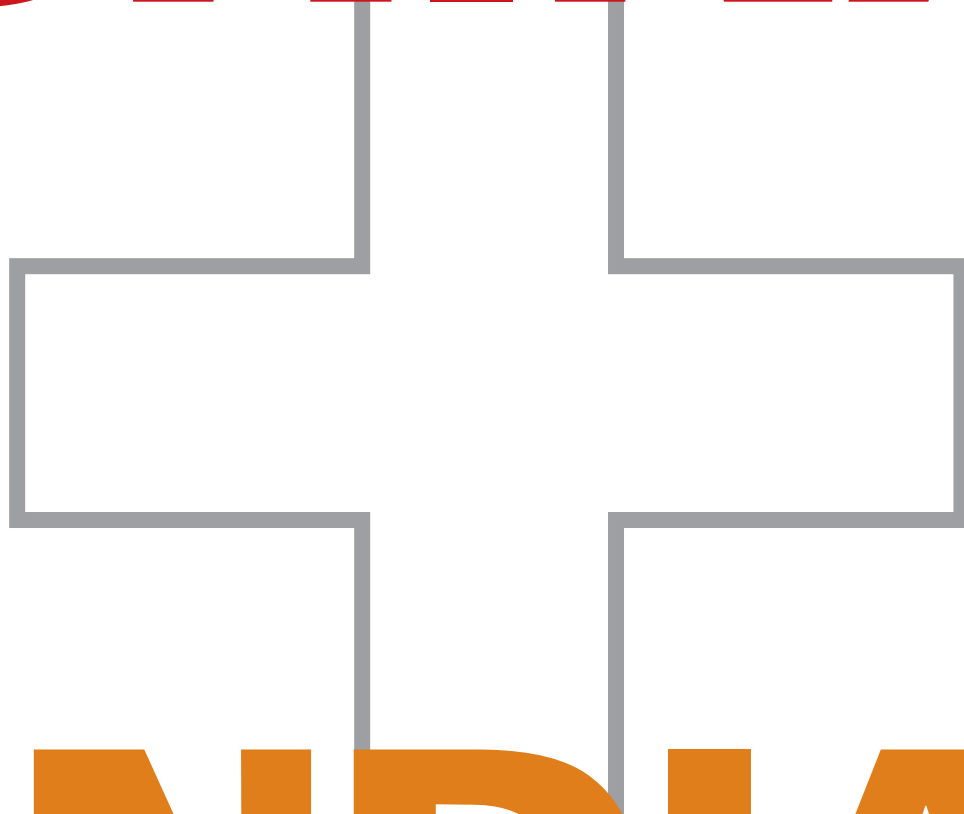


CHINA



INDIA

The Power of Two

China and India, ancient allies and modern competitors, are rebuilding economic ties after almost five decades. Consequently, multinational companies face the most challenging – and potentially rewarding – business landscape ever.

BY TARUN KHANNA

Jon Krause



A historic event, largely unnoticed by the rest of the world, took place on the border between China and India on July 6, 2006. After 44 years, the Asian neighbors reopened Nathu La, a mountain pass perched 14,140 feet up in the eastern Himalayas, connecting Tibet in China to Sikkim in India. Braving heavy wind and rain, several dignitaries – including China’s ambassador to India, the Tibet Autonomous Region’s chairperson, and Sikkim’s chief minister – watched as soldiers removed a barbed wire fence between the two nations.

Companies all over the world would do well to hear the winds of change roaring through Nathu La (which in Tibetan means “Listening Ears Pass”). The decision to reopen the world’s highest customs post marked the culmination of a slow but steady process of rapprochement between China and India. The friends turned foes in 1962, when they fought a short but bloody war. After that, the two nations’ armies glared at each other, weapons at the ready, until their governments decided to fight poverty rather than each other. In the past few years, China (under President Hu Jintao and Premier Wen Jiabao) and India (led by Prime Minister Manmohan Singh) have forged links anew. China now supports India’s bid for a permanent seat on the United Nations Security Council; their armies have held joint military exercises; and at World Trade Organization negotiations, the countries have adopted similar positions on international trade in agricultural products and intellectual property rights.

