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Message From the Editor

In September's **Spotlight** we continue with our series on the BRIC nations; Brazil, Russia, India and China. In the last issue we published two articles — one by John Murray on Brazil and the other on Russia with Julia Nikatina.

In this issue we will complete the series by presenting an article on China that was developed in cooperation with Brian Renwick, and also an article on India in concert with Dinesh Mirchandani and his team in Mumbai.

Both articles explore the stunning evolution of both countries and their economies into global powers. China, as we are all aware, is now positioned to become the largest economy in the world in the not-to-distant future, and India is close behind.

As a testament to the importance of these two economies, we have recently completed a comprehensive report on India and the rapid rise of executive managerial talent there. This report is titled ***The Boyden Report: India-The Sun***

Rises on the Indian Executive, and is the first in an ongoing series. Not coincidentally, the next Boyden Report is on China. The India report is due for release in early October.

So with this issue of Spotlight, and the soon to be released Boyden Reports, we will have quite a bit to say about these two regions in the coming months.

We hope you enjoy these interesting articles as much as we enjoyed working with both Brian and Dinesh in developing them.

The Great Wall Street of China

Imagine you're in China, on a dusty country road. Hundreds of workers on rusty bicycles pedal past you, towards the city. Their clothes are old and repeatedly mended, their peasant families left behind to work the land. The city, be it Beijing or Shanghai, greets them with a few shiny skyscrapers and some late model imported cars. It's hard to spot the cars through the throngs of bicycle riders eager to get to work.

What an archetypal Chinese image...one of many signature representations of China that belongs in the



history books, because it is virtually extinct. Today, the Chinese economy is booming, poised to become number one economy in the world by 2026.¹ Young executives are coming home to China with western training under their belts,

fiercely courted by thriving Chinese companies. Meanwhile, expatriates are returning to their home countries after being displaced by the Chinese who have learned from them. Leaders of companies enjoy newfound power as world





players, with foreign companies wooing them for mutual gain.

And hardly anyone's buying bicycles anymore.²

Fourth and Climbing

As of January 2007, the Chinese economy ranks fourth in the world³, growing every day. It started ascending toward these lofty heights in 1978, when the "reform and opening up policy" began, a gradual market-oriented reform. During this gradual reform of the late 1970s and early 1980s, dominant state-owned enterprises were not directly privatized; instead, the government chose to gradually introduce market forces into the economy by opening trade to the outside world. Farmers could sell their surplus crops on the open market, instituting the household responsibility system in agriculture. In addition, township village enterprises were established.

At the same time, the government gradually reduced restrictions on the development of market-oriented, non-state-owned enterprises, especially rural collective enterprises. The reforms of the late 1980s and early 1990s focused on creating a pricing system and decreasing the role of the state in resource allocations. The reforms of the late 1990s focused on closing unprofitable enterprises and dealing with insolvency in the banking system.^{4,5}

Now, the Chinese economy is booming. In 2006, it expanded by a stunning 10.7 percent, its fastest pace in more than a decade. That moves China into place behind the United States, Japan and Germany – steamrolling past Britain, France and Italy. The stronger-than-expected growth was largely propelled by soaring exports, stronger retail sales, a manufacturing boom and huge investments in new buildings, roads and cities.⁶ As for future growth, global investment bank Lehman Brothers forecasts 11.2 percent growth for 2007.⁷

To get a perspective on China's explosive growth, just look at Shanghai. Since 1990, the city has constructed enough skyscrapers to fill an area the size of Manhattan. Shanghai's new World Financial Centre will be one of the tallest buildings in the world, and easily the tallest building in China. And it's rising on what was

once muddy farmland...perhaps worked by the bicycle riders mentioned at the beginning of this paper.^{8, 9}

In addition, Chinese companies are buying up American and international companies, while the voracious Chinese appetite for knowledge fuels economic growth just as surely as dollars, euros and yuan. For example, tickets for a Stephen Hawking lecture sold out weeks before the event. "In China today, Bill Gates is Britney Spears. In America today, Britney Spears is Britney Spears – and that is our problem," says Mr. Friedman in *The World is Flat*.¹⁰

The World's Factory

While China was making the requisite internal changes to begin looking outward for growth opportunities, the world still regarded it as a huge nation made up of over a billion unskilled laborers, with Western executives heading up cheaply-built Chinese outposts of their



companies. China was the world's factory, the destination for Western raw materials to be turned into products by Chinese workers, and then sold by those Western companies for their profit.

