

BOOK REVIEW

Tarun Khanna
Billions of Entrepreneurs
How China and India are reshaping their futures – and yours

Reviewed by
Prof. C.P. Ravindranathan
Xavier Institute of Management & Entrepreneurship

In a thoughtful address delivered at Asia Society in Hong Kong last month, the Chinese Ambassador to New Delhi, Mr. Zhang Yen, said some remarkable things about India, our relations with China and the significance of the India-China relationship for the next stage in universal history. Going far beyond the diplomatese for such occasions, he spoke of “the world’s factory” and “the world’s office” complementing each other, the inevitability of India and China with their vast endowments “wielding an important and positive influence on the transformation of the international order”, and echoing his own President’s words, of the two countries “having every reason to work together to make the Asian century a reality”.

Two big civilisational states and neighbours rising together in the global leagues of economic power and capability is a phenomenon with few and on this scale no precedents in history. Indians and Chinese themselves cannot fail to be awed by what it portends, as revealed by the Chinese envoy’s observations. But for the rest of the world, living in an increasingly interconnected global economy, India’s and China’s rapid ascension as global economic players is something that calls for both rigour and imagination in understanding.

An attempt to “illuminate the contemporary vagueness” about what is happening in China and India, Tarun Khanna’s book has as its theme the differences in the approaches, policy choices and over-all performance scores of the two countries at the present stage of their evolution as major economic players. Some specific questions are invoked by the author as being of universal concern for observers, like why China is able to build cities overnight while Indians have trouble building roads and why there are so few world-class indigenous private companies

from China while India has her Infosys and Mahindra. For another, why has China outmaneuvered India in their common backyard in south-east Asia. These questions are all absorbing grist to the mills of business and academic discussions and Tarun Khanna responds to them through a stimulating ensemble of narratives, reflections and scholarly analyses. It comes through as an engaging way to capture the overall sense of the China-India story.

With the state and government as the starters, the author contrasts the boisterous proceedings of the Indian parliament with the aseptic orderliness of China's National People's Congress where legislation on momentous issues pass with virtual unanimity. It is not that dissent is extinct in China; acoustic signals of it occur but within the Chinese Communist Party (CCP) and unfailingly insulated from public notice. The party remains supreme, with no competition from any other national institution; inside the party, says the author, competition and factionalism through their dynamics propel a meritocracy "in which the best and brightest reach the top" and the leadership itself, in these days of change management, successfully steers the country from communism to a socialist market economy, free from even a sneaking view of the goings-on by the citizenry. And "as the average Chinese has become wealthier, the CCP has embraced a wider array of members, including private entrepreneurs".

The CCP cadres belong very much to a learning organization, as borne out by the passage of ten thousand of them every year through the Shanghai Party Institute where they are lectured not only on equity markets and interest rates, but are also instructed in the tenets of the U.S. constitution and Bill of Rights as ideas. These, according to the author, exemplify a new party openness.

This openness China owes to Deng Xiaoping who provided the CCP new thinking, new leadership and new slogans, yet ensured that it controlled the state with a steady hand, monopolized top ministerial positions and remained in charge of the People's Liberation Army. Deng's overhaul of the CPP had let the 'enterprise fever' in the country breach the dividing line between the party and business so that party officials have, over the years, come to forge a solid nexus between CPP and business in the country's socialist market economy.

In relating the evolution of CCP since the Deng era, the author refers to the significance of President Jiang Zemin's 2001 announcement of the party credo with phrases like 'advanced social productive forces' (businessmen?) and 'fundamental

interests of the majority' (democracy?). It was the official recognition of the emergence over the previous several years of a new class of Chinese entrepreneurs, "the red capitalists" who also held party membership – some 40 per cent of surveyed entrepreneurs as long ago as the late 1990s had been deemed CCP members, many of whom former officials who had left their posts and plunged into the sea of private economy. Hybrids of public and private sectors have emerged as part of the vast transformation of China's economy, allowing the CCP to reinvent itself successfully and pragmatically, broadening its membership to 71 million and consequent on such growth, paving the way for growing corruption that is part of the Chinese system today. The author reports, on the authority of the Central Discipline Commission and on the basis of what he had observed himself at the Beijing Petition Office (for handling of complaints of official corruption) that action against corruption is "almost negligible". There is also the fact that local governments which are graded by the number of petitions of corruption that they generate do their best to suppress such complaints.

