

Chindia Multinationals Making Waves

When we think of China, we think of shoes, textiles and toys—the deluge of products that have earned China the sobriquet “workshop of the world.” When we think of India, we think of IT, of call centers, of talking to technicians in Bangalore when something goes wrong with our PCs. Right now, however, those burgeoning economies are beginning to be driven by something much bigger and much more globally significant than the “sourcing” phenomenon that began to catch the world’s attention a decade ago. Before analyzing the new reality of Chindia’s global business, let’s look at two examples.

Lenovo

Lots of casual electronics watchers were caught off guard when venerable IBM, pioneer of the personal computer, sold its PC unit to China’s Lenovo for \$1.75 billion in early 2005. Insiders weren’t surprised that IBM was looking to sell; after all, thanks to cut-throat competition and collapsing margins, IBM’s PC business had lost close to a billion dollars in the three years prior to the sale. The tougher question was why Lenovo wanted to buy.

Founded in 1984 as a retail enterprise selling everything from TVs to roller skates, the Legend Group (as it was originally called) introduced its first proprietary product, a Chinese character system for PCs, the following year. When reduced import tariffs allowed foreign PC makers like IBM and Compaq to enter the Chinese market in 1990, Legend

met them head-on by starting to make computers under its own brand. Offering low-priced machines with Chinese characters, Legend steadily won market share, and by 1997 it had met its goal of becoming the dominant player in the domestic computer market.

The company's global aspirations became apparent when it changed its name to Lenovo (loosely derived from Latin *novo*, meaning new) in 2003. The change was necessitated because Legend had already been trademarked (by Acura) in the West, and the West was where Lenovo wanted to go. Still, few people expected the mega-deal with IBM. But from Lenovo's point of view, the strategy made perfect sense. In the first place, the purchase immediately transformed Lenovo from a domestic player into the world's No. 3 PC maker, behind only Dell and Hewlett-Packard. Perhaps more importantly, Lenovo bought a couple of world-class brands: the ThinkPad laptop, and the ThinkCenter desktop. According to the terms of the deal, those high-visibility products would continue to carry the IBM logo for five years, after which time, as Lenovo built its global reputation, they would be sold under the Lenovo brand. As Deepak Advani, Lenovo's marketing director, told the *Christian Science Monitor*, "There will be no doubt that ThinkPad is made by Lenovo, just like iPod is made by Apple."¹

By the end of 2005, Lenovo chairman Yuanqing Yang was quite clear on the company's goal: "to become the most competitive PC company and the most famous PC brand in the world." To that end, he and his board lured William Amelio, who had been president of Dell's operations in Asia Pacific and Japan, to take over as CEO of Lenovo. One of Amelio's first moves was a restructuring that cut 1,000 jobs from the 9,500-person workforce, projected to streamline operations and save the company \$250 million a year. As for building the brand, Amelio has taken a global approach. The company worked out a marketing deal to sell and operate Lenovo computers at the 2006 Olympic Winter Games in Turin, Italy, and—needless to say—it plans to have a conspicuous presence at the 2008 Summer Games in Beijing. To help penetrate the Latin American market, the company has hired soccer superstar Ronaldinho of Brazil as spokesperson. In India, Lenovo is working with Bollywood actors and doing product placement on that country's wildly popular game shows. In the United States, Amelio is looking for tie-ins with the National Basketball Association.

However, while both the chairman and the CEO want the brand to be prominent in every corner of the globe, they understand that the key to sales growth lies in emerging markets. As Amelio told the *Wall Street Journal*, "The emerging markets are critical for our success." The model that has led to dominance in China, he says, is being "migrated to India, and we'll do that across many of the emerging markets, whether it's

Brazil or Russia.”

Amelio unwaveringly describes Lenovo as “a global company,” and notes that “we actually rotate the headquarters between Beijing, Hong Kong, Singapore, Raleigh [N.C.], and Paris.”² But the significance Lenovo’s sudden emergence as a global player in a high-profile industry is perhaps best articulated by marketing director Advani, who describes the company as “the poster child of China’s move from planned economy to market economy, a market-driven company that is a leader in this transition.”³

Mittal Steel

India’s major companies, no less than China’s, have global aspirations. Yet, their strategy is often different. Thanks to the legacy of state-imposed controls over the private sector during the so-called “License Raj,” as well to a history of tight-knit family ownership of private businesses, India’s private enterprises had been held in check on the domestic front. With growth at home constrained, their strategy had been to expand globally through merger and acquisition.

There can be no better example of this scenario than Mittal Steel. Family patriarch Mohan Mittal was already buying up steel companies in Indonesia in the mid 1970s. In the early 1990s—under the leadership of Mohan’s son Lakshmi—the company moved into North America, with acquisitions in both Mexico and Canada. That decade also saw a string of purchases in Western Europe and, in 1998, the acquisition of Chicago-based Inland Steel. In 2004, when the family combined its publicly traded company, Ispat International, with its privately held LNM holdings, it became officially Mittal Steel, the world’s largest steel-maker. It strengthened its position the next year with its purchase of the U.S.-based International Steel Group (ISG) for \$4.5 billion. Now it owned the coveted title No. 1 steel producer in the United States, too.

But Lakshmi wasn’t done yet. In 2006 came the blockbuster—the deal in which, according to *The Times of London*, “the two most acquisitive steel groups in the world became a colossus.” Mittal bought Arcelor, Europe’s largest steel manufacturer, for \$34 billion and thus created the world’s first 100-million-ton steel producer. Talk about a dominant player: Arcelor Mittal (as the new company is now called) is three times bigger than its closest rival, Nippon Steel. We should note though that Mittal’s expansion is not simply about bragging rights. It’s about understanding what it means to be a player in the global economy. As the chief executive of the UK Steel Association told *The Times*, consolidation “is imperative for steelmakers if they are going to work efficiently with large global

industries such as car manufacturers. . . . The steel industry needs to bolster to partner global companies.”⁴ This “global mindset” of Indian and Chinese companies is a point we’ll return to.

