

The China–India Dialogue

Robert Skeffington



Critical Issues 2008 was a timely forum for discussing Australia's place in the China–India growth story. Australia is unique in having a genuine interest in seeing India and China succeed, yet we are a non-threatening presence. If Australia can use its convening power, we have the potential to play an influential and mutually beneficial role in the rise of these two superpowers.

When a group of leading business figures, economists and public policy experts from around the world come together to talk about India and China, as occurred at the *Critical Issues 2008* conference, vigorous discussion is inevitable. However, what was fascinating to see, this time around, was what was *not* discussed at the conference, as much as what

was included in the talks. Despite the business and economics expertise present at the conference, held in Melbourne on 10 April 2008, there was little mention of the US economy. At that time, many global pundits were predicting a US recession, fuelled by the sub-prime crisis, ructions on Wall Street and a gloomy American economy.

timely forum for discussing where Australia fits into the rise of this new order.

So how far advanced is Australia in its orientation towards India and/or China?

In change management we are told that people go through four phases before embracing an

For India, the drivers were external trade and investment, leading to a boost in economic growth, exports and foreign direct investment. The challenges include infrastructure, regulatory and distribution hurdles. The capacity and distribution of income and consumption were also noted as issues to watch for both Indian business and government.

A few years earlier, it would have been inconceivable that an economics conference could have been discussing economic growth, trade and investment without significant reference to the biggest economy in the world. By not referring to the US economy, Critical Issues 2008 went a long way towards explaining the phenomenon of the India and China growth story.

For China, the drivers of its economic success have been low factor costs and high productivity, combined with the explosion in domestic demand. The challenges it faces include high levels of bureaucracy, underdeveloped accounting procedures and legal regulations. China could also become a victim of its own success. Excessive liquidity, a real estate boom and high inflation expose China to the possibility of economic overheating. Other challenges include environmental pollution, skills shortages and vulnerability to increases in raw material prices.

A few years earlier, it would have been inconceivable that an economics conference could have been discussing economic growth, trade and investment without significant reference to the biggest economy in the world. By not referring to the US economy, *Critical Issues 2008* went a long way towards explaining the phenomenon of the India and China growth story. These economies can grow by 6–10 per cent annually, without corresponding US growth. These new growth engines have largely decoupled from the once almighty economic generator that has almost shaped the world economic cycle in its own image. The Chinese and Indian economies appear independent of the traditional economic order, producing uncertainty, risk and opportunity in equal measure. It is this mix of positives and negatives which shaped *Critical Issues 2008* and made it a

initiative: awareness, interest, evaluation and adoption. Obviously, individual companies will vary but, on aggregate, Australia appears to have passed through the awareness phase and is somewhere between the interest and evaluation levels. Wherever the conference participants happened to be on this change management continuum, it was interesting to observe the benefits that they gained from discussing issues and exchanging ideas, with a view to expediting the adoption phase.

The economics and politics of India and China

The dizzying (and by now sometimes clichéd) economic statistics associated with India and China were not repeated at the conference. Instead, the drivers of economic growth in both countries were highlighted as well as the challenges they now face.

The strength of both the Indian and Chinese economies looks set to shape the Asian region and beyond. As one participant in the conference said, 'If Australia wants to be a regional power, this cannot be achieved unless we are successful in India and China'. Australia is at a critical economic and political crossroads in terms of how we tackle these new markets. There is no guarantee that Australia will be successful, but these issues are rapidly moving higher on the priority lists of business and government.

The politicians at *Critical Issues* made it clear that India and China created a sought-after environment for them.