The two nations are also reviving their old cultural and religious ties. Beginning in 2012, they will allow tourists to use Nathu La, which will increase the number of cross-border pilgrimages. The pass makes it easy for China’s Buddhists to offer prayers at monasteries in Sikkim, such as Rumtek, and for India’s Hindus and Jains to visit sacred Mount Kailash and Manasarovar Lake in Tibet. The bonds between China and India run deep. Four out of five Chinese, from a broad cross-section of society, told me in an informal survey that Bollywood movies come immediately to mind when they think about India. That’s despite the fact that it has been more than a decade since Indian movies were the only foreign films shown in China. Ignoring these facts would be a mistake; several scholars, such as Baruch College’s Tansen Sen, have argued that religion and culture lubricate the wheels of commerce.

China and India are also rebuilding their business bridges. Although Nathu La’s reopening may be largely symbolic – the two countries allow the trade of only a few products, such as raw silk, horses, and tea, across the pass – it indicates

a fresh camaraderie between the planet’s fastest-growing economies. Their desire to strike a partnership is evident: High-level official visits often take place between them; businesspeople from each country participate in conferences held in the other; and forecasts of the flow of goods and services between them keep rising. Sino-Indian trade stagnated at around \$250 million a year in the 1990s, but it touched \$13 billion in 2006, will cross the \$20 billion mark in 2007, and may exceed \$30 billion in 2008 – a growth rate of more than 50% a year.

Yet most enterprises and experts gloss over this budding business axis. I hear the naysayers all the time. China and India can’t collaborate; they can only compete, say many Western (and not a few Chinese and Indian) academics and consultants. Both nations are vying to be Asia’s undisputed superpower, and they are suspicious about each other’s intentions. China and India have nuclear weapons; they have created the world’s biggest armies; and they are trying to dominate the seas in the region. China continues to support Pakistan, which India isn’t happy about, and India still lets in Tibetan refugees, which China resents. The United States, meanwhile, plays India against China. In addition, since most adult Chinese and Indians grew up seeing each other as aggressors, it’s tough for them to trust each other.

Moreover, the argument runs, China and India are business rivals at heart. The former’s remarkable economic rise threatens India, which trails its neighbor on almost every conventional socioeconomic indicator. China may be strong in manufacturing and infrastructure and India in services and information technology, but the latter’s manufacturing industry is becoming globally competitive, while China’s technology sector threatens to match India’s in a decade. Both have a growing appetite for natural resources such as oil, coal, and iron ore, for which they compete fiercely. They also fight for capital, especially for investments by multinational companies from North America, Europe, and Japan. All this makes it difficult to believe that China and India can ever cooperate. Few people think to ask, “Can China and

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INDIA

- Area **3,287,590 sq km (2007)**
- Population **1.13 billion (2007)**
- GDP real growth rate **9.4%**
- GDP per capita (ppp)* **\$3,800**
- Unemployment **7.8% (2006)**
- Population below poverty line **25% (2002)**
- Exports **\$112 billion**
- Imports **\$187.9 billion**
- Exchange rate **39.80 rupees per \$ (2007)**
- Imports from **China, U.S., Germany, Singapore**
- Exports to **U.S., UAE, China, UK**
- Literacy rate **61% (2001)**
- Life expectancy **68.59 years (2007)**

*purchasing power parity

Sources: CIA World Factbook; www.xe.com. Data are based on 2006 estimates, except where otherwise specified.

CHINA

- Area **9,596,960 sq km (2007)**
- Population **1.32 billion (2007)**
- GDP real growth rate **11.1%**
- GDP per capita (ppp)* **\$7,800**
- Unemployment **4.2% (2005)**
- Population below poverty line **10% (2004)**
- Exports **\$974 billion**
- Imports **\$777.9 billion**
- Exchange rate **7.52 RMB per \$ (2007)**
- Imports from **Japan, S. Korea, U.S., Germany**
- Exports to **U.S., Japan, S. Korea, Germany**
- Literacy rate **90.9% (2000)**
- Life expectancy **72.88 years (2007)**

*purchasing power parity

Sources: CIA World Factbook; www.xe.com. Data are based on 2006 estimates, except where otherwise specified.