The emerging multinationals in India and China will be characterized not only by fast growth but also by deep commitment to R&D. Mittal illustrates this point with the \$10 million expansion of its Mittal Steel USA research facility in Chicago. At the 2006 groundbreaking, Mittal USA marketing chief Dan Mull noted that 50 percent of the new steel products used in auto production did not exist 10 years ago and that the steel industry in general is constantly challenged to make steel lighter, stronger, and more cosmetic for use in automobiles and appliances. The state-of-the-art Chicago facility will keep Mittal in the forefront as it researches no fewer than 16 new steel products.⁵

The global highway leading out of India is quickly becoming congested, as IT and pharmaceutical companies follow Mittal’s example. This dramatically altered scenario is pointedly described by Manisha Girotra, head of investment banking for UBS India. “Five years ago we were representing multinationals and advising on their entry strategy into India,” she tells the Financial Times. “Now our biggest business is advising Indian companies to go global. . . . Every CEO I meet wants to talk about global strategy.”⁶

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Watching the rise of multinational corporations in China and India, we might be tempted to understand it as—in Yogi Berra’s memorable phrase—“*déjà vu* all over again.” After all, we’ve seen it before, as first Japan, and then Korea mounted global competitive assaults in the automobile and consumer electronics sectors. But we’ll be making a big mistake if we dismiss what’s happening in China and India as “same old, same old.” The rise of Chinese and Indian multinationals is a new phenomenon and must be assessed as such. The fundamental difference is that the rebirth of Japanese and Korean industry after World War II was export driven, whereas the sudden ascent of Indian and Chinese companies is investment driven. This paradigm shift has such far-reaching ramifications that we might take a few moments to understand why it has occurred. The quick answer is: the world has changed.

Let’s look at some details.

First, the export model was deliberately created for—and then embraced by—Japan and Korea, because both nations were devastated by war and had no domestic industry upon which to rebuild their economies. In the

immediate post-war years, Japan lay in rubble, occupied by a foreign power, its people hungry and demoralized. Thanks to sky-high inflation, goods that were available were unaffordable. The domestic market was in ruins. The United States, as the 1940s ended and the Cold War loomed, came to the realization that it needed a strong ally in Japan, rather than a defeated enemy. To this end, in the famous “reverse course,” America initiated the Dodge Plan to promote Japan’s economic renewal. With the onset of the Korean War in 1950, Japan’s export boom officially got underway—supplying the needs of all the American forces stationed in the Korean peninsula. Once encouraged to adopt the export model, Japan committed to it wholeheartedly. The entire purpose of MITI (Japan’s Ministry of International Trade and Industry), which in effect controlled the nation’s economy throughout the 1950s, 1960s, and 1970s, was “not only to help firms adapt to world export markets but also to help them take the greatest advantage of them.” Starting as an exporter of cheap goods, ignored as an economic force, and protecting its own market, Japan more or less snuck into the global economy.⁷

South Korea followed exactly the same course once the war against the North ended in 1953. It too was devastated; two-thirds of its industrial capacity, not great to begin with, had been destroyed. As in Japan, there was no viable domestic market. It was General Park Chung Hee’s decision, when he came to power in 1961, that the Japanese model had to be adopted. Export was the way to go, and the way to get there—to compete in international markets and to withstand foreign imports—was to create a number of big companies. Out of this decision came the chaebols, the “national champions,” just like the zaibatsu in Japan. And like Japan, Korea started at the low end. “Made in Korea” supplanted “Made in Japan” as a source of ridicule. But both nations learned that ultimate success as an export economy depends on moving up the quality chain. As a result, today we have Toyota, Sony, Samsung, and Hyundai.

To highlight the contrast between the situation of Japan and Korea a few decades ago and the situation in China and India today, it’s worth reiterating a central point: the export-driven model is the necessary remedy when there is no domestic market. As we’ll emphasize more than once, China and India have domestic markets like nobody has ever had before.

Another important aspect of the economic climate of 50 years ago was the sense of insecurity and protectionism that prevailed after World War II. The weather was bad everywhere, you might say. Among newly liberated nations (including India), anti-colonial sentiment fostered a sense of militant independence—and a reluctance to trade with (or in any way depend on) former colonial masters. Among newly Communist nations (including China), anti-Western sentiment had the same effect.

Even the United States tended toward isolationism and the protection of its own industries and markets. The flow of people, of capital, of products, was suddenly curtailed. Trading partnerships were determined by Cold War politics. In such an environment Japan and Korea, “blessed” by Western partners who had a vested interest in their recovery, could focus on “making versus marketing.” Marketing—including branding and the creation of distribution and dealer networks—was expensive, certainly too expensive for capital-starved Japan and Korea, so their model was to produce at the low end and turn their products over to import-export specialists who could supply their own capital.

It goes without saying that the weather has improved. The “trade winds” are favorable, as across the globe, a spirit of free-market pragmatism has pushed state control from commanding heights of the economy. The corollary is that, to be successful in the new environment, corporations have to be globally competitive. Today’s “investment companies” like Mittal understand that they can’t just make steel in one country and ship it out. They look at world resources and world markets. They build facilities or acquire companies where those resources and markets exist. They make steel wherever they can enjoy a competitive advantage.

Another change working in China’s and India’s favor is that today, capital is available. During the rise of Japan and Korea, unless you were one of the “national champions” favored by the government, you had no access to capital. It seems hard to believe today, but this was exactly the situation Honda found itself in. It was a maker of engines, a supplier to Japan’s auto industry, and of course it was being exploited. It wanted to enjoy the valued-added end of the business, which meant becoming a carmaker, but no capital was available to realize this vision. The solution was radical but effective: instead of Tokyo, the company listed its shares in America, the only place where the kind of capital the company needed was accessible. Another surprising example is Sony, which in 1961 became the first Japanese company to be listed on the New York Stock Exchange, thus actually blazing the trail that Honda followed.