The guest speaker at the dinner session of *Critical Issues*, the Hon. Simon Crean MP, Minister for Trade, took the opportunity to reveal new trade initiatives between Australia and these two countries, stressing the many opportunities and the need for Australian companies to

all levels — multilaterally, regionally and bilaterally — and in what he called, a ‘much more strategic way’. He also argued that Australia is looking to China and India to exercise leadership in multilateral efforts. He said, ‘[They can play a role] to bring the Doha Round to a successful



just returned from a week in China, a country he visits frequently, and he signalled that he would soon be revisiting India. There are good reasons for these trips. Although we hear that China is Australia’s biggest trading partner, less well known is that it is also Victoria’s biggest trading partner. Premier Brumby recounted the reaction to his prediction 10 years earlier that China would become vital for Victorian growth. He was quickly told at the time that he was dreaming.

The link between Victoria and China is an interesting one, as the state economy is not driven by the typical resources boom that we associate with China (and India). Yet this was a recurring theme of the conference, with many participants reminding us of the importance of the services sector in the ascendancy of these new markets.

If we needed any more convincing of the importance of these new markets to Australian politicians, one need only have looked at the print media

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take advantage of them. He said, ‘As China and India continue to embrace the world economy at a rapid pace, the opportunities for Australia grow accordingly. Business has to engage and seize these opportunities’.

The Minister outlined the commitment of the Rudd Government to engaging with China and India at

conclusion, helping strengthen the system of world trade rules from which they both benefit so much’.

In closing the conference proceedings, Victorian Premier, the Hon. John Brumby MP, proved that the rise of India and China is changing the immutable rule that all politics is about local issues. The Premier had

on the day of the conference. *Critical Issues* coincided with the trip made by Prime Minister Kevin Rudd to China, where the fluent Mandarin speaker was front page news in both Australia and China.

Australian business in India and China

Although governments can create better environments for commerce between countries, ultimately it is business that needs to do the lion's share of the work. Australian business is aware of this but is still grappling with how to achieve it. China can be vexing as it is highly competitive (with international companies converging and domestic ones improving their efficiency), and some Australian companies have tried and failed in China in the previous business cycle. In relation to India, although our national and cultural links go back a long way, our business connections do not appear very deep.

The participants in *Critical Issues* were a relatively diverse group. Included were businesses that had experienced different levels of success (and failure) in these markets and some who were not as advanced in their approach as others. Some companies present were happy to concentrate on only one of these countries while others were tackling both.

In this environment, it is difficult to identify principles that have universal appeal. However, there was one observation that had real cut-through for participants, regardless of how advanced or successful their investments were. As one participant said, 'The thing about these two markets is that



China over-promises and under-delivers, while India under-promises and over-delivers'. In other words, both markets are idiosyncratic but in very different ways.

McKinsey research identifies six unique challenges that companies entering India and China will face.

- Heterogeneous markets, where a one-size-fits-all approach won't work.
- Premium approaches won't be sufficient to build a sizeable market.
- With many consumers new to the market, while others are spoiled for choice, consumer education and frequent innovation are required.
- Complex trade landscapes make a simplistic or single approach to trade insufficient.
- Intense competition and margin pressure make over-engineered operations, marketing and sales practices

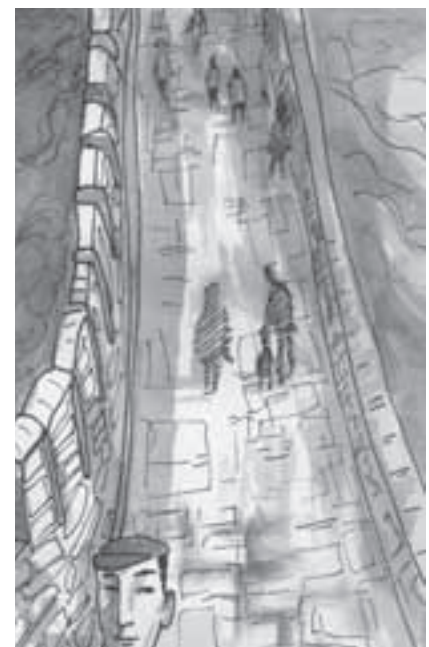
impossible to translate to the new environment.

- Skill shortages force foreign companies to develop new ways of attracting, developing and retaining talent.