India work together?” Instead, a big question debated in boardrooms is whether India can catch up with China.

This perspective is incomplete. China is home to 1.3 billion people; India has a population of 1.1 billion. In the next decade, they will become the largest and third-largest economies in terms of purchasing power. By 2016 they will account for around 40% of world trade, compared with 15% in 2006. That’s roughly the position they occupied about 200 years ago. Economist Angus Maddison has calculated that in the 1800s, China and India together accounted for 50% of global trade. It is impossible to make predictions about the integration of these countries into the global economy, because past events, such as Germany’s reunification and the fall of the Iron Curtain, don’t compare. After those occurrences in 1990, a large number of

people entered the global economy, but the numbers pale in significance when compared with the China–India double whammy. Like it or not, the world’s future is tied to China and India.

Both countries have put feeding their millions ahead of border disputes, and they can’t turn the clock back on liberalization. They have too much to lose by not working together. This doesn’t suggest that a lovefest will ensue; it

only implies less hostility and suspicion between two fast-maturing nations.

China and India have taken different routes to enter the world economy, and that has resulted in their gaining complementary strengths. Some business leaders have learned to make use of both countries' resources and capabilities, as I shall show in the following pages. In the process, they have become globally competitive. Multinational companies will only lose if they don't take advantage of the complementarities between the two economies. If they embrace both countries, however, they can tap into diverse strengths almost as easily as Chinese and Indian companies will.

Fathoming the Depth of Their Relationship

The tensions between China and India are real, but they will eventually prove to be aberrant. There are three good reasons for believing that: one historic, one economic, and one strategic.

First, China and India sealed their borders in modern times, but in the 2,000 years preceding the conflict of 1962, the two countries enjoyed strong economic, religious, and cultural ties. By the second century BC, the southern branch of the Silk Road – an interconnected series of ancient trade routes on land and sea – linked the cities of Xi'an in China and Pataliputra in India. Trade on the Tea and Horse Road, as the Chinese called it, was a significant factor in the growth of the Chinese and Indian civilizations. Seen in that light, the closing of the Sino-Indian border – not the border's reopening – is the anomaly.

In fact, Buddhism traveled from India to China in 67 AD along the Silk Road. In those days, the relationship between China and India was one of mutual respect and admiration. The monk Fa-hsien (337 to 422 AD), who traveled from China to India to study Buddhism, referred to the latter as *Madhyadesa* (Sanskrit for "Middle Kingdom"), which is similar in meaning to *Zhongguo*, the word the Chinese used to describe China. In the 1930s, no less a scholar than Beijing University's Hu Shih said that the sixth century AD marked the "Indianization of China." Even today, visits by Chinese and Indian leaders include a trip to a Buddhist shrine in the host nation.

There was also much goodwill after the birth of the two modern states, India in 1947 and China in 1949. During the 1930s, India's future prime minister Jawaharlal Nehru frequently wrote about how India supported the struggles of fellow Asians under the foreign yoke. He organized marches in India in support of China's freedom, organized a boycott of Japanese goods, and in 1937 sent a medical mission to help the Chinese. India was the second non-Communist country, after Burma, to recognize the People's Republic of China, in 1950. Five years later, India supported the idea that China should attend the Bandung Conference, in Indonesia, which led to the creation of the Non-Aligned Move-

