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Why Chattanooga Should Know More About 'Chindia'



The global economic landscape is changing. The surge in demand from Brazil, Russia, India and China (BRICs) is contributing to higher global commodity prices from oil to nickel, steel and aluminum. The U.S. trade deficit hits new records every month as American store shelves overflow with goods made in China. Routine customer service calls are fielded in India even as more American jobs move to lower wage countries around the world.

Economic transformations in China and India, two of the world's most populous countries, are shaping the 21st century global economy. China, the world's largest communist state, and India, the world's largest democracy, have been growing rapidly for the past two decades, becoming the second and fourth largest economies in the world. By 2030, the two giants are predicted to account for half of global output of goods and services.

We must see these trends as opportunities. Chattanooga needs to capitalize on its recent "Most Cost-Effective" status in Foreign Direct Investment magazine as more foreign companies seek to set up global bases. The changing global economic order will test America's economic resolve and resilience. It is imperative for companies today to think global to stay competitive.

The yin and yang of economic growth

Rapid growth in China has been fueled by foreign investment, exceeding \$1 billion a week in 2005, and labor-intensive small-scale rural industry exports. India's growth has been knowledge-intensive, tapping cheap brainpower that has fueled the software engineering and high-tech industries.

Since the late 1970s, China has opened up its markets to international trade, developed a thriving private sector in the big cities, and attracted huge amounts of foreign capital with its well-developed infrastructure and manufacturing tradition.

After experimenting with an ideology of self-reliance based on heavy industry and agriculture, Indian market liberalization reforms in the 1980s

have fostered genuine entrepreneurship, which, along with a modern stock market, and private banks and corporations, have made the country more capital-efficient than China. The high-tech service sector has contributed more than 50 percent of GDP in the 1990s, helping to lessen the country's economic dependence on the monsoon.

China's state-controlled economy makes it easier to mobilize labor, clear out land, build infrastructure and restrict wages. Today, China has a space-age skyline as per capita income has tripled from 1990 levels, and three million fewer people live in poverty than did in the 1980s.

Modern India is also marked by new office buildings, and research and development centers. The country's pool of 2.5 million English-speaking graduates, earning on average \$50 a week, make it the IT back office of the world. Indian stock prices have soared even as annual foreign portfolio flows into the capital markets have averaged \$1.5 billion in the last five years.

Limits to growth

At current growth rates, energy consumption is predicted to rise 150 percent in China and 100 percent in India in the next decade. While this is likely to drive commodity prices higher, it is also likely to heighten geopolitical tensions as countries aggressively court U.S. adversaries in Africa, Asia and Latin America to secure long-term oil supplies.

Foreign investments and trade surpluses in China could be masking some of the macroeconomic ills of a state-controlled economy. Almost 60 percent of Chinese exports come from foreign-owned factories belying a lack of entrepreneurship and innovation. By some estimates, counterfeit goods account for 40 percent of all products made in that country. Two-thirds of China's companies do not earn back their cost of capital. As much as 40 percent of bank loans in China are thought to be "non-performing." And a rapidly aging population is likely to result in more than 300 million people over the age of 60 by 2025, many of whom will have limited pension and healthcare coverage.

Socio-economic limitations are no less pronounced in India. Visitors are appalled by the squalor and pollution that greets them as they enter the country. The 5,000-year-old civilization has finally shed the sedate growth rate of the post-independence era. But critics point to inadequate transportation, telecommunications and utilities as impediments to growth in India. The relative dearth of foreign capital and the need for investment to fuel the growth momentum has driven up budget deficits to 10 percent of GDP.

Domestic politics is the biggest hurdle to infrastructure improvement in India where city slums constitute a powerful voter base, and coalition governments find reform consensus difficult to come by. Wal-Mart, for instance, is hampered in its efforts to enter the country due to laws that restrict foreign consumer retailers from owning more than 49 percent of the venture. Bureaucratic red tape causes Indian managers to spend more time dealing with government officials than their counterparts in most countries.

Opportunity or threat?

The pressure to provide jobs for millions entering the workforce means that both China and India must continue to grow rapidly. History has taught us that financial myopia, coups, political strife, and bad management have all crashed big economies in the past. Nonetheless, the distance between India's low-cost laboratories and China's low-cost factories shrinks by the month, even as the neologism "Chindia" comes to be widely used.

Some are apt to blame China and India for America's growing trade deficit and the loss of U.S. jobs. However, an estimated eight million U.S. jobs now depend on Chinese trade and ten of China's top 40 exporters are U.S. companies with local factories.

Moreover, globalization, as manifest in the irreversible outsourcing juggernaut, is likely to expand the demand for U.S. exports due to higher incomes in the offshore outsourcing destinations. Additionally, this will generate substantial savings for U.S. companies which are likely to be passed along to consumers through lower prices. Economic growth in the BRIC economies will stimulate jobs and opportunities for workforces everywhere.

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