Thanks primarily to their positions as leaders in global sourcing, China and India today are awash in a river of capital. In November 2006, the combined activity of the Hong Kong, Shanghai, and Shenzhen stock markets gave China the world’s highest IPO total for the month. (Interestingly, the United States fell to No. 3, behind London, where London’s “junior” stock market AIM, with its looser regulations and lower market-cap minimums, attracts small-company IPOs from all over the world. In fact, noting that foreign firms are increasingly reluctant to list in the United States because of the strict regulatory environment created by Sarbanes-Oxley, Treasury Secretary Henry Paulson was quick to call for an easing of restrictions in the U.S. market.) In India meanwhile, private

equity is making the big plays, attracted to investment opportunities in the booming nation's already publicly held companies. At the same time, Indian interest rates have fallen to half their levels in the mid-1990s, and deregulation has given Indian companies access to cheap money from international debt markets.

Moreover, a deluge of foreign direct investment continues to pour into both countries. According to A. T. Kearney's annual FDI Confidence Index, China emerged in 2002 as the world's most preferred destination for foreign direct investment; the following year, in 2003, India surged from the 15th place to the sixth worldwide. In Kearney's 2005 survey, however, the top three destinations were—in this order—India, China, and the United States. In just one recent example, Switzerland's Holcim Ltd. purchased 67 percent of Ambuja Cement India for \$800 million.

Regardless of which country is in first place though, the point remains that the capital is there, big time. And when investment capital is available, you are no longer limited to the export model. If you see an opportunity to acquire a company, or build a new facility, you have the means to do it. To illustrate briefly, India's Sona Group, a maker of steering wheels, has Toyota as a key customer. But now that Toyota manufactures in the United States, Sona faced a decision: did it continue to make its steering wheels in India and ship them to Toyota's overseas plants, or did it build its own U.S. facility? Would proximity to the customer be worth the huge capital expense? The analysis revealed all the advantages of building a new plant—not only incentives from the community, like free land and tax breaks, but also an opportunity to upgrade to state-of-the-art technologies. Sona Group took the plunge; but note: if it weren't for available capital, the company couldn't have even considered it.

Yet another cause for improvement in the global business climate is that the clouds of anti-colonialism, protectionism, and xenophobia have lifted. India, for example, not only welcomes foreign investment, its investments are welcomed in return. In one instance that I have particular knowledge of, the Indian conglomerate Wipro sought to expand its hydraulics division with the acquisition of a Swedish manufacturer. As the deal was being consummated, the Indian CEO asked the Swedish CEO, "How do your people feel about being bought out by foreigners?" His surprising reply: "We don't care who owns us so long as it's not a U.S. company." (This response, I have to believe, is a measure of European displeasure with America's war in Iraq.) When the Indian CEO asked specifically how the Swedish company would feel about being owned by an Indian entity, the CEO's answer was, "More power to you." This would have been unthinkable 20 years ago.

True, anti-Communist sentiment still impedes China's foreign investment in some security-related sectors, as was shown recently when

the U.S. Congress moved to block its purchase of American oil giant Unocal. But these are the last remaining exceptions to the new rule of economic pragmatism. Here in my home state of Georgia, for example, Governor Sonny Perdue has personally been to Beijing to beseech Chinese business leaders to bring their business here. Chinese foreign investment outside of the United States, especially in the ASEAN nations and Africa, is enormous.

Which brings up another significant advantage that China and India enjoy today. As Kenichi Ohmae reminded us in *Triad Power*, the economic landscape into which Japan was emerging was completely dominated by Europe and North America (the United States and Canada). Consequently, following the export model, Japan and Korea were exclusively focused on the advanced markets in the West because that's where the world's buying power lay. Any other nation that might have had a little buying power, as I've mentioned, would have been likely raising tariff walls to protect its own domestic industries. (To sharpen the relevance of this point: India and China are perfect examples of nations that, in the post-World War II environment, would have been too protective of their own domestic industries to welcome imports from Japan and Korea. It's a fine irony that trade barriers have collapsed just in time for China to become "the manufacturer to the world" and to enjoy the world's biggest trade surpluses.)

In stark contrast to the experience of Japan and Korea, China and India are by no means limited to exporting to, or investing in, the world's advanced economies. They are free to go global, and that's what they are doing—in South America, in Africa, in Eastern Europe, in Asia. The opportunity that this gives their multinational corporations is incalculable, and all the more so because, today, the world's emerging economies are also the fastest-growing. Goldman Sachs' 2003 report, "Dreaming with BRICs: The Path to 2050," predicted that within four decades (by 2043) the total GDP of the four emerging BRIC nations (Brazil, Russia, India, and China) would likely surpass that of the G6 (the US, the UK, Germany, Japan, France, and Italy). The fact is that as their populations age and their domestic markets mature, advanced economies are slowing down. The United States remains the steadiest of the advanced nations with its unspectacular 3 to 4 percent annual growth. Emerging economies are hot, and this development too plays right into China's and India's hands. As the Goldman Sachs report puts it, "As today's advanced economies become a shrinking part of the world economy, the accompanying shifts in spending could provide significant opportunities for global companies. Being invested in . . . the right markets—particularly the right emerging markets—may become an increasingly important strategic choice."⁸

Broadly speaking, the world seems ready for a change, its economic axis shifting from the West to the East. Ohmae's book, published in 1985, needs updating. China and India are now seen as welcome alternatives to the old hegemony of the United States and Europe. The United States, in particular, seems to be losing its popularity because of its often hypocritical tendency to mix economics with social and political issues. The left-leaning nations of Latin America, for example, have clearly lost interest in the United States' old carrot-and-stick approach. Lula in Brazil, Chavez in Venezuela, and Correa in Ecuador—these are some of the leaders thumbing their noses at the United States and doing huge deals with both China and India. In Bolivia, where leftist president Evo Morales has made no secret of his animosity towards the United States, India's Jindal Steel and Power, in July 2007, signed a \$2.1 billion deal to mine iron ore. Since 2004 China's largest steel company, the Shanghai Baosteel Group, has been building a \$1.5 billion blast furnace operation in Sao Luis, Brazil. But the growing impact of emerging economies on the world's business stage was perhaps best illustrated by this recent news article stating: at the end of 2006, Brazilian steel maker CSN and India's Tata Steel were in a bidding war to take over Britain's Corus Group, the world's eighth-largest steel producer. Who could have imagined, even 10 years ago, that two companies from emerging nations would be battling to gain control of a huge Western corporation?