In his presentation, McKinsey Director Jonathan Woetzel took these issues one step further. He noted that, 'In the past, it was good enough for companies just to be there [in China]. That time has ended. Winning now depends on world-class execution — effectively and efficiently developing, marketing, producing, and channelling goods and services to customers, as well as attracting and retaining a talent base'.

Indian and Chinese investment in Australia

While discussions about Australian trade into India and China created more of a consensus, when discussion moved to these countries' investment in Australia, the debate became more forceful.



One participant observed that, although Australia and China had a very close relationship in the trade area, it was less so in direct investment. He appeared to suggest that there were difficulties in Chinese

This was challenged by another participant who did not agree that the Government was struggling with this issue, arguing instead that it was making a positive first step towards making this issue more transparent.

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banks getting approval to operate in the Australian market. Other participants argued that some in China were unclear on Australian Government involvement in foreign



investment decisions. Chinese investors would clearly prefer to have decisions made purely on the grounds of commercial benefit.

As part of this debate, some argued that the Australian Government was still coming to grips with state-owned enterprises investing in Australia, particularly in the Australian resources sector. Ian Harper added that the rise of sovereign wealth funds put governments (including our own) in a difficult position as they are forced to balance the national interest and the desire not to scare-off foreign investment.

In an interesting aside, there was also discussion about some of the implications of Indian and Chinese companies investing in Australia, giving particular attention to staffing issues. Although international companies speak of talent problems when entering the Indian and Chinese markets, there are also problems with our talent pool. International companies employing Australians said that although the Australian plain-speaking attitude was very positive, on the negative side it was challenging to achieve international standards due to high staff turnover and an apparent lack of commitment from prospective employees.

Strengthening ties between India and China

Australia is not the only country that is being seduced by the allure of China and India — they are also attractive to each other, although this is not without its complexities. The conference was reminded that there are still suspicions between the two countries after relations broke down in 1962 resulting in a short but bloody war.

Will these tensions be reconciled? In his book *Billions of entrepreneurs:*



how China and India are reshaping their futures and yours, Harvard Business School Professor Tarun Khanna argues that the frictions between India and China are an aberration from a long tradition of constructive ties. He argues that this will be reinstated for three reasons:

- **Historic:** Prior to the 1960s, India and China enjoyed 2000 years of strong economic, religious and cultural ties. Trade links between the two countries can be traced back to the second century BC.
- **Economic:** Indian and Chinese authorities estimate that bilateral trade could be worth US\$50 billion in 2010. Analysts suggest that this could even be an underestimate.
- **Strategic:** Khanna argues that India and China have evolved in such complementary ways that competitiveness is reduced. He



says, 'What China is good at, India is not — and vice versa'. He adds that international companies will only lose if they don't take advantage of the complementarities between the two economies.

The conference participants seemed largely optimistic about the combined role of China and India. One of the speakers argued that this gives the world economy 'more cylinders', while one of the international guests thought it undeniable that Australia's best chance to take advantage of this complementarity was through our resources sector.

If this observation is true, Australia could have a unique role to play in the ascendancy of India and China. We could play an honest broker role where India and China come together on neutral ground to discuss mutually important issues. Australia is unique in having a real interest in seeing India and China succeed, yet we are a non-threatening presence. If Australia can use its convening power, we have the potential to play an influencing and mutually beneficial role in the rise of these new superpowers. This theme may be developed further at future *Critical Issues* conferences.

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Conclusion

This last point was an appropriate conclusion to the conference. Regardless of whether Australian companies choose to enter only one of these markets (or neither), the combined effect of the growth of India and China will have a substantial impact on Australia. In a private remark, one of the international visitors made a very interesting observation that, 'When the Indians go to China, and the Chinese go to India, they speak in a particular way — almost very guarded. While here [in Australia] they talked about their respective countries in such an open way. I have not seen a discussion about India and China like this before'.

Tackling the issues associated with the rapid growth of China and India will be beneficial for Australia, but embedding ourselves into the combined influence of these two countries will take Australia to a new level. ■

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