How China and India Have Developed Differently

CHINA	
FOUNDATIONS	<p>GOVERNMENT A single party rules China. Those at the top control the reforms process, although bureaucrats located far from Beijing don't always do its bidding. Officials who deliver economic growth can move up the ladder.</p>
	<p>INFORMATION AND TRANSPARENCY Economic information is increasingly available, but political information is not. The state's efforts to curtail news compete with technology-based efforts to disseminate information.</p>
	<p>PROPERTY RIGHTS The state respects the individual's rights to property more than it used to, but it still sacrifices them on the altar of public interest when the two come in conflict. The state can therefore make huge investments in public goods.</p>
IMPLICATIONS	<p>LOCAL BUSINESS The country has millions of would-be entrepreneurs, but their potential is constrained unless they partner with the state or with foreigners. The government is often the entrepreneur.</p>
	<p>MULTINATIONAL COMPANIES Foreign companies get red-carpet treatment from the state. Since they usually rely on their home bases for capital and senior talent, they aren't affected much by China's poor markets.</p>
	<p>DIASPORA Overseas Chinese played a catalytic role in starting China's economic miracle two decades ago. They are still a source of capital, while Chinese returning home contribute brainpower.</p>
	<p>RURAL ECONOMY The physical infrastructure in the villages is often superb. But the relative decline in the rural standard of living, compared with that in coastal areas, has fueled protest and resentment.</p>
	<p>EDUCATION AND HEALTH The resource-rich state has made large investments in education. Basic literacy levels are very high. The quality of health care is bad, partly because China moved away from a centralized system to a private model after 1978.</p>
	<p>EXTERNAL RELATIONS A fiat-driven approach characterizes China's relations with the world. The country leads with its wallet. China is stronger than India in their common hinterland in Asia and is gaining prominence in Africa and central Asia.</p>

China and India are large, populous Asian neighbors, but the similarities end there. The differences between them make the whole greater than the sum of the parts.

INDIA	
GOVERNMENT Coalitions of political parties jockey for power in a raucous democracy. Positions of power aren't dominated by traditional economic or social elites. Individual rights are respected, but the presence of many interest groups often renders the system dysfunctional.	FOUNDATIONS
INFORMATION AND TRANSPARENCY There's a cacophony of voices that are rarely deliberately inaccurate. The media debate everything; nothing is off-limits. In fact, they are increasingly exposing corruption in high places.	
PROPERTY RIGHTS The individual's rights to property are sacrosanct. Public interest is often sacrificed for the individual's sake. The government can make only small investments in public goods, which has led to poor infrastructure.	
LOCAL BUSINESS Indigenous enterprise has flowered in the past 15 years. It is aided by effective capital markets, good information flows, and respect for property rights.	IMPLICATIONS
MULTINATIONAL COMPANIES The government continues to exhibit a distaste for foreign investment, although less so than in the past. That's partly for good reasons, like supporting indigenous entrepreneurs, and partly for bad ones, such as protectionism.	
DIASPORA Once shunned, nonresident Indians are more accepted than they used to be. Capital flows from overseas Indians come in the form of remittances, not investments.	
RURAL ECONOMY The state's utter neglect of rural India has left villagers impoverished. The infrastructure is usually in terrible shape. The efforts made by the private sector and civil society to help villagers are laudable but inadequate.	
EDUCATION AND HEALTH The state has made woefully inadequate investments in education. The quality of health care, especially for the masses, is terrible. Private-sector investments help compensate, but they aren't large enough to make an impact.	
EXTERNAL RELATIONS The state's inefficiency extends to projecting India's influence. India's best brand ambassadors are its companies, executives, academics, and film stars. India is incapable of using hard power but is a masterful exponent of soft power.	

ment, an alliance of developing countries that supported neither the United States nor the Soviet Union. In those heady years, one slogan heard in India was *Hindi Chini Bhai Bhai* ("Indians and Chinese are Brothers"). The slogan hasn't been forgotten; China's premier, Wen Jiabao, repeated it in 2006 when he visited the Indian Institute of Technology in Delhi.

Second, economists tell us that neighbors tend to trade more than other nations do. An official committee set up to encourage commerce between China and India recently suggested that bilateral trade could touch \$50 billion by 2010. Even the official numbers understate the potential, according to economists who use gravity models to estimate what the trade between two countries should be. Such models calculate potential bilateral trade as a function of the size of the nations, the physical distance between them, and other factors such as whether they share a language, a colonial past, a border, membership of a free-trade zone, and so on. Sino-Indian trade today is up to 40% less than it could be, according to those models. Moreover, Sino-Indian trade is more balanced than China's trade with the United States and Europe; the latter countries' large deficits cause political friction.