Moreover, as India and China continue to grow, they'll use their domestic buying power as leverage in bilateral trade negotiations. They'll elbow past the Byzantine process of multilateral negotiations and speak directly to nations that have the desired resources. Often, that will be a developing nation. Brazil, for example, the world's second-largest producer of soybean, used to look to Europe as its chief export market. But between 2000 and 2003 China has emerged as the world's No. 1 consumer of soybean, and in turn, Brazil's soybean exports to the mainland have soared by 70 percent. India too looks with increasing interest at the developing world. The first official India-Brazil-South Africa (IBSA) economic forum took place in September 2006, with Indian Prime Minister Manmohan Singh himself making the trip to Rio de Janeiro.

To reiterate: the rise of Japan and Korea was export driven, and those exports were largely directed to the advanced markets in the West. The emerging Chindian multinationals will be investment driven and will enjoy the whole world as their smorgasbord. It follows that the ascent of Chindian multinationals will be more rapid than any precedent set by Japan or Korea, or by any Western company for that matter. In fact, Indian and Chinese companies will literally leap onto the global stage in a single bound. Let me explain briefly.

*Local Player Today, GIE Tomorrow *** What is MNE?*

Japanese and Korean MNEs, following a model that had been established in the West, went through a three-step evolutionary cycle. As we've noted, they began life as export-oriented domestic companies, manufacturing goods for the domestic market and for export. The second step was to become "multi-domestic"—i.e., you created subsidiaries in countries where the market was so big that it no longer made sense to export there. At first you served those constituents by establishing distribution and marketing networks, but eventually you invested there with the building of manufacturing plants and corporate facilities, the Japanese auto industry in the United States being the perfect example. The final stage was to become a "Globally Integrated Enterprise" (GIE), at which point your architecture changed drastically. *** The para starts off in past tense, switches over to the present. Need to be consistently same tense. Note, next para's started in the past tense again.

Again, this was the model set by American corporations (which, after World War II, expanded into Europe and then into Asia) and was subsequently followed by Japanese and Korean multinationals. How will the Chinese and Indian companies change this trajectory? They will simply skip the second step ("multi-domestic") and transform themselves, as it were, overnight into GIEs.

Before examining how this leap is possible, let's quickly identify a few of the salient characteristics of the Globally Integrated Enterprise. First, products made by GIEs have the same brand names worldwide: Coca-Cola, Lenovo, Toyota. Second, GIEs avoid the "local manager" syndrome; they hire the best managers from the global talent pool and thus assure themselves of leaders who are loyal to the company rather than to their country of origin. Lenovo's Bill Amelio, recruited from Dell, is the perfect example. Third, quality standards and processes are uniform worldwide. (Products might be tailored to local markets, but processes are standardized.) Fourth, R&D is similarly global, with research centers around the world. More generally, GIEs have a global mindset. The old architecture was to have domestic operations, which received the lion's share of attention, along with an "international division." In American corporations, overseas business had historically been disparaged with the acronym "OUS" (outside the US). The mindset now is radically different.

Now, why do Chindian multinationals get to leapfrog directly into the GIE stature? The short answer, again, is that the world had changed. Let's look at how.

First, today there are fewer restrictions on capital and trade flow than previously, along with fewer regulatory restrictions on the operations of foreign corporations. In the larger sense, the emerging multinationals will

benefit from the pro-market global trends we've already noted. Describing how the coming wave of MNEs will be more global, more diverse, and more Asian, a recent report from the National Intelligence Council goes on to say that these large multinationals "will be increasingly outside the control of any one state and will be key agents of change in dispersing technology widely, further integrating the world economy, and promoting economic progress in the developing world."⁹

Second is the emergence of the Internet as an incredible enabler of global business. Not long ago, the global operations of major U.S., EU, and Japanese corporations were impeded by having different IT platforms in different countries. Today, thanks to a company like SAP (itself a GIE, serving 27,000 clients in 120 countries), multinationals can globally integrate back-office functions like distribution, accounting, human resources, and even manufacturing. What's more, SAP's new "mySAP" software products are Web-based, available everywhere at the click of a mouse.

Third, Chinese and Indian MNEs have the seemingly counterintuitive advantage of a shortage of management talent. In other words, because they have a plentiful supply of both entrepreneurs and factory workers but a dearth of senior management, their survival depends on tapping the global talent pool. We've mentioned Lenovo's Bill Amelio, but remember that just a couple of years ago, Sony shocked the business community by naming Welshman Howard Stringer as CEO. Chindian multinationals know they can't wait for a generation of managers to be nurtured indigenously. They need the best guy now.

Fourth, global capital inculcates a global mindset. Not only are Chinese and Indian companies acquiring companies worldwide, but they are also listed on stock exchanges all over the world—which makes them responsible to global shareholders. Global capital also encourages global R&D, which allows Chinese and Indian firms to quickly shore up an endemic weakness. In buying foreign corporations, they are also buying those firms' technological expertise and research capabilities.

And finally, we noted that Japan and Korea built their export-based economies by focusing on Western markets. But another pressure forcing Chindian companies to become GIEs is that their customers are global. Manufacturers like General Electric and Toyota, and retailers like Wal-Mart, Home Depot, or England's Tesco are now GIEs, and companies that sell to those customers will have to serve them globally. Similarly, procurement is global, not just home grown. Your raw material now comes from all over the world—iron ore from Brazil, natural gas from Kazakhstan. In other words, if your whole supply chain is global, you'd better be global, too.