With its success, China is now operating from a position of great strength. Interestingly, China – the most populous and economically strong country on the planet – has made deals with Africa, the poorest continent on the planet. Africa is rich in natural resources, and China is rich. In November of 2006 Chinese and African leaders wrapped up a summit with deals worth \$1.9 billion. The deals included commitments from China to bolster African infrastructure such as building expressways in Nigeria, laying a telephone network in rural Ghana, erecting an aluminum smelter in Egypt...while offering \$5 billion in loans and credit, and doubling aid to Africa by 2009.¹¹

What's in it for China? China, the world's second-largest energy user, is anxious to secure oil, gas and mineral resources.¹² In fact, China's trade with Africa has increased tenfold in the past decade to just shy of \$40 billion last year – faster than with any other region except the Middle East. For example, China buys timber from the Congo Republic, iron ore from South Africa and cobalt and copper from Zambia.¹³ These raw materials go back to China for production, and are then



sold by the estimated 80,000 Chinese expatriates who live in Africa and sell shoes, televisions and everything else produced by China.¹⁴ The world's factory, indeed.

Sustainable Development

As rapidly as the economy has grown, so have China's environmental problems. Its world-class economy booms along with world-class smog, acid rain, polluted rivers and lakes, and deforestation. All Chinese companies – not just industrial-based businesses – will have to comply with new rules and initiatives, because the Chinese government response has also been quick, as they have instituted internal initiatives while requesting help from abroad:

- China's environmental protection agency has developed a program known as GreenWatch, which is also supported by the World Bank's Development Research Group. GreenWatch seeks to improve envi-

ronmental quality through public disclosure of environmental information – rewarding good environmental performers and exposing polluters

- A push is on to shift to cleaner energy, with a plan to increase natural gas use from 3% today to 10% by 2020. The plan also calls for building 30 new nuclear reactors
- The first "Green China Day" was celebrated on April 1, 2007. Commemorative forests were planted as a symbol of a new initiative to help repopulate China's diversity of flora
- China's cabinet will launch the first-ever nationwide survey of all polluters, scheduled to begin in 2008
- Early in April 2007 China's environmental watchdog made its first public list of more than 6,000 industrial polluters, which analysts say will be under mounting pressure to clean up their acts

Beijing reached its target of 238 "blue sky" days for

2006 by December 24, and then added three more to the total before the New Year. The first 2007 "blue sky" day was January 6, one step toward the ambitious target of 245 "blue sky" days for 2007. The Beijing Municipal Bureau for Environmental Protection has encouraged drivers from 100 Beijing automobile associations to leave their cars at home at least one day a month in a hope to improve air quality as well as ease traffic jams and reduce noise in the Chinese capital.^{15,16,17,18,19,20,21}



Doing business in China: got *guanxi*?

The opportunities and challenges to businesses are clear. But Western arrogance and lack of experience can often be the downfall of companies looking for success in China. Like a "bull in a China shop," foreigners may find themselves alone, baffled and out of money.²² Guanxi (pronounced gwan-shee) is the key to doing business in

China. It means the cultivation of connections and relationships, creating an interdependency between the two parties that implies reciprocation of favors.²³ How does an outsider achieve the most valuable relationships? As suggested by the British Embassy in Beijing:

*The challenge of learning to speak Chinese fluently, the complexities of the Chinese way of doing business, and a strong sense of national pride mean that a foreigner will only extremely rarely be accepted by Chinese interlocutors on equal terms. The solution is to find a reliable Chinese ally to work with you.*²⁴

Whether setting up a business, or trying to find reliable and skilled employees for an already established enterprise, it is obviously imperative to have partners who know the lay of the land.

Local connections, worldwide reach

Developing human resources in China and staffing a local management team are also significant challenges. Someone from the region in which the company resides will know the local laws and policies, which change region to region; having local legal counsel is obviously critical. The ideal situation would be to have employees who know the local culture, but also have people who understand the culture of

the foreign company.²⁵

Boyden global executive search is uniquely positioned to provide the knowledge needed to find the success in China sought by so many. Created with a



decentralized structure, Boyden is owned by the leaders of each local office, ensuring we collaborate to provide services tailored to the unique needs of both local and global clients. Our partners are respected members of their communities, with an intimate understanding of the markets and companies they serve, along with a keen grasp of the intricacies of international business.

There are four Boyden offices in China: Hong Kong, Beijing, Guangzhou and Shanghai. There are 13 more offices throughout the Asia/Pacific region. The offices are owned and staffed not by executives sent from worldwide headquarters, but by local managers who have a stake in every project. That way, we are naturally attuned to the nuances of each local market because we are residents there. In the case of China, we speak the lan-

guage and specialize in the market of each individual region. Most important, we are steeped in Chinese cultural values, and are sensitive to their implications in business.

