China and India may gain in transnational R&D from this crisis

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WITH some delay, the internationalization of business R&D is following the globalization of retail trade.

Starting on a small scale during the 1970s and 1980s, the emergence of globally distributed R&D networks of multinational enterprises (MNEs) accelerated rapidly in the 1990s.

Until the end of the 1990s, the geography of busi- ness R&D was still largely in the form of planes of the triad of developed world regions: North America, Europe and Japan.

Then, around the turn of the century, two interrelated strategies led to the “iron cage of engagement” to the previously remote R&D and FDI shift to the two main emerging economies of China and India.

China, the birthplace of the industrial revolution in the West, is fast becoming a global lead market in a number of high and medium tech industries.

In 1999, China had established itself as a global lead market in the West, and the manufacturing centers of Texas Instruments’ early pioneering R&D investments in India in the early 1990s.

The subsequent upsurge in the number of MNE R&D centers in China and India calls to mind a take-off situation.

In a sudden shift to China and India, MNEs had only gradually grown from 50 in the early 1990s (representing 920 MNEs) by the end of 2008 and to 780 (670 MNEs) in India.

Causes of change

Why has there been such a sudden shift to China and India? There are a number of clearly discernible factors.

Toward the end of the 1990s, China had established itself as a global lead market and world manufacturing center for a number of high and medium tech industries.

While this implied a growing need for local asset exploiting R&D, greater competitive intensity also required new, increasingly new product development for the local market.

Compared to the primarily market-oriented new R&D investments in China, the bulk of R&D offshore is in strategic efforts for further incremental growth seeking, designed to take advantage of India’s large and growing low-cost intellectual infrastructure.

In India, especially US-based MNEs have profited even more than in China from the large diaspora of highly qualified non-resident Indians in leading positions, and from return migration.

While after 2000 China and India have become the most favored R&D destinations of MNEs outside of the US with high wage countries (Israel, which does however not offer a sizable market), they are in competition with other emerging markets like Russia, Eastern Europe and Brazil for R&D FDI and R&D outsourcing contracts.

Although their combination of comparatively advantageous like market size, the large low-cost talent pool, English communication skills (India), very large highly skilled diasporas and reasonably de- veloped R&D ecosystems is a difficult match for competing emerging markets, escalating wage cost and attrition of qualified R&D personnel reverts to the core imperative of retaining talent pools in both countries.

It remains to be seen how far the financial crisis will trigger changes in the ongo- ing R&D relocation plans of MNEs.

Strong companies that closely track their innovation drive, such as, for example, Bosch or Siemens in Germa- ny, or Cisco and Microsoft in the US, as well as companies in less affected countries, eg, pharmaceuticals, may seize the chance to further enhance R&D efficiency and profit from a relaxation in the talent markets in China and India.

They may also prepare for even stronger positions after the crisis when China and India may still be the fastest growing markets in the world economy.

ONE of the recent economic numbers in China are shockingly good, but in many cases they either have exceeded expectations, or are better than in the preceding months.

While January and February remained generally weak, March data showed signs of growth, fueling talk of “green shoots” and “V-shaped” recovery.

In the first quarter, China’s GDP expanded 6.1 percent year-on-year, according to the National Bureau of Statistics (NBS). That was 0.7 percent lower than the 6.8 percent growth in the fourth quarter, and 4.5 percent less than the first quarter of 2008.

But Chinese strategists expect the economy to strengthen in March. One of the key numbers is the 28.6 percent year-on-year rise in retail sales, to a record US$197 billion in March, up from 26.5 percent in January and February, and from 23 percent in the fourth quarter last year.

Bank lending is robust, following a government move in late 2008 to raise limits on lending. Bank lending reached US$277 billion in March, setting a single-month record, and US$673 billion in the first quarter of the year.

Exports fell 17.1 percent in March compared with the previous March, but even that figure was an improvement from the 21.6 percent fall in January and February combined.

Other indicators, including total resi- dential property sales and retail sales, are also showing signs of improvement.

“Retail sales have been holding up well in general,” writes Paul French, man- ager of Access Asia, a Shanghai-based market research company that special- izes in retail analysis.

According to Access Asia, several factors are supporting retail both the fact that very few Chinese consumers are burdened by debt, the limited number of white-collar layoffs in particular, which help stimulate in- come growth during the past decade.

China’s US$586 billion stimulus package, much of which is being poured into infrastructure, has drawn praise from both analysts and the business community.

With great cultural and social cohesion, the Chinese have worked together to improve the quality of life and welfare for all citizens in China.

What China has brought to the world is a new economic model that can produce toxic stress, local, national, and global leaders would be wise to commit to help the child adapt.

Addressing the circumstances that can produce toxic stress, local, national, and global leaders would be wise to commit to help the child adapt.

The negative consequences of pov- erty and other forms of adversity are not inevitable. The gap between what we know and what we do is growing and increasingly unconscionable.

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