Yet another characteristic of the GIE is that these multinationals tend to be “full-line generalists”, as opposed to specialists. We may recall that Japanese and Korean companies entered Western markets as niche players, typically at the low end of the market. The Toyota Corolla, the Datsun 210, the Honda Civic, not to mention the early transistor radios from Sony—all were examples of this strategy. As we know, the real threat (in the auto sector particularly) came when the Japanese began their journey up market by keeping prices low but steadily improving quality. Once entrenched in Western markets, they completed the assault by offering a full line of vehicles, including luxury models like Lexus and Infiniti. We certainly can’t say that the strategy was ineffective; after all, look what happened to the American auto and consumer electronics industries. But we can say that the strategy of the Chindian firms—to spring fully armed, so to speak, into the global marketplace, to compete at both ends of the market—will be that much more effective, raising the bar of worldwide competition.

We’ve looked at Lenovo and Mittal Steel. Now let’s briefly introduce a few more of the new players—two from India and two from China.

Tata Tea

Tata Tea, part of India’s venerable Tata Group, got its start in 1983 when the now Vice Chairman R. K. Krishna Kumar bought up Indian tea plantations owned by James Finlay, one of the United Kingdom’s pioneer tea brokers. Practically as soon as the deal was done, tea-leaf prices crashed, from which Kumar learned a valuable lesson: he needed to move Tata Tea from a commodities business into a branded business. As S. Dinkar tells the story in *Forbes*, six Tata employees in a small room on a tea plantation in Kerala packed the country’s first poly laminate tea bags. “The tag line read, ‘Blended by nature, packed by Tatas,’ and the brand, Kanan Devan, was an instant hit.”¹⁰

That strategy pushed Tata Tea to the forefront of the domestic market. The global play began in 2000 with the audacious acquisition of Britain’s Tetley Tea for \$425 million. Tetley was the No. 2 brand in the world, after Unilever-owned Lipton, and it was three times bigger than Tata. The move gave Tata not only global presence, but also a two-brand strategy, Tetley at the higher end of the market and Kanan Devan at the lower end. It also gave Tata a strong position from which to compete against global leader Unilever (or, in India, Hindustan Lever), which owns not only Lipton but also a number of smaller niche brands as well. As the South China Morning Post reported, the marriage of Tetley’s skills in

marketing tea bags with Tata Tea's plantation muscle "will enable the Indian brand to storm the North American and European markets for quality and value-added teas, giving Unilever a tough fight for the No. 1 slot in the industry."¹¹

Moreover, with the purchase of Tetley, Kumar was just getting started. The \$1.4 billion Tata Tea had spent on its quick evolution into a "full-line generalist" included the acquisition of Eight O'Clock coffee (the third-biggest coffee brand in the U.S.) and a 30-percent stake in U.S. flavored water maker Glaceau. Kumar is also working on a joint venture to make and market green tea in China, and a processing business in Uganda to push Eight O'Clock coffee into Europe. "By the end of the decade," Kumar told *Forbes*, "we expect Tata Tea to become one of the largest and most admired beverage players in the world. We want to be a \$3 billion company in ten years, and much of it will come from the U.S."

Still, it was Tata Tea's acquisition of Tetley, at that time the largest cross-border deal for any Indian company, which underscored the emergence of Chindian multinationals. After beating out Sara Lee for the deal, Tata chairman Ratan Tata called it a "momentous occasion" when an Indian firm could buy an overseas company and its global brand. Commentators noted that until Tata Tea's move, Indian companies had been the targets. Coca-Cola had purchased Parle Foods for example, and the popular cola drink Thums Up, wounding the nation's pride in swadeshi, or self-reliance. Thus Tata Tea's buy-out of the Tetley brand was both smart business and sweet revenge. "To be able to leverage an international brand," as the chief economist at the Confederation of Indian Industry told the *Morning Post*, "that is very important."

Infosys

Given the nature of the business, perhaps all information technology companies are born with a global mindset. Surely this is the case of those in India, as the story of Infosys illustrates. The company's founding is part of Indian industry lore: how in 1981 Narayana Murthy convinced six fellow software engineers to start their own company—with \$250 in capital, most of it borrowed from their wives. Business conditions in India in those pre-reform days forced Murthy to seek international clients from day one; after all, it took nine months for the company to get its first telephone line, and three years to get its hands on new computers.

So Infosys' first customers were multinationals like Reebok and Nordstrom, for whom it produced customizable, inexpensive software. A decade later, it was depending on GE for more than 20 percent of its

business, but all that business went away when Infosys refused to let the U.S. giant squeeze it into accepting a lower fee schedule. From that experience, Murthy learned never to let one client or product drive more than 10 percent of the business, and he pushed the company to expand its global clientele with customers like Xerox, Levi Strauss and Nynex.

By the late 1990s, as its international business continued to grow, Infosys had established offices in Canada and Japan; in 1999 it became the first Indian company to list its shares on Nasdaq. With the concurrent boom in tech stocks, the company's market cap quickly soared to \$17 billion. Today the company operates in 15 countries, offering software development and engineering through its 17 tech centers in Asia and North America; in 2004 it launched Infosys Consulting in North America in order to expand its U.S. business. Its "full line" of IT products includes data management, systems integration, project management, support, maintenance services, and business process outsourcing.

The company continues to grow at a phenomenal pace, with an ever-increasing emphasis on training and retaining a global workforce. Since 1999 it has been running a structured global internship program, called InStep, which helps build the brand worldwide and, at the same time, gives the company a leg up in global recruiting. For the 2006 year, InStep brought 125 interns from top academic institutions around the world to its Bangalore campus, where they were put to work on actual technical and business projects, ranging from application development to business consulting.¹²

At the same time, Infosys' international recruitment efforts continue in full swing. In 2005, for example, the company's efforts on U.S. and U.K. college campuses resulted in the sign-up of 126 American students and 25 more in Britain—kids who would train alongside Indian hires at the software engineering boot-camp at the Infosys facility in Mysore. To make the point that Infosys is "truly global," HR director Mohan Das Pai asks a series of rhetorical questions: "Do we get the bulk of our revenues from the international market; do we have a footprint in various countries across the world; does our board reflect a transnational character, and does the workforce also mirror this?" Pai doesn't mind that the rank and file remain, percentage-wise, largely Indian. After all, India is full of tech talent, "but," he says, "there are areas where we need to cherry-pick global talent"—which explains the fact that the company's international personnel represent no fewer than 59 nations.¹³

Infosys is not alone, by the way. Other Indian IT firms, notably TCS (Tata Consulting Services) and Wipro, are also speedily transforming themselves from successful export players into full-fledged GIEs.