These affirmations by the author (combined with the latest ranking on corruption by Transparency International where China's position is just one above India) might induce sobering thoughts on the capability of even hard states to curb corruption in the absence of a whole eco-system consisting of institutions and routines of good governance to ensure rule of law. One would wish that the author had attempted a more detailed treatment and analysis of this issue.

Contrasting "the harmony (through) the merit-based autocracy of the Chinese state" with the elusive balance of group interests vs the needs of the collective in the Indian state, Tarun Khanna argues that the Indian system has worked to devolve power so as to be inclusive enough to accommodate several "historically disenfranchised groups" – but such accommodation has often come at the expense of useful collective action. The Indian track record on privatization in the post-reform era is narrated as an illustration. The country's infrastructure, whether it is the "deplorable inefficiency" of the railways or "the substandard drainage" in the premier city of Mumbai is a stark contrast to that of China "where public services work".

The author posits China's goals as order, harmony and hierarchy as against India with its proud tradition of pluralism, dissent and debate. He makes the point that while the CCP must work towards meeting the rising aspirations of an increasingly greater proportion of the people in order to meet the future challenges of its own success, the Indian state must embrace a culture of accountability and ensure

that heterodoxy and diversity foster democracy rather than slow it down. But here is a conundrum that the author fails to acknowledge: what India has to do means getting more out of her democracy, but what China has to do may well be the erosion of her communist system itself.

Information control in China, ranging from deterrent punishment for errant journalists to restricted content access to the world's largest internet-subscribing population – 111 million at the end of 2005 – offers a glaring contrast to the lively Indian media. Each country's strength is the other country's weakness, says the author; the Chinese system generates noise-free but biased information, the Indian system generates noisy but unbiased information.

For business and industry everywhere, it is rather financial information on the two countries and the ease of its availability and reliability that should be of particular concern. Tarun Khanna makes some important points in this context: that company annual reports in India provide the basic information that westerners expect, but the same in China do not serve the purpose it does in market economies; that Chinese financial analysts, unlike Indian, are not independent but state-owned or state-controlled; that private sector intermediaries in India, unlike in China, use business models that include information synthesized from company disclosures and intelligence that they gather from the ground. As for the country statistics, the author quotes the authoritative view of Thomas Rawski who has memorably maintained that China's growth rates from 1997 to 2001 were probably less than half the annual figures of 7.6 per cent. He points out, however, that information flows more freely in China today than in the early days of the People's Republic, but there is nothing like the Right to Information Act of 2005 in India. But the irony of it all is that "despite Chinese opacity and Indian transparency, US media give significantly more coverage to China than to India".

China's socialist market economy has one striking anomaly, viz, the absence of clear property rights. The issue is discussed by the author, providing interesting insights into the market for land use rights and housing as currently evolving in the country. The transition from abolition of private property in land to the present system of grant of land use rights to city residents and farmers has been rendered all the more complicated with the activities of private developers who are often former officials in state-owned construction companies and sons and daughters of former high-ranking CCP leaders: forced relocations, inadequate compensation for demolished houses and petitions and protests of hapless residents – all these are part

of the prevailing turmoil over property law. Yet the system seems to work without any major upheavals, but the author believes that at some point clearer property laws with inheritable rights are bound to become inescapable.