Third, China and India, after they cut themselves off from each other, evolved in complementary ways that reduced the competitiveness between them. What China is good at, India is not – and vice versa. China instituted sweeping economic reforms in 1978 and has steadily opened up thereafter. A balance-of-payments crisis forced India's reforms in 1991, but because of political factors, liberalization has been slow and piecemeal there ever since. China uses top-down authority to channel entrepreneurship; in fact, the government is the entrepreneur in many cases. India revels in a private sector-led frenzy, and its government is incapable of efficiency. China struggles to control fixed asset investment, while India is constrained by scarce capital. China welcomes foreigners, shunning only those who are not part of its power structure. India shuns foreigners and mollycoddles its own. China's capital markets are nonexistent; India's are among the best in the emerging markets. And so on. There are no two countries more yin and yang than China and India.

As a result, the kinds of companies that flourish in China and India are very different. As my HBS colleague Krishna Palepu and I argued in an earlier HBR article ("Emerging Giants: Building World-Class Companies in Developing Countries," October 2006), companies are usually reflections of the institutional contexts in their home countries. In China, where protection of intellectual property rights is nascent and the government curtails some forms of expression, entrepreneurs don't push the creative envelope. Instead, it makes sense for them to build manufacturing plants that leverage the superb infrastructure. In India, companies that depend on highway systems and reliable power find it

hard to thrive. Those that train and deploy tens of thousands of technically sophisticated, English-speaking university graduates, in contrast, flourish. Both China and India are witnessing an explosion of entrepreneurship, but in ways that make their companies more complementary than the world realizes.

Getting the Best of Both Worlds

These complementarities pose both an opportunity and a threat. It's easy to spot the advantages of treating China and India synergistically and getting the best of both worlds. Companies can use China to make almost anything cheaply. They can turn to India to design and develop products cost-effectively; they can also hire Indian talent to market and service products. For instance, China's Lenovo, which purchased IBM's PC business in 2005, recently moved its global ad-management function from Shanghai to Bangalore. That's because India has a highly creative and sophisticated advertising industry.

To be sure, Chinese and Indian companies will compete intensely with each other. That doesn't mean that the rise of one will necessarily be at the expense of the other. For instance, as the Chinese government tries to develop a software industry, Indian companies such as Infosys, Tata Consultancy Services, and Satyam have been among the first to recruit Chinese engineers. Does that mean they are sowing the seeds of their own destruction? Not really. Most Indian companies have gone into China to provide software services to their multinational clients. Chinese firms will try to compete for those contracts, even as Indian companies fight for a share of the local Chinese market. China will gain from having a software industry, but the benefits may not come at the expense of India's software industry.

The coming together of China and India puts at a disadvantage many companies, especially from the West, that refuse to react to this trend. They will not be able to generate the synergies that their Chinese and Indian rivals can. If they lose share in those two markets, they are – given China's and India's size – unlikely to remain market leaders for very long. Thus, Sino-Indian emerging giants pose a stiffer threat to multinational incumbents than the latter have so far assumed.

Cooperating with Each Other

Already, some Chinese and Indian companies are beginning to view the two countries symbiotically. They are driven not by political factors but by hardheaded self-interest.

India comes to China. Three years ago, Mahindra & Mahindra, the Indian tractor and automobile maker, reckoned that it would be cheaper to manufacture tractors in China than in India. Besides, the Indian company could gain access to the fast-growing Chinese market only by producing tractors locally. M&M set up a joint venture, Mahindra

(China) Tractor, with the Nanchang city government. The partners could not be more different: M&M is a private company led by the third-generation scion of an Indian business family – a far cry from the Chinese government. The Sino-Indian entity purchased Jiangling Tractor, whose plant is located halfway between Shanghai and Guangzhou and has a production capacity of 8,000 tractors per annum.

M&M's low-powered tractors are ideal to till India's fragmented farmland. In 2006 the company held a 30% share of the Indian market, while its closest rival had a 23% share. These tractors also suit China, where the size of the average landholding is now akin to India's. When China's communes broke up and the number of farmers mushroomed, the demand for tractors boomed. The Chinese government also offered financial incentives so farmers would switch from power tillers to tractors, which would reduce the demand for petrol. M&M entered the Chinese market with Jiangling Tractor's FengShou brand. The company has cleverly designed and engineered the model at its facilities in India, while its Chinese company manufactures it.