Haier

The state-owned Qingdao Refrigerator Plant was so abysmally unproductive that when Zhang Ruimin took the reins in 1984 his first act as CEO was to smash 76 shoddily-made refrigerators with a hammer. While he was overhauling the company's procedures, practices, standards, and culture, he went ahead and gave it a new name, too: Haier. Twenty years later, the former "refrigerator plant" is China's biggest appliance maker, producing not only a full array of white goods but also consumer electronics like TVs, mobile phones, and computers. Haier is also now a world-recognized brand, with sales outlets in more than 160 countries.

Like Lenovo, Haier's strategy was to dominate domestically, then expand globally. As Jonathan Story reports, once the company moved to profitability in 1991,

Zhang began acquiring other failing but well-equipped state enterprises. "In nearly 20 takeovers, he used the same tactics: change corporate culture, . . . raise manufacturing products and processes to international standards, and cultivate alliances with foreign companies to license and develop state-of-the-art technologies."¹⁴ But acquisition was only part of the domestic game-plan. Global brands like GE, Electrolux, and Whirlpool were trying to gobble up market share in China, and Haier had to beat them with brains rather than brawn. It applied local knowledge and designed products specifically tailored to Chinese consumers. It redesigned its washing machines to adapt to the use to which rural customers were already putting them—i.e., washing vegetables like sweet potatoes. It designed another washer—tiny and economical—for customers who live in hot, humid cities like Shanghai and Shenzhen and like to change clothes frequently. Haier also captured domestic market share from the big players by creating a distribution and service network that covered not only the urban east coast but also the small-town and rural markets.¹⁵

Having cemented its position at home, Haier began to go global in the early 1990s. Its expansion illustrates some of the advantages we've been talking about. In the first place, rather than being confined to Western markets, its first ventures were into other emerging economies like Indonesia, the Philippines, Malaysia and Yugoslavia. Moreover, when it began its assault on the West—Germany first, then the United States—in the late 1990s, it had already evolved beyond the export model. Its U.S. strategy included setting up a design center in Boston, marketing operations in New York, and a manufacturing facility in South Carolina—while at the same time establishing partnerships with leading retailers like Best Buy, Home Depot, and Wal-Mart. Zhang, who still heads the

company, plans to continue the global expansion. He told the Wall Street Journal that the number of his overseas factories should grow from 13 to 20 by 2010, as he adds manufacturing capacity in the Middle East and South Asia. He also plans a second factory in South Carolina, but there the goal is not so much greater capacity; what Zhang wants in America, he says, is “higher-design level” and the opportunity to produce at the high end of the market.¹⁶

And talk about branding. Today not only can you find Haier refrigerators displayed right alongside Amana and Whirlpool on the aisles of the world’s major retailers, but thanks to a recent sponsorship deal, there’s now an Australian pro basketball team known as the Melbourne Haier Tigers. No wonder that as early as 1999 the Financial Times had already tapped Zhang for its list of the 30 most respected “global entrepreneurs.”

Huawei Technologies

Another Chinese company on the fast track to GIE status is Huawei Technologies, founded in 1988 and now China’s largest manufacturer of telecommunications equipment. Having grown by serving domestic customers like China Telecom and China Unicom, Huawei has been steadily expanding overseas operations since 1996. The company reached a milestone in 2005 when its international sales—\$4.8 billion worth—accounted for more than half of its total revenue (\$8.2 billion).

It reached a more significant milestone in 2006 when, after posting 50 percent quarter-over-quarter growth, it passed Lucent Technologies to become the world’s No. 3 supplier of the networking gear that providers use to deliver bundled services. In fact, some analysts see the fast rise of Huawei as the reason for the impending merger of Lucent and No. 2 Alcatel. (Cisco Systems, of course, remains the global leader.) According to a widely cited report released in July 2006 by telecom market research firm Heavy Reading, the current spate of mega-mergers among the world’s biggest telecom companies “is being triggered in large part by the emergence of China’s Huawei Technologies as a major force in the global telecom equipment industry.” Scott Clavenna, the report’s author, writes that “The most game-changing factor in the telecom supply market in the past five years has arguably been the expansion of Huawei outside of China.” The emerging giant from China, Clavenna continues, is forcing all the industry’s big players—Alcatel, Lucent, Ericsson, Nokia and Siemens—“to merge and realign to better compete.” Underscoring his point, Clavenna asserts that “Huawei can no longer be dismissed as a low-price, low-quality imitator in the telecom market.”¹⁷

What has been Huawei's strategy? First, it has developed a full product line, including core voice and data switching platforms, optical networking systems, wireless products, corporate networking equipment, and network management and messaging software. Second, it has moved up the technology chain by means of joint ventures with tech leaders like 3Com and Siemens, as well as manufacturers in Russia and Japan. Third, and perhaps most important, the company allocates a minimum of 10 percent of sales revenues to R&D and, in addition to those at home, it has established research facilities in India, Russia, Sweden, and the United States. In particular, the company has made Ethernet-standard products a research priority. As more and more carriers offer their subscribers the convenience of "triple-play" services—bundled voice, video, and broadband—this Ethernet bet is likely to produce jackpot-sized earnings for Huawei.¹⁸

* * *

With these stories in mind, as well as those of Lenovo and Mittal Steel, let's recapitulate the handful of strategic advantages the rising Chindian multinationals will exploit as they make their global presence felt.

