest democracy.

Now India falls off the tongue as easily as China when one talks of economic miracles in the making.

Taken together, though, the economic emergence of both countries — if it can be sustained in the decades ahead without triggering disruptive social unrest — represents a seismic event

that promises to alter the world's economic, geopolitical, social and environmental landscape.

That is why China and India provoke, in equal measure, so much fear and anticipation. And why we are beginning to see the appearance of an increasing number of books that seek to chronicle and compare developments in these two giants.

It is not surprising that business journalists are among the first to tackle the challenge. They have been on the front lines observing and interpreting the dramatic changes underway in both countries. What is happening there, for all of its political and social implications, is being driven foremost by the economic forces freed by the policy reforms China and India have embraced.

Robyn Meredith's *The Elephant and the Dragon* is among the best of these books. An award-winning reporter for *Forbes* magazine, Meredith is not only a great storyteller, she also has the analytical skills and knowledge of both countries needed to distill clear conclusions from the enormous changes underway.

She begins by tracing how India drew inspiration from the despair its leaders initially felt at having been left behind by China's rapid economic growth. When Indian Prime Minister Atal Bihari Vajpayee visited Beijing in 2003, more than a decade after New Delhi had launched its own on-again, off-again economic reforms, he was struck by the jolting differences between China's ultra-modern infrastructure and India's pitiful roads and decrepit airports.

That visible contrast — which often informs how international business people compare China and India when they first visit the two countries — nevertheless can mislead, Meredith argues. “While China's strengths are on display to Mr. Vajpayee and the rest of the world, many of India's are less visible.”

China's strength has been its ability to mobilize capital and labor to develop its manufacturing sector, fueled by massive injections of foreign direct investment (FDI) and enormous government infrastructure spending. India, on the other hand, crippled by decades of inefficient govern-

ment, has had to rely more on its large pool of highly educated knowledge workers and the sheer savvy of its private sector managers. As a result, China dwarfs India as a manufacturing powerhouse, while India shines in its software and business outsourcing services. It is a case of brawn versus brains, Meredith says.

To be sure, India desperately needs to invest more in its roads, ports and railways if it is to create the kind of manufacturing base needed to employ the millions of Indians who will never qualify to work in its booming high-tech sector, she writes — something which the Indian government has already begun to do.

But Meredith's main argument is that many comparisons between China and India overlook an important evolving relationship between the two economies: multinationals have begun to cast aside the old assembly-line production model and replace it with something Meredith calls the “disassembly line;” as a result, China and India now have increasing opportunities to cooperate in the global economy.

Citing a number of examples, she points out that few manufactured goods today are produced in one location. Instead, various stages of the production process are performed in different locations and are tied together by a complex logistical chain. It is a development that Victor Fung, chairman of the Hong Kong-based logistics giant Li & Fung, has called “the atomization of the supply chain.” China and India are uniquely placed to straddle that supply chain, Meredith argues:

“India and China form complementary links, rather than competing links, in many companies' disassembly lines. Using the two developing nations together is a powerful, almost irresistible tool for Western companies trying to ratchet down their costs and speed up production cycles.”

Meredith, like other authors who have written about the rise of India and China, is not blind to the social and especially environmental costs that have come with economic growth in the two giants. Nor does she whitewash the potential for domestic political ruptures emerging

in either country, especially China, as a result of the widening gap between the haves and have nots. Her portrait is finely balanced, and succeeds especially well in putting the rise of China and India in the context of significant changes in the way global business is conducted.

If Meredith's book is especially strong in its on-the-ground view of China and India's economic growth, David Smith's *The Dragon and the Elephant* (yes, the books have embarrassingly similar titles) is impressive for its depth of historical perspective. Smith, who is the economics editor of *The Sunday Times* (London), hasn't spent time as a reporter in either country, so his book lacks the immediacy of Meredith's work or Pete Engardio's *Chindia*.

But what Smith does excel at in this deeply researched and at times brilliantly analytical work is a vivid synthesis of the available literature and thinking on the economies of India and China. To this he adds his own refreshingly balanced predictions on how the growth of China and India will, and will not, change the world. He achieves all of this in a style that is remarkably lucid for a work that focuses on economic history.

Smith reminds the reader that these two countries are not, in fact, emerging economies. They are re-emerging. Drawing on the classic work of British economic historian Angus Maddison, *The World Economy: A Millennial Perspective*, Smith notes that 2,000 years ago China and India between them made up 59 percent of the world economy — 33 percent for India and 26 percent for China.

Even as recently as 1820, the countries accounted for 49 percent of the world economy, but the rise of Europe over a period of centuries and the explosive growth of America in the 19th century began to shift the balance away from Asia. China and India entered a period of decline attributed variously to complacency, European imperialism, internal dissension, and inward-looking policies. By the early 20th century, the humiliation was complete.

"The twin pillars of the world economy became backwaters and economically backward.

Global economic power rested with the old world of Europe, the new world of America and the industrial might of Japan," Smith writes.

India's independence in 1947 and the beginning of the communist era in China in 1949 ushered in a period of further self-inflicted wounds. Policies adopted by the Indian and Chinese governments, prior to their modern economic reforms, condemned them to economic irrelevance. By 1973, the two countries made up only 8 percent of the world economy.

"Their success stories, it seemed then, were all behind them," Smith writes.

His emphasis on economic history and policy making, and how these inform what is happening in China and India today, give this book an intellectual perspective that helps temper the hyperbole that characterizes a lot of writing about the reemergence of China and India in the modern era — from unrestrained awe to reckless fear.

