

Battle of the giants

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China is touted as the next economic and military superpower, but India may yet overtake it in the new global order, reports Hamish McDonald.

Speeches at the Cardiff Breakfast Club don't usually reverberate much beyond Wales, but thanks to internet search engines and a neat turn of phrase, this one recently popped up on screens around Asia: With 3.5 million "functionally illiterate" people in its workforce - mostly young white males -

5 Britain urgently needed to lift its skills, said the Confederation of British Industry chief, Digby Jones. "Then we can ensure that China won't eat our lunch and India won't eat our dinner."

Different numbers, but the same concern could apply in Australia and many other developed countries about the outsourcing of jobs to the world's two

10 most populous countries.

The warning also contains an implicit challenge to the now-common notion that China is hurtling towards a superpower status rivalling that of the US. Assuming that Jones's dinner is more substantial than his lunch, then this British employers' spokesman seems inclined to the growing school of thought

15 that India may present the stronger challenge.

At present, China is racing ahead. Its economy has averaged 8 per cent plus growth for more than a decade, and hit 9.1 per cent last year when per capita income for its 1.3 billion people went over \$US1000 (\$1335) for the first time. The 900 million poor and under-employed people of China's villages mean the

20 supply of cheap labour for industry won't run out for two or three decades. Goldman Sachs, a US investment bank, even fixes a year, 2031, for when China's economy catches up in size with the US.

With foreign reserves of more than \$US400 billion, China has the weight of money to pull in the technology it needs to move up the scale in civilian

25 products and military equipment. Foreign investment inflow is running at \$US53 billion a year, as against India's \$US5 billion. Its torrent of exports and its ravenous appetite for inputs and raw materials are pulling Asian countries, including India, into a China-centred regional market that may become less dependent on exports to North America and Europe.

Though India had almost-as-impressive growth of 8.5 per cent last year, two or three points of this were due to a rapid bounce back in its farm sector from a monsoon failure the year before. Its average growth rate has been about 6 per cent, meaning its 1.1 billion people - with half China's per capita income - are falling behind their Chinese counterparts. Its famous IT centres in

35 Bangalore and Hyderabad are still what a Monash University expert on the Indian economy, Marika Vicziany, calls "islands of excellence surrounded by a sea of poverty".

Indian visitors to China are almost driven to despair comparing the bright lights, ubiquitous mobile phones, freeways, vast container ports, and glittering
40 airport terminals with what they experience at home: daily water and power cuts, crumbling roads, patchy phone services and clogged ports and rundown airports.

Yet there are strengths in India that may make it more advanced than China later in the century. If you read the Nobel Prize-winning economist Amartya
45 Sen, it already is more advanced - if you assume individual freedom, rule of law, and democracy are goals of development. As many Indians say, these are somewhat abstract benefits if you are a bonded labourer or a lower-caste villager terrorised by a landlord's musclemen.

But these freedoms will help India move faster into the knowledge-based
50 economy. Sen's well-known theory says democracy also prevents systemic crises and human disasters that can build up behind the information walls of repressive states - like the 30 million famine deaths caused by Mao Zedong's "Great Leap Forward" four decades ago.

The bright spots of both economies depend heavily on links with the US. India
55 is plugged into Silicon Valley; China into the Wal-Mart. About 54 per cent of China's exports are made by foreign-controlled factories. In electro-mechanical exports, foreign-run enterprises make up 70 per cent. Local exporters face vicious competition, driving down export prices and wages.

"It's the difference between hardware and software," says one US trade
60 official, explaining the attributes of China and India. Needless to say, the biggest profits in the knowledge economy are made by the Microsofts rather than the Fords. But that is not to say India is doing too badly in physical products, either.

Its pre-1991 economic planners shot the economy in the foot with rules like
65 the one that reserved toys and luggage for "small-scale" enterprises - family craftsmen - stopping India from using light-manufacturing exports as an economic escalator like Japan in the '50s. But that is in the past.

In sectors like cars and components, India is even with China, even ahead.
70 China's first tentative car exports are a few hundred VW Polos assembled in Shanghai for Australia, and 20,000 Chinese-assembled Hyundais to Russia. Last year India's Tata group signed a five-year deal with Britain's Rover to ship it 170,000 Indica compact cars, designed and built in Pune.

With some distortions, Indian business houses survived the state-centred economic planning of the first three decades after independence in 1947, as

75 did the *vaisya* (trade) castes with centuries of banking and commercial tradition. China's business classes were purged after 1949. The tradition gives India a depth of management and marketing skills that China sorely lacks.

The raft of literary, cinematic and academic prizes won by Indians reflects the deep interpenetration of Indian and Western cultures, not matched in East
80 Asia, which will serve India well in knowledge, entertainment and other creative sectors of the world economy. China is ahead in general literacy (90 per cent) but India's literacy rate (65 per cent) creeps up by about 10 percentage points every decade. Ever-stronger English and vernacular-
85 language media build on this pool of readers. China's media remain constrained by party control.

