



CROUCHING TIGER, HIDDEN DRAGON ... INDIA AND CHINA MEET THE CHALLENGE OF INNOVATION HEAD-ON

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HONOLULU (March 15) – When Ted Turner owned CNN he had a sign on his desk that read, “Lead, Follow, or Get out of the Way.” That maxim, according to East-West Center senior fellow emerita Meheroo Jussawalla, holds true for players in the 21st century global economy as well. “Those who turn today’s ideas into tomorrow’s groundbreaking products and services will be winners. The losers will end up working for them.”

The 21st century battleground, according to Jussawalla, will be in the arena of innovation, the undertaking that “translates knowledge into products and services that add value.”

That playing field has a decidedly eastward tilt, Jussawalla says.

“The global balance is shifting to the East as China and India evolve,” she notes. “China has mobilized both capital and labor, tripled its per capita income in one generation and eased 300 million out of poverty.” Looking further south, Jussawalla points out that despite India’s continued extreme poverty, “the miracle of growth can be seen in its research centers where Indians are playing invaluable roles in the global innovation chain.”

Jussawalla says, “The closest parallel to their emergence is the saga of America in the 19th century with a driven workforce that grabbed the lead in agriculture, apparel, high-tech, telegraph, telephone and electricity.”

She does not see heated competition between Beijing and New Delhi in this great leap forward, nor does she foresee the two economies merging. Rather, she says, the “two giants complement each other’s strengths.” Jussawalla adds, “China will dominate in mass manufacturing, building multi-billion dollar electronic and industrial plants. India will keep rising in software, design and services.”

But, she does acknowledge that despite the two opposing political systems, different cultures, languages, and belief systems, “in a practical sense the yin and yang of these two workforces are converging.” Jussawalla notes, “Global multinationals are having their goods built in China with software circuitry designed in India. As interactive design technology makes it easier to cut the distance between India’s low-cost laboratories and China’s low-cost factories, the impact on global markets will become substantial.”

Some of those impacts are being felt already.

Jussawalla points out, “Business is being taken away from legacy players like IBM, EDS, and Accenture.” She adds this is not a classic “David and Goliath competition, but a battle for ideas and how to innovate business models,” that will translate into major cost savings for companies. Already, “Washington think tanks are publishing white papers charting China’s rapid progress in microelectronics, nanotechnology, and aerospace and their impact on America’s global leadership.”

How did all of this come about so quickly? Jussawalla says one important factor has been education.

She notes that, “between them India and China graduate half a million engineers and scientists each year, versus 60,000 in the United States.” In the field of life science research, the numbers show much the same. “U.S. supply is predicted to drop by 11 percent by 2008 against a growth of 35 percent in China and India combined.” Why? A major factor, according to Jussawalla, is the simple fact “their research in medicine has lower costs.”

And major factors in that jump in education were the actual number of kids in the classroom and increased literacy.

“In 1995 India’s literacy rate was 63 percent,” Jussawalla points out. “Then from 2001 India started a universal education program with an annual budget of \$2.4 billion.” The funds provided Indian students one free meal a day, free textbooks, medical care, and remedial classes ... important factors in a country as poor as India. Jussawalla adds that, “By 2005, 90 percent of all children were enrolled in schools.”

The story is much the same in China.

There are an estimated 218 million children in grade schools outside the coastal boom towns. Jussawalla says, “China’s literacy rate has risen from 60 percent in 1976 to 85 percent in 2005.” She adds, “Every child can have a basic education.”

Multi-nationals have also helped in the education arena, at the same time building a base for their products.

Jussawalla says, “The Beijing-base Motorola University trains 9,000 Chinese employees. Proctor and

Gamble's research managers live with Chinese families in cities and on farms teaching Chinese everything from (the importance of) detergent to toothpaste." She also points out that "companies like GM and Delphi are opening R&D centers in China making joint ventures successful." The multi-nationals have gone to school themselves, learning the lessons of the importance of guanxi, or connections, in China.

But, despite the major inroads both China and India have made in recent years, Jussawalla does not see either country dominating just yet. She points to real obstacles in each country.

"It will be many years before China develops intellectual property rights protection and transparency in policy making," Jussawalla points out, two areas very important to innovation growth and investment. India, on the other hand has more concrete obstacles to overcome. "The biggest obstacle to India's sustained growth is its infrastructure," she says, are "lousy roads, ports and power." Jussawalla notes, "According to the World Bank, India's manufacturing firms lose 8 percent of sales each year due to power cuts."

But despite these problems, and a host of others, Jussawalla says China and India are serious in traveling the road to new innovation during the 21st century and, just as important, want to be winners.

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