Indeed, one of the book's many strengths is Smith's consistent ability to draw measured conclusions from the many sharp debates about the impact that continued growth in these two economies will have on the world. He argues eloquently that the rise of China and India may be the biggest thing that has happened to the world economy, but that it isn't as big as it may seem. This is a point underscored in the World Bank's recent book, *Dancing with Giants*, but Smith mines the observation to uncover an important warning to the rest of the world:

"What every business and every individual should be most worried about, however, is that their rise elicits the wrong response. The wrong thing to do would be to give in to populist fears and put up the shutters.... To try and deny China and India their rightful place in the global economy — a place that looked secure two centuries ago — would be a huge betrayal."

Chindia, edited by Pete Engardio, couldn't be more different from Smith's work. Instead of attempting to synthesize developments into a coherent whole, the book is made up of dozens of articles that have appeared in *BusinessWeek*

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From *Chindia*

over the past five years. While the book contains modest efforts to tie these various pieces together with thematic introductions, the overall effect is that of reading a weekly magazine as a book, long after the magazine's shelf life has begun to fade.

This has advantages and disadvantages.

BusinessWeek has been consistently among the best international publications covering the rise of China and India, and among the first to spot important trends in both countries. Reporters such as Dexter Roberts, Frederick Balfour, Manjeet Kripalani, Bruce Einhorn, Pete Engardio and others who appear in this volume are among the world's best journalists writing about business in Asia.

As a result, *Chindia* provides a rich collection of superb business stories, and provides the reader with some of the raw material that has helped shape perceptions in the international business community — particularly, in America — of the rise of China and India.

"The era of skepticism is over. The era of awe, for better or worse, has begun," Engardio writes in the book's preface. "China and India now are widely acknowledged as the planet's next economic superpowers." Breathless language like that goes a long way toward providing insight into the business community's hype about China and India. To be fair, there are also plenty of articles about corruption, the widening income gap, pollution and other problems that dog development in both countries.

The emphasis of these articles, though, is clearly on the awe, combined with a bit of hy-

perventilation at the serious challenges China and India present to American business. Still, this is serious journalism that belongs to the history of this period in the world economy.

The most striking disadvantage of *Chindia*, though, is that by stringing together so many magazine articles, all of which understandably contain paragraphs of background material, the overall effect is deadeningly repetitive. Similar background paragraphs appear over and over and over. This isn't the fault of the reporters, and doesn't detract from the value of each individual piece. Instead, it is a fault that inevitably results from this approach to producing a book.

Dancing with Giants, edited by L. Alan Winters and Shahid Yusuf, is an ambitious and extraordinarily detailed effort by the World Bank and the Institute of Policy Studies in Singapore to provide analytical economic models for assessing what is happening in the Chinese and Indian economies, and what impact their continued growth might have up to the year 2020. It doesn't provide predictions, but rather an analysis of what would occur if China grows at an annual average of 6.6 percent a year and India at 5.5 percent a year between 2005 and 2020 ("modest rates relative to the last decade but still formidable"), while economic growth in the rest of the world averages 3.2 percent annually. The study also provides a model of what the impact on energy use and emissions would be up to 2050.

In six essays drawn from the research of numerous scholars (available as individual papers

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From *Dancing With Giants*

at <http://econ.worldbank.org/dancingwithgiants>), the book explores how China and India are reshaping global industrial geography; which countries will win and lose; how the international financial system will be affected; the impact on the global environment; the problems of income inequality in both countries and the relationship between growth and governance.

The study reaches some surprising conclusions, many of which explain away some of the fearful hysteria that has greeted the rise of China and India. China's share of world gross domestic product (GDP) would increase substantially to 7.9 percent in 2020 from 4.7 percent, while India's would climb to 2.4 percent from 1.7 percent. Still, the US's share would remain relatively unchanged at 28.5 percent from 28.4 percent.

"Over the time horizon we are dealing with, the Giants will not come to dominate the world economy," the study concludes. "A given proportional change in (GDP) in North America or Western Europe, for example, will be quantitatively larger."

That doesn't mean China and India won't administer shocks to the global economy. "China and India's growth affect other countries through a variety of channels, but international trade is arguably the strongest and most direct." Among the countries most likely to be affected are the suppliers of intermediate goods to Chinese industry, especially in East and Southeast Asia, the study says.

Dancing with Giants also presents a compelling case that China and India have a unique opportunity to blunt the negative impact of their economic growth on the global environment, if they move quickly to adopt the right energy policies. Significantly, the study argues that the cost of doing so would be less in terms of funding and foregone economic growth than is conventionally thought.

One of the most interesting essays is on the integration of China and India into the world financial system, an area where both countries currently have a much smaller impact than they do on trade in goods and services. The authors point to an intriguing suggestion to create an Asian investment corporation that would pool some of the reserves held by Asian central banks and manage them on a commercial basis, investing them in a wide range of assets. Those reserves are currently invested primarily in US government securities.

Dancing with Giants is an indispensable source of data and economic analysis on the rise of China and India. But it is also heavy going, laden with economic jargon and, at times, written with utter disregard for clear English. This is unfortunate, because it is precisely the sort of analysis that should find its way into the hands of national policy makers.

Still, the book succeeds in demonstrating that the economic reforms in China and India, which have so mesmerized the world, have been history's greatest tools of poverty reduction. How those reforms play out in the years ahead is a story full of promise and uncertainty.

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