

Winning in Each Other's Markets

While pretty certain that India and China are going to emerge as a major force in global business, Prof. Anil K. Gupta discusses the factors that could play a crucial role in it with ManagementNext



Prof. Anil K. Gupta

Prof. Tarun Khanna's book "**Billions of Entrepreneurs: How China and India are Reshaping Their Futures and Yours**" is in the same genre as *The Silk Road Rediscovered*. How's Silk Road adding new literature to the business conversation between business leaders of the two countries?

The focus of Tarun's book was on what's happening in China and India and why it matters to MNCs

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such as Microsoft and Metro. It also looked at some of the similarities and differences between the two countries. It did not, however, look at the economic ties between India and China except in passing.

In contrast, *The Silk Road Rediscovered* focuses squarely on the past, present and future of economic ties between India and China. Given its focus, this book cannot be compared to any existing book on India and China. By 2025, China and India will

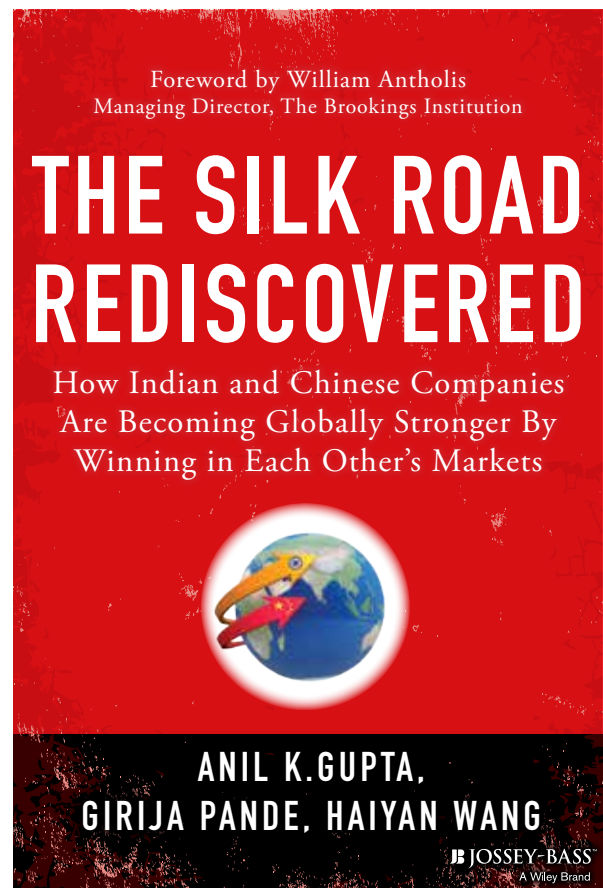
rank among the world's four (maybe three) largest economies. As a corollary, economic ties between them will rank among the 5-10 most important bilateral ties in the world. **Thus, over the next ten years, *The Silk Road Rediscovered* holds the promise of having laid the intellectual foundations for the rapid growth in economic ties between the two nations.**

The examples are of large Indian companies making it in China and vice versa. What challenges will SMEs in both countries face and is it still a long way for them to explore each other?

Opportunities in China exist for both large corporations as well as SMEs from India. However, they are of different types and so are the challenges. By definition, large corporations must go after only large opportunities; otherwise, it's not worth the trouble. Thus, for large corporations, the role of the Chinese government becomes extremely salient. Also, large corporations have to be very clear about how they will win against equally large domestic and other MNC competitors within China.

In contrast, SMEs need to focus on smaller scale niche opportunities. They should not go after more than what they can chew. The advantage in going after niche opportunities is that, since there exist hundreds of such opportunities, one may be able to discover a market space with very little competition. Also, being small, an SME may be able to fly under the radar vis-à-vis the Chinese government. I know of a very successful SME from India which manufactures blankets in China for exports to many countries other than India. This is a perfect example of the type of niche opportunity that an SME can go after.

This book was written before Modi came into the picture. How do you



expect Modi to play this game? He could be more business friendly but he's also likely to be hawkish on managing differences - your views please

Because of his track record and his outspokenness, Mr. Modi is an open book in many respects. His intense focus on building India's infrastructure has the potential to be very attractive to Chinese companies – especially companies that manufacture infrastructure equipment such as locomotives or power plants and banks that can provide low cost capital. Mr. Modi's intense focus on the manufacturing sector also has the potential to attract Chinese capital for the setting up of special economic zones in India, most likely via JVs with one or more Indian corporates.

At the same time, one can fully expect Mr. Modi to be

tough on the border issues. The Chinese know this. While I don't have any illusion that they will cave in to Mr. Modi's tough stance, I believe that China has bigger challenges facing it vis-à-vis Japan, ASEAN and the US. Thus, China will take a very pragmatic attitude vis-à-vis India. By this, I mean that China is unlikely to do anything to provoke India and, over the longer term, will seek a mutually amicable solution to the unresolved border question. Also, as Mr. Modi makes India a stronger military power, **I view it as highly likely that the mutual détente will keep the geopolitical tensions between China and India within manageable bounds.**

There seems to be a new eagerness to focus on manufacturing in India. What lessons, other than scale, can India learn from China's experience? And can India teach China a lesson or two in manufacturing?

Scale is an outcome (not the cause) of China's success as a manufacturing power. **Thus, the lessons for India lie in factors other than scale.** The key lessons for India are that, as in China, the country needs to build the following four pillars in order to become a global power in manufacturing: *first*, a strong and efficient infrastructure; *second*, labor laws that give employers reasonable flexibility re-hiring and layoffs while protecting workers' legitimate rights; *third*, a relatively low cost of capital so that companies have a stronger incentive to invest in fixed assets; and *fourth*, sensible land acquisition laws which permit necessary acquisition of land for infrastructure and other development while making sure that farmers are adequately compensated. As is obvious, accomplishing these goals requires a delicate balancing act.

At the moment, it is hard to say as to what India can teach China vis-à-vis manufacturing. While China's

GDP is four times that of India, its manufacturing sector is about five to six times as large.

What according to you are strategic business issues that both countries are yet to engage in – kind of what would be your next book on India-China?

One of the major topics regarding India and China that remains poorly examined is how the two countries fare in the area of R&D and innovation. Both Bangalore and Beijing are striving to become the next two Silicon Valleys on the planet. However, we don't know much about the extent to which they are succeeding in this endeavor, the advantages each location enjoys as well as the disadvantages that each location must endure. In fact, I have already started research on this topic and it'll be the subject of my next book.

The book is largely about what happened. What are the new forces that are emerging that would significantly influence India-China business engagement?

While the case studies are obviously about what happened, chapters 1, 2 and 8 are largely about what lies ahead. To summarize, I see three major new developments. *First*, over the next ten years, the economic relationship between India and China would be defined much more heavily by investments rather than by trade. *Second*, as India becomes a much stronger manufacturing power, we'll see a growth in exports of manufactured goods from India to China. *Third*, as Indian and Chinese companies make acquisitions in third countries (e.g., Tata Motors' acquisition of Jaguar Land Rover and Geely's acquisition of Volvo Cars), they'll find themselves deeply engaged in each other's markets via this indirect route.