Mahindra (China) Tractor makes the compact FengShou tractors in the 18-to-35 horsepower (hp) range for the Chinese and foreign markets. It also imports M&M's more powerful 45 hp to 70 hp tractors from India and sells them in China. In February 2005, when I spoke to Anand Mahindra, M&M's CEO, he had nothing but praise for the Chinese company. "We are breaking the myth that it is hard to make money in China or that cultural assimilation is difficult," he told me. "The local disco in Nanchang now plays *bhangra* (a genre of Indian folk music), and the ex-chairman of the Chinese company sang songs from Indian movies at our first banquet." Mahindra said that he had faced no problems in getting Chinese and Indian executives to work together. M&M has posted 15 Indians to the Chinese facility, all of whom report to Chinese supervisors. According to Mahindra, the Indians are none the worse for the experience.

That's not all. M&M realized that it could enter some niche markets in the United States. Many baby boomers have retired from stressful urban lives to places like Flagstaff, Arizona, where for the price of a San Francisco apartment they have bought several acres of land. These hobby farmers need only a small tractor to till the soil. From 2000 to 2005, M&M wrested a 6% share of the U.S. under-70 hp tractor market from companies such as John Deere, New Holland, Agco, and Kubota Tractor. In some southern states such as Texas, M&M's market share is as high as 20%. M&M is giving John Deere in particular a run for its money. In 2004 a Deere dealer advertisement promised a \$1,500 rebate to every consumer who traded an M&M for a John Deere. According to M&M executives, when they tracked down tractor owners who had seen the ad, 97% said that they were satisfied with their Made in China and India tractors and did not go for the rebate.



China comes to India. Just as Mahindra & Mahindra is using China's hard infrastructure, China's Huawei is leveraging India's soft infrastructure to sustain its global edge against Western giants like Cisco. In 1999 the Chinese telecommunications equipment manufacturer set up an Indian company that currently employs around 1,500 engineers. This facility, which is based in Bangalore, develops software solutions in areas such as data communications, network management, operations support systems, and intelligent networks. In 2006 the company opened a second facility in Bangalore, where 180 software engineers develop optical network products and wireless local-area-network solutions.

Huawei has announced that it will invest an additional \$100 million to create a single 25-acre campus in Bangalore for 2,000 people. This will enable Huawei India to enter new areas such as optical-transmission networking and sharpen its focus on third-generation networking. While Huawei's development center in Shenzhen is its most important facility, the Bangalore center (which accounts for about 7% of the company's R&D efforts) is emerging as the second most important. That's partly because of its capabilities. In August 2003, the Indian facility earned the coveted Capability Maturity Model Level 5 certification – the highest quality level for software producers.

Huawei's strategy is noteworthy because India's bureaucracy and polity did everything it could to prevent the company from setting up base. The company persisted, realiz-

ing that employing engineers, rather than outsourcing software development to Indian companies, would give it better footing. Jack Lu, who oversees human resources, headed the Bangalore office for three years after setting it up. He says that the main challenge is to overcome each country's stereotypes of the other. For instance, the Indian media portray the Chinese as opportunists set on stealing India's security, software, and telecommunication secrets, and vice versa.

State-owned companies cooperate. Public-sector corporations, the direct arms of two supposedly hostile governments, are also learning to work together. China and India are incredibly energy-deficient, with China importing almost 50% of its oil needs and India

more than 70%. Energy companies in both nations have made it a priority to search for "equity" oil. They invest in several countries' petroleum industries to protect themselves against the possibility that one day, political instability in the Middle East will choke off their supplies. This strategy turned China and India into intense rivals in the international energy industry. Between January and October 2005, China's Sinopec and China National Petroleum Corporation (CNPC) and India's Oil and Natural Gas Corporation (ONGC) clashed over purchases of oil assets in Angola, Ecuador, Kazakhstan, Myanmar, Nigeria, and Russia. Although the Chinese companies won several contracts, they paid more because of the Indian company's aggressive bidding.

In April 2005, Wen Jiabao suggested that China and India think about cooperating in the energy sector. After several meetings of executives from the countries' oil companies, the Chinese and Indian governments signed an agreement in January 2006 about working together on bids for energy resources, and the oil companies signed memorandums of understanding. Incidentally, China teamed up with India partly because it hoped that its companies would get preferential treatment when they bid for infrastructure-related contracts in India.