Global Mindset

It's a critical advantage that these fast-growing companies already have a global mindset. Remember that the big companies in Japan and Korea were the so-called "national champions," blessed by government, but burdened with the national agenda to rebuild their post-war economies. In fact, the same phenomenon prevailed in post-war Europe too, where old family companies like Fiat, Olivetti, Philips, Krupp and Thyssen were encouraged by their respective governments to expand and diversify domestically as a way to revivify their moribund economies. In the United States a different scenario was playing out to similar effect. After the war, this nation had such a large and growing domestic market that American companies either didn't have the capacity, or see the need, to go worldwide. Somewhat surprisingly, that parochial attitude still prevails today, as the global share of revenues of major U.S. corporations remains relatively small. Jake Jacobson, at 3M, was among the first to recognize this potential Achilles heel, which is why he mandated that at least 30 percent of revenue had to be generated by international business. (It's

my belief that our telephone companies have still not gotten the message, and as the wireless industry goes global, I predict that no U.S. company will survive—just as we saw in the television industry.)

By contrast, the Chinese and Indian companies fully understand that domestic markets were for yesterday and global markets are for tomorrow. No government policy will be discouraging these companies from doing business worldwide. Even in China, where many businesses are still state-owned, global aspirations are endorsed and encouraged. The grand economic dreams of India and China will not be realized by producing technologically inferior products for domestic consumption. They will be realized by dominating their own markets, yes, but also by going head-to-head, and brand-to-brand, against the world's best and biggest.

Human Capital

America's great advantage lay in its seemingly inexhaustible natural resources. China and India possess inexhaustible human resources, and it's worth noting that this resource is renewable and endlessly versatile. Of course, the two nations have always had plenty of people, but the difference today is that their brightest minds now have plenty of reason to stay home. The scientific/engineering brain-drain from East to West is now being reversed, a trend likely to have significant consequences. A couple of decades ago, Chindian engineering students came to America to get their advanced degrees and, often, to pursue their careers. Now those high achievers are headed back home. Among them is Zhang Xiaolin, who, after 20 years in the United States, has returned to China to head up drug-maker AstraZeneca's Shanghai lab, where he expects "to do real innovative research." James Ward-Lilley, president of AstraZeneca China, says, "In 20 years, where do you see new ideas coming from? A significant chunk will be from China." Another example, among the myriad that might be cited, is John Deng, who got his Ph.D. from the University of California and worked for IBM before returning to China to launch Vimicro, a hugely successful designer of chips for PC cameras.¹⁹

Natural Resources

Both the Chindian nations are also blessed with vast stores of natural resources and, more importantly, the wherewithal to buy more—which they will certainly need. In fact, how the two nations position themselves

for access to global resources is such an important question that it's the subject of the following chapter.

Productivity Through Processes

Chindian corporations will enhance productivity not through people but through processes. Productivity-improvement has evolved through three stages: first, getting more work out of more people; second, getting more work out of fewer people through automation; and third (today's model), getting the most out of people and their machines through the best processes. The push to improve processes, associated with the concept of "total quality management" (TQM), is generally assumed to have come from Japan. Actually, the United States exported it to Japan, largely through the work of Edwards Deming, but Japan certainly embraced it, and the concept has achieved its apotheosis in Toyota's "lean operations"—which set the current standard in "best practices." As in so many areas, Chindian companies are benefiting from work already done by the rest of the world. As Zhang is doing at Haier, Chindian companies are putting world-class processes in place without having to work their way through the historic productivity cycle. This advantage will help them remain low-cost producers even as employee wages rise. The best processes guarantee quality and productivity through high efficiency rather than through increased costs.

Global Standards

At the same time, Indian and Chinese MNEs will not only embrace, but increasingly set global standards. Here their respective domestic markets will provide them a huge short-run advantage, because as standards rise to global benchmarks, lower prices will oust competition. In the long run, setting global standards will reverse the royalty flow from East to West and cement the newcomers' position as global players. Take the mobile phone industry. Qualcomm's CDMA standard has been dominant in China, the world's largest cellphone market. China has let it be known that for the time being it will buy the license and pay Qualcomm royalty, but that when the next-generation technology arrives, China will be earning, not paying, royalties. (Tenses needed to be consistent)

That day may have come. In August 2006 SK Telecom, South Korea's largest cellphone operator, announced that it was buying a 6.7 percent

stake in China Unicom as part of a deal to help the mainland develop its own standard for wireless networks. Up for grabs is the global standard for the third-generation technology known as TD-SCDMA, which promises faster downloads of movies and music onto users' cellphones. Of course, Nokia and Qualcomm are also at work on the technology, which will likely push aside the wideband-CDMA developed by Nokia as well as Qualcomm's CDMA2000. According to China Netcom Group, Beijing may issue its first license for the TD-SCDMA standard by mid-2007.²⁰

But that's not all. Yet another battle is brewing to see who will provide the next communications techno-miracle—television service over the cellphone. China has already announced (as of October 2006) that it will offer its own standard for “mobile TV.” Chinese regulators did not say that their domestic standard would be the only one allowed in China, but, as the *Wall Street Journal* reports, “the existence of a Chinese standard could ratchet up competition between companies in the scramble to develop a dominant global standard for mobile TV.” Nokia and Samsung, for example, are already heavily invested in the technology. The planned Chinese standard, with the working name GY/T220.1-2006, would fulfill China's vow by, in the *Journal's* words, “reducing the amount of money [local telecoms] have to pay in royalty and intellectual-property fees to foreign companies.”²¹

High-Priority R&D

Setting global standards requires deep commitment to research and development, and China and India are making that commitment. According to the Paris-based Organization for Economic Cooperation and Development, China is projected to spend just more than \$136 billion on R&D in 2006, moving it ahead of Japan's \$130 billion and into second place worldwide, behind only the United States. In reporting this news, the press noted that the Chinese companies and their government are spending heavily on trying to create new technologies and reducing reliance on foreign know-how, which Communist leaders see as a strategic weakness.