Many foreign companies have been substantially Indianised, like ITC (ex-British American Tobacco) or Hindustan Lever, and Indian firms such as Tata, Reliance, Infosys, Wipro, Ranbaxy and Dr Reddy's Laboratories are reaching
90 into global markets - and investing in China. It is hard to think of more than one or two Chinese corporate brands that register overseas.

India's big banks have emerged with bad debt ratios averaging 10 per cent, compared with the 22 per cent admitted by China's big four state banks (and believed to be closer to 50 per cent). India's stock markets, opened under the
95 British in the 19th century, have been thriving since the '80s with millions of individual investors and a range of funds. China's stock markets are minor sources of business capital, mostly used to palm off dud public sector enterprises to domestic savers who have few alternatives.

This relative strength of the Indian banks and capital markets, and the sophistication of its accountants, lawyers, financial analysts and regulators
100 mean India is less vulnerable to the kind of huge financial crash that some analysts see coming in China.

In a recent article in the US journal *Foreign Policy* the MIT's Huang Yasheng and the Harvard Business School's Tarun Khanna argued that this puts a
105 different slant on China's apparently greater success in luring foreign investment. Rather than showing strength, it was a factor of China's weakness in directing domestic savings to productive use. It certainly means that foreigners who invested in India have a better record of extracting profits.

Militarily, China is ahead in its ability to deliver nuclear weapons by missile. India's army is more skilled and better led. Its air force has better training,
110 equipment and doctrines. Its navy is building the kind of missile-destroyer China still has to import from Russia. Its electronic intelligence capability is rated by the ANU expert Desmond Ball as far ahead, and unlikely to be overtaken because of China's authoritarian culture. Its satellites are better.

Demographics may favour India's economy. Thanks to the one-child policy,
115 China has a rapidly ageing population whose over-60 component will rise from

10 per cent now to 30 per cent by 2050, placing a huge demand on welfare. India, which has avoided forced family planning except during Indira Gandhi's emergency rule in 1975-77, will have a much younger population for decades longer.

120 Long-term predictions, of course, have a way of looking way out within a few years. Only 25 years ago, the West was galvanised by books called *Japan as Number One* and *The Emerging Japanese Superstate*. Japan was the next superpower, set to overtake a self-indulgent, lawyer-ridden US.

125 In recent years Japan has looked like an Asian version of Italy: fine cuisine and fashion, maker of highly desirable consumer objects, population set to decline rapidly, revolving-door weak governments, wishy-washy foreign policy. Then, just when it seemed to need a huge external shock, it has regained strong growth - from China.

130 Aside from the potential crunches from its financial bubbles and redundant investments, China has an inherent contradiction between the kind of advanced market economy it wants to build and its political system which may result in convulsions long before parity with the US is achieved.

135 India has its obscurantist forces, busy terrorising religious minorities and rewriting curricula to portray a mythical Hindu golden age as historical truth, which may extend their grip on national institutions and damage the country's vital intellectual fabric, its greatest strength.

140 Another caveat is that behind scenarios of Asian ascendancy there is an implicit notion that the West, or the US in particular, is losing its creative drive or splurging its wealth. After the Japan boom, it turned out those divisive, time-wasting lawyers were useful in defining and defending intellectual property rights - the goods of the knowledge economy. Spoilt kids in Palo Alto garages thought up new game and work applications which made more profit than the Asian-made disc-drives they ran on.

145 Europe may be tired and old, but the US is continually renewing itself by immigration and its culture of expansion, exploration and innovation. Some demographic studies see high US fertility rates and immigration pushing the population from 281 million to between 400 million and 550 million by 2050. We may have seen only the beginnings of US ascendancy.

150 Finally, the idea of power rivalry applying to the US and China and/or India derives from the Cold War contest between two nuclear superpowers with relatively few economic linkages between them. China and India have strong and growing dependency on trade and investment flows with the US. Neither has any missionary zeal to spread its doctrine to the US, though the reverse is not necessarily true.

155 China has nationalists and military hotheads who look forward to a showdown
that regains Taiwan and puts the rest of East Asia in a submissive state. But
barring an independence bid by Taiwan, they are under firm restraint by
economy-minded political leaders. Nor would Japan or a reunified Korea
160 return to imperial vassal status. India is deepening military engagement with
the US, protecting Iraq-bound US supply ships through the Malacca Strait and
exercising as far afield as Alaska with US forces.

Nonetheless, it suggests the world, and Australia's region in particular, will
see remarkable shifts in economic power over the next half-century. Australia
would be well advised to place money on India and China in terms of investing
165 in specialist studies, business and professional connections, welcoming their
visitors and appreciating their migrant communities.