The Sino-Indian oil hunt has delivered results. In December 2005, CNPC and ONGC won a bid for a 37% stake in Syria's Al Furat Petroleum. Another joint venture between Sinopec and ONGC won a 50% stake in the Colombian oil

company Omimex de Colombia in August 2006. In April 2007, ONGC and CNPC agreed to team up to acquire oil assets in Angola and Venezuela. They may also offer each other stakes in other companies they have invested in. Thus, enterprises that everyone thought would bid up the prices of oil assets dramatically are working together in the best interests of China and India.

Viewing the Two as One

It's not surprising that multinational companies find it tough to develop a joint strategy for China and India. Three years ago, I studied the Chinese and Indian subsidiaries of 20 Asian companies such as Japan's Asahi Glass, Hitachi, Honda, Mitsui, and Toshiba; South Korea's Samsung, Hyundai, and LG Electronics; and Singapore's DBS Bank and Singapore Telecommunications. Many had operations in both countries, although I included some enterprises that operated in only one of them.

These companies have customized their business models to the local institutional context, which makes it tough for them to generate synergies from their subsidiaries in the two countries. For instance, the Chinese subsidiaries are less transparent than the Indian ones because capital allocation does not occur through the financial markets in the former as it does in the latter. The opacity has made it harder for Indian subsidiaries to collaborate with their Chinese counterparts. The Indian ventures also depend on local suppliers

opportunities in both China and India that would benefit their strategies.

A final barrier to developing a China-India strategy arises from success. For instance, at Motorola, one of the most successful investors in China, it's easy to imagine a hotline snaking from the China headquarters to Schaumburg, Illinois. Because Motorola has not focused on India nearly as long, that market is starved for attention. The converse is true of Unilever. The company's success in India means that the Indian subsidiary has a direct line to London and Rotterdam, while the China operation doesn't enjoy the same privileges. China shines in Motorola's world; India sparkles in Unilever's. The companies have neglected one of the two markets – and both have achieved less than they could have.

Succeeding from the Outside

It may be difficult for multinational companies to make the best use of China and India, but it isn't impossible. In fact, as GE and Microsoft show, you can skin the proverbial cat in many ways.

GE's approach. The simplest, and most powerful, way of combining China and India is to focus on hardware in China and on software in India. As is now well known, that's exactly what GE Healthcare does. For instance, it developed the 719 parts of a high-end Proteus radiology system in a dozen countries. It created the software algorithms and the scanner's generator in Bangalore and allocated part of the hardware manufacturing and assembly to Beijing. The ability to set up parallel groups of highly skilled engineering talent in both countries raises the efficiency of product development and fits in with GE's competitive culture, a senior executive told me.

It's tempting to attribute GE's success to a well-run country manager system. But most companies have similar matrix structures, so that is not the full story. GE did well in China and India because it tailored its business model to the realities of each market. Its early forays into China and India didn't work: GE's business units were unable to profitably sell or develop products locally. Nor could they produce the equipment in other countries at a low enough cost to cater to the low-income populations in the two markets. Experimentation led GE to develop in China and in India parts of what it needed. That process also allowed the company to find ways in which the two subsidiaries could work together. Chinese managers in GE felt that it was in their interest to collaborate with their Indian counterparts, and vice versa. This process took the better part of two decades to come to fruition.

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The idea that these countries' ascent can occur only at everyone else's expense defies economic logic.

more than the Chinese ones do, since they have operated for 39 years, on average, in India and only 18 years in China, having been forced out of the country in the aftermath of the Cultural Revolution. However, even in corporations that have entered both countries in the past five years, the reliance on local suppliers is 60% in India and 10% in China. Thus, the Chinese and Indian subsidiaries use different business models and generate few synergies. Moreover, 31 of the 33 Chinese subsidiaries I studied viewed themselves as independent of their Indian counterparts, which precluded the chances of cooperation. Relatively few China and India country managers report through their hierarchies to a common decision maker, and companies reward them on the basis of their performance in each country. These organizational factors make it almost impossible for companies to identify

GE also succeeded because it became a good corporate citizen in both countries. Its aircraft engines business has transferred several technologies to China, and its medical diagnostics business is engaged in the debate about health care there. In India, GE was one of the pioneers of business process outsourcing, the practice that put the country on the world's business map. In a vote of confidence in both countries, GE has opened cutting-edge R&D centers in Shanghai and Bangalore. In both China and India, several companies owe their existence to GE. Some were set up by former GE executives; others became world-class by supplying raw materials or components to GE.