At virtually the same time, *Business Week* announced, “It's the year of innovation in China.” According to the article, President Hu Jintao and his government are exhorting China's companies to focus on the lab, not just the factory—and offering financial encouragement to make sure the message gets across. In the late '90s, China spent less than 1 percent of its gross domestic product on research and development. That figure is already up to 1.5 percent, but Hu aims to raise it to 2.5 percent by

2020—meaning outlays of \$115 billion a year. China’s patent applications are also surging—up to 130,000 in 2004 (the most recent year for which figures are available from the World Intellectual Property Organization). That pushes China to No. 5 globally, but perhaps more dramatically, the number of 2004 applications was six times higher than in 1995.²²

Because India’s economic reforms didn’t get underway until 1991, India has lagged behind China in emphasizing R&D. As late as 2000, Gurcharan Das was still lamenting that “It is true that when it comes to product development and innovation, Indian companies have clearly failed.” India’s attitude toward product development and competition, said Das, was epitomized in Nehru’s question: “Why do we need nineteen brands of toothpaste?”²³

But a look at India’s pharmaceutical industry (widely considered the nation’s next major growth sector, after IT) shows how quickly things are changing. As the industry evolves from reverse engineering and generics to new drug discovery and development, investment in R&D is skyrocketing. In 2005, India’s pharma companies plowed about 3 percent of revenues back into R&D, but that figure is expected to triple by 2010. The additional investment is projected to push growth in the sector, already a healthy 9 percent, up to 14 percent before the end of the decade. In the 2005-2006 fiscal year, the R&D expenditure of India’s 50 major pharma companies totaled \$500 million, up 26 percent from the year before.²⁴

Moreover, India’s own commitment to R&D will be strengthened as the nation becomes a major hub for R&D worldwide. As the *Economic Times* (India) reports, India’s “rich talent base” is attracting 25 percent of “fresh global R&D investment.” A few of the big multinationals shifting research work to India are SAP, whose SAP Labs India is its largest development facility outside Germany; GE, whose facility in Bangalore is its second-largest; and Philips, whose campus in India is its largest outside Eindhoven. Other global powerhouses lining up major R&D investments in India include Intel at \$1 billion, IBM at \$6 billion, Cisco at \$1.1 billion, and Microsoft at \$1.7 billion. Given that thousands of Indian scientists and engineers will be working in these foreign-owned labs, the spill-over into India’s domestic R&D will be incalculable.²⁵

Global Brands

Japan and Korea learned this lesson well: nothing is more important than a globally recognized, globally admired brand. Thus we have Toyota, Honda, Sony, Samsung, Hyundai, and many more. The only difference is

that China and India will create world-class brands much more quickly than their predecessors. American consumers already recognize Lenovo computers and Haier appliances, just as all global industrial companies now feel the heat generated by Mittal Steel's furnaces.

China and India are beginning to invest heavily in branding, whether it's business to business or in the consumer market. Tata Tea demonstrated the quick way: purchase an international brand (Tetley) and ride it to global renown. Another Indian company Amul, illustrates the incremental method. Starting as an agricultural cooperative producing dairy products, Amul has become the best-known dairy brand in India—and as much a household word among Indians abroad as Land o' Lakes or Kraft. Now the brand's global push is underway. From the “domestic-continental” market (Pakistan, Bangladesh, Sri Lanka), the company moved into China and Hong Kong in 2005. In 2006, it announced plans to expand into Japan, the Philippines, and Africa. From 2004 to 2005, export revenues rose 15 percent.²⁶

Economies of Scale

Here is another way in which India's and China's huge domestic markets confer a strategic advantage. Through a combination of scaling up the domestic markets and globalizing through acquisitions, Chindian companies have the potential to grow prodigiously. China Mobile, for example, with close to 150 million subscribers, has surpassed U.K. wireless giant Vodaphone to become the world's largest wireless carrier. Looking to expand through acquisition, it made its first move in June 2006 when it bought a 20 percent stake in Phoenix Satellite Television Holdings from STAR Group for \$165 million. More acquisitions are planned.

Mittal Steel, as we've noted, illustrates how Indian companies have historically tended to grow through acquisition first, then focus on the domestic market. Having become the No. 1 steelmaker worldwide, Mittal is now building India's largest steel plant (a 12-million-ton producer) in Orissa, due to come on line by 2010. On the other hand, Mukesh Ambani's plan to open 4,000 Reliance Fresh retail grocery stores across India within three years is evidence that the standard model—domestic first, then global—is now operative in India. In either case, the explosive growth of Chindian companies will demonstrate the full power of economies of scale.

Bankers in Their Pockets

The numbers say it all: Foreign direct investment in China during 2005 was a staggering \$72 billion dollars. In India, the 2005 figure stood at \$6.5 billion, much smaller than China's, but growing at a much faster rate. In fact, India's total for April-September 2006 was \$4.4 billion, a 100 percent jump from the same period a year earlier.

And no wonder. With their GDP growth rates at 8 and 9 percent, who wouldn't want to buy in? China and India are attracting the world's investment capital at an unprecedented rate; indeed, the resulting ripple effect may be their biggest advantage. With the FDI inflow comes human resources, in the form of talent and expertise. And the financial capital accumulating from FDI and foreign reserves gives the two nations leverage when bartering for the natural resources they will increasingly be consuming. So it's a double whammy: financial resources enhance that access to both human and natural resources.

* * *

To sum it up, our experience with Japan and Korea has certainly not prepared us for Chindia's rising tide. The new Chindian multinationals will not be export-driven niche players. They will be finance-driven, acquisition-minded, full-line generalists. They will be full-fledged members of the global economy—equal partners in the R&D that will drive innovation and create whole new industries, while also being strong competitors in the global consumer marketplace.

In either case, these "multinationals on the move" will provide a powerful new thrust to the world's economy, propelling it forward into the 21st century.

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