Part 1: Pre Reading

1. Read the title; what ‘giants’ do you think it is referring to?

2. Read the lead (a short paragraph **in bold** after the headline) and identify the ‘giants’ referred to in the title.

Part 2: Understanding the Text

3. Skim the text for gist and write the main idea.

4. Match the words with the meaning that reflects its use in the text. (All the words have been underlined.)

Word	Meaning
1. <u>touted</u> [vb]	a) A flood; a fast and powerful flow
2. <u>reverberate</u> [vb]	b) To remove opponents or those considered undesirable
3. <u>outsourcing</u> [n]	c) Something that is said as a caution, a qualification or a warning
4. <u>torrent</u> [n]	d) Obtaining something from a source
5. <u>ravenous</u> [adj]	e) Existing everywhere
6. <u>ubiquitous</u> [adj]	f) Have a continuing effect
7. <u>sectors</u> [n]	g) Caused someone to do something suddenly by making them feel fear, excitement or anger
8. <u>purged</u> [vb]	h) Put forward, advertised, or sold to the public as having a particular quality
9. <u>interpenetration</u> [n]	i) Purchasing things or services from a source outside the company as a way of reducing costs or using expertise that is not available within the company

10. vernacular [n]	j) Favouring and maintaining strict rules and obedience
11. extracting [vb]	k) Components of a system such as an economy or a society
12. authoritarian [adj]	l) The everyday language used by a group of people
13. galvanised [vb]	m) To be hungry or greedy for something
14. obscurantist [adj]	n) To spread or mix something in and throughout something else
15. caveat [n]	o) Opposed to or hindering the spread of new ideas or developments

5. Read the following statements and underline the key words. Then, scan the article for synonyms or parallel expressions. Read these sections carefully and label the statements **T** (true), **F** (false), or **NG** (not given).

- (a) There will be a sufficient supply of cheap labour in China for the foreseeable future. _____
- (b) China's economy is expected to exceed that of the USA by 2031. _____
- (c) American investment in China exceeds its investment in India. _____
- (d) India's growth for the last year was as impressive as that of China. _____
- (e) India is unable to use light manufacturing exports to improve the economy. _____
- (f) More Indians speak English than do Chinese. _____
- (g) China is more likely to have a financial crash than is India. _____
- (h) Japan will be the next economic superpower. _____

6. Which person mentioned in the article would be likely to agree with the following statements.
- (a) _____ If the United Kingdom doesn't improve the level of its workforce's basic skills, it will lose economic competitive edge to China and India.
- (b) _____ India's tradition of democracy provides a solid foundation for economic development.
- (c) _____ The nature of China's culture decreases its ability to compete with India in the area of collecting secret information by electronic means.
- (d) _____ China is not using domestic savings in a productive way.
- (e) _____ India's capacity for long term success is hindered by its current economic reality.
7. What do you think Marika Viczainy meant by referring to India's IT centres as, "*islands of excellence surrounded by a sea of poverty*"? (lines 33-34)
8. What do you think that the US trade official meant when he said, "*It's the difference between hardware and software*" ?(line 55)
9. What word/s in paragraph 9 (lines 45-49) indicates the author's opinion about non-democratic governments.
10. Decide whether the following statements are **F** (Fact) or **O** (Opinion).
- a) India may present a stronger economic challenge to the West than China.
- b) China's foreign reserves exceed \$US400 billion.

- c) India's strong economic growth last year was the result of a rapid recovery from a monsoon crop failure the previous year.
- d) India's democracy and rule of law mean that India will advance faster than China.
- e) The US will continue to expand and dominate throughout the twenty-first century.

11. What do the following refer to in the text?

Reference	line	What does it refer to?
this one	2	
the warning	10	
Its	30	
it	40	
The tradition	71	
who	90	
Its	106	
its	120	

12. Complete the table with information from the article. Write at least three points for each country.

A Comparison of the Economic Development of China and India

Areas where China is ahead	Areas where India is ahead

13. According to the text, how would an Indian visitor to China feel?

- a. desperate
- b. envious
- c. miserable
- d. contented

14. Complete the summary (of lines 112 - 138 of the text) by writing one word in each gap.

As was the case with Japan, _____ for another Asian superpower set to overtake the West may prove to be groundless within the not too distant future. Indeed, here are a number of factors which may prevent either China or India from becoming the _____ economic powerhouse of the future. The contradiction between the needs of China's _____ economy and the reality its political systems, may act to prevent any hope of _____ with the US. At the same time, India's increasingly powerful religious minorities may serve to weaken its vital _____ advantages. On top of this, the US, with its high immigration and birth rates ensuring continual population _____, together with its protection of intellectual property _____, may surprise us all. It may well be that it will be America, and not Asia, that will continue to _____ well into the 21st century.

15. According to the author, what should Australia do with relation to China and India in the near future?