Microsoft's approach. While GE has split the value chain between China and India, Microsoft takes a different tack. It develops innovations that are best suited to China and India respectively.

For example, the company decided to develop mobile-phone-based computing in China, since the country had more than 450 million cellular telephones in 2006 and only 120 million PCs. India had a smaller base of only 166 million mobile phones in 2006. Microsoft created a mobile phone that doubles as a computer when the user attaches it to a device mounted on the side of a TV. You can access the device, FonePlus, with a keyboard, and use the TV screen as a PC monitor. If this experiment succeeds in China, Microsoft will find ways of using FonePlus globally.

In India, Microsoft conducted experiments that would have been much harder to pull off in China. In 2004 the company launched the Windows XP Starter Edition at \$25–\$30 apiece in India, compared with the pricey full-functionality product. Microsoft decided not to launch the Starter Edition in China, where the top four PC manufacturers control close to two-thirds of the market. The local companies were reluctant to push a low-priced product, since they earn more from the higher-priced version. Because Indian consumers didn't buy the full-functionality Windows, the risks of offering the Starter Edition there were lower than in China. Microsoft's trials in India suggest that the Starter Edition either targets first-time users or induces nonadopters to try out the full-functionality product, so Microsoft China might be willing to market it in the future.


At the same time, Microsoft's China subsidiary is trying to leverage India by forming a three-way venture with the Chinese government and India's largest software company, Tata Consultancy Services (TCS). After entering China in 2002 by setting up a fully owned enterprise in the Hangzhou Special Economic Zone, TCS received the go-ahead in 2007 to expand its presence there. The National Development and Reform Commission authorized the technology parks in Shenzhen and Beijing to buy into TCS's Chinese operations. Incidentally, TCS has gone through three phases in China: It entered China because its global clients were setting up shop there; it then used the country as a base to cater to

Asian companies; and, finally, TCS is now going after the Chinese market.

Meanwhile, Microsoft is trying to help the Chinese government build a globally competitive software industry. In keeping with that strategy, Microsoft plans to buy a stake in TCS China, creating an entity that will be 65% owned by TCS, 25% owned by the Chinese software parks, and 10% owned by Microsoft. The Chinese government likes this idea because Microsoft's technologies will spread along with those of TCS. The new venture will develop banking applications for the Beijing and Tianjin city governments. TCS will develop the applications, and Microsoft will use its 17 centers across China to roll them out to the banks. The largest banking applications project TCS has so far undertaken is at the State Bank of India, which has 10,000 branches and 100 million accounts, compared with Bank of China's 22,000 branches and 360 million accounts. That's one more reason China and India are often relevant to each other; no other country has such sprawling networks. It's likely that TCS and Microsoft will one day apply in India the experience they gain in China.

To ensure that China and India don't lack attention, Microsoft has elevated the two country heads to the rank of corporate vice president. They report directly to the person who oversees Microsoft's international operations. They meet frequently to learn from each other. Since there are laboratories and development centers in Beijing and Hyderabad, the heads of R&D in China and India both report to the head of Microsoft's worldwide R&D. The company has also extended the scope of its Redmond, Washington-based Unlimited Potential division, which seeks to bring computer skills and jobs to communities that don't already have them. The division looks at how products that Chinese consumers are using can be sold in India and vice versa, and looks at products that can be sold in other emerging markets worldwide.

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It is strange that many people perceive the rise of China and India only as a threat. The idea that these countries' ascent is a zero-sum game – it can occur only at everyone else's expense – defies economic logic. For instance, the United States' job losses in recent times as companies relocated manufacturing facilities and services to China and India are smaller than the unemployment in past decades attributable to structural changes in the U.S. economy. Instead of balking at the inevitable expansion of economic power beyond New York and London, companies will do well to recognize the complementarities between Beijing and New Delhi and, in a fast-changing world, try to wrest competitive advantage from them. 

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