Comparison of the financial sectors of the two countries leads the author to conclude that India is far ahead of China, whether it is the allocation of credit, stock exchanges or the integrity and efficiency of the banking system. On the other hand, the book's comparison of the two leading Indian and Chinese companies – Infosys and TCL Corporation – brings out the different paths entrepreneurship has taken in the two countries: the promotional role of the state in China as against private risk-taking ventures independent of the government that are the norm in India. More importantly for the future, Indian companies have shown more savvy in their efforts to expand abroad and assume a global vocation through acquisitions unlike TCL and several other Chinese companies who have been hampered by less familiarity with the ways of markets in western countries. And as host countries to MNE investments, India and China have adopted significantly divergent attitudes, with China being more welcoming to foreign investors, albeit on its own terms (often lumped by the MNEs), and India giving more scope for domestic interests to resist MNE competitors through FDI. As for MNEs, while finding profitability much the same in both countries, they have greater choices in China not only on account of what the CCP entrepreneurial framework offers by way of easing entry and establishment, but also in terms of the much higher quality of physical infrastructure and the relatively limited capabilities of domestic companies to challenge them that is a blessing in disguise.

In respect of rural economy issues and health care, the two countries present both interesting similarities and contrasts. China's villages have fared better in terms of human development than their counterparts in India which remain in the vice-like grip of the caste system and its pervasive abuses, not to speak of poverty. Both countries have their faultlines in regard to the spread of HIV and AIDS. They have also faltered badly in respect of overall health care, China having shown a precipitous decline from universal primary health care to glaring inequities at the present time.

In relations with their global diaspora, the author makes the point that India could learn from China which has harnessed them far more effectively to national development through economic incentives coupled with patriotic rhetoric. But there are lately intimations of significant change in India's attitude to the diaspora – witness the setting up of the Ministry of Overseas Indian Affairs. But when it comes to seeking power and influence through crucial links abroad, the author argues that

while Indians have relied on the soft power of goodwill and immigrant commercial ties, the Chinese have brought the full weight of their resources into the task – military, economic and cultural. Nowhere is this more in evidence than in the field of energy where the Chinese trio of CNP, CNOOC and Sinopex have outmaneuvered India in Africa and elsewhere. And in no country has China stolen a so successful a march over India as in next door Myanmar, owing to a combination of circumstances.

Indeed India overshadows China in computer software, China's largest software companies NSSC and Neusoft being able to add little to the world industry compared with their Indian counterparts. Chinese feel rightly that they have a lot to learn from India in regard to providing offshore business process outsourcing services to large western companies; on India's part, says the author, she could learn from China's success in the hardware sector that is one of the most efficient in the world today.

One of the most diverting parts of the book is the author's description of the role of global corporations in penetrating Indian and Chinese markets and thereby forging a web of connections between the two countries themselves as happens in a globalizing world. General Electric constitutes a notable example of a company "that has changed both China and India for the better, (figuring out) how to profit from being in China and India and contribute substantially to both countries". With examples like the collaboration with BEL and WIPRO creating numerous allies in the country, GE has adapted to India by tapping into software just as it has done to China on a much larger scale in manufacturing, but the results of the adaptation, says the author, are different in the two countries, reflecting different local circumstances. Other MNEs following the same process are P & G in China and Unilever in India, but GE's track record of having succeeded in both countries makes it unique.

Different facets of India and China receive a stimulating comparative expose in this book, conveying its message mostly to those in business and industry in a mode of narration and analysis that is free from theorizing and clutter of detail. The book, in that sense, bears the impress of the Harvard management approach. There are parts of the book, however, where the comparison of Indian and Chinese systems appears a little too strained – for example, the totally different land ownership systems in the two countries and aspects of banking like the NPLs and their corporate governance. And there is hardly any attempt in the book to compare the extent of the market economy that prevails in the two countries – an important aspect of the advantage that Chinese goods have over India's in international trade. Among other

notable omissions in the book are the environmental issue in China owing to the indiscriminate industrial exploitation and its medium and long-term consequences. There are also factual errors in the book, like associating (chronologically) the exit of Coca Cola and IBM from India with Indira Gandhi.

The theme of this book is about India and China accounting for 40 per cent of the world trade in less than a generation from now, a position that they had occupied over two or three centuries ago (not one century ago, as erroneously mentioned by the author in one place) and more than their collective 15 per cent today – and of billions of entrepreneurs ultimately powering this transition. It articulates that theme well enough within the limited space that the author has given himself for so formidable an undertaking.

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