Forecasting the Future

In addition to its vigilance on environmental issues, a tremendous priority for the Chinese Communist Party (CCP) over the next two years will be to maintain political stability in order to ensure the success of the 17th Party Congress, due in October 2007, as well as the Beijing Olympic Games in August 2008. The government will continue its

efforts to balance the economy as it attempts to make the economy less dependent on exports and investment, while introducing measures to boost consumption.²⁶ Amid that climate, markets are subject to sudden changes in the government's economic growth policy. The resulting rapid social and economic change has introduced a new, wealthy middle class, widening the disparity between the "haves" and the "have nots." In addition, the overall diversity of the Chinese market from region to region is significant, making the identification of market sectors and subsequent

market research very challenging.²⁷ With change as the status quo, and so much at stake, a local resource is invaluable to help businesses stay up to speed.

Your guide to the gold rush

In this exciting yet challenging economic gold rush, Boyden can help you find your way. As your local contact, we can provide guidance through the vagaries of Chinese business culture. Together, we will cultivate guanxi, and use it to ensure your success in China, and throughout the world.



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India: The Center Of The Flat World

If Christopher Columbus (1451-1506) and Thomas L. Friedman (b. 1953) could get together, they might have a very spirited chat. Columbus is widely credited for proving that the world is not flat (actually, that proof came in 1522, when the sole surviving ship from Ferdinand Magellan's little fleet returned to Spain¹, but we shall stick with the popular version). Friedman has recently written a best-selling book called "The World is Flat."² Why would a Pulitzer Prize-winning writer make such a brash statement?

Friedman suggests that the "flattening of the world" is a process through which individuals, companies and even nations are empowered by globalization. Globalization, in turn, grows when technological advances and social protocols intersect, like in cell phones, the Internet, open source software, etc. A flat world gives rise to complex supply chains based on value-added services, when all industries consider the use of labor and services in emerging markets. One of those emerging markets, India, has strongly emerged and shown itself to be a stable and growing economic superpower. This paper will offer background on how India grew into this enviable position, and what global companies can do to tap

into India's tremendous intellectual and technological well, populated by one of the largest and best educated work forces in the world.

Remember Y2K?

The phenomenon of a flat world is astoundingly evident when examining today's India. It started with the "Y2K computer crisis," in which a huge number of older computers had to be reprogrammed to register 01/01/00 as the year 2000, not 1900. As Friedman puts it:

*"This computer remediation work was a huge, tedious job. Who in the world had enough software engineers to do it all? Answer: India... because it demonstrated to so many different businesses that the combination of the PC, the Internet, and fiber-optic cable had created the possibility of a whole new form of collaboration and horizontal value creation: outsourcing."*³

We will more closely examine outsourcing later on. For now though, Y2K was just a high point during what has been incredible growth in India. Over the past 15 years, India has been the second fastest-growing country in the world – after China – averaging above 6 percent growth per year. Growth accelerated to 7.5 percent in 2005,⁴ and the Indian Government Planning Commission estimated growth for the last

fiscal year (April 1, 2006 - March 31, 2007) to be 9.2%. Growth for the next fiscal year is projected to slow to a still-robust 8.5%, and will probably hold



at that same pace in 2006.⁵ A well-respected study by Goldman Sachs projects that over the next 50 years, India will be the fastest-growing of the world's major economies. The report calculates that in 10 years India's economy will be larger than Italy's and in 15 years will have overtaken Britain's.⁶ Predictions like these are a dangerous business, though it's worth noting that India's current growth rate is actually higher than the study assumed.⁷ And these impressive numbers were all prepared by Indian computer programmers planning for the Millennium.

Dot-Com Boom...

Dot-Com Bust

When the dot-com bubble started inflating, technology-savvy Indians were well-placed to get work from global companies. With their extremely high quality educations, good command of the English language and low income requirements,



not to mention a high volume of workers, they were scooped up by American companies to fill their ranks. As the dot-com bubble burst, these Indian engineers, had to take their American experience and go back to India.

But what about their companies? Those that survived watched their IT budgets get slashed, although naturally, productivity expectations stayed the same. Promod Haque, an Indian-American and one of the most prominent venture capitalists in Silicon Valley, described the situation. "Every IT manager was told to get the same amount of work or more done with less money. So guess what he does? He says, 'You remember Vijay from India who used to work here during the boom and then went back home? Let me call him over in Bangalore and see if he will do the work for us for less money than what we would pay an engineer here in the U.S.'"⁸ The Indians were educated, and ready to learn more. Plus, wages and rents in Bangalore (the "Silicon Valley of India") are less than one-fifth what they are in London or New York.⁹

From Y2K to CSM: Outsourcing

The Y2K work allowed Indian technology companies to interact with some very heavy hitters in the United States. As the relationships grew, the Indians went from specific custom code maintenance tasks to

handling more functions and indeed, entire departments. Ultimately, what began as a money-saving measure became an expansion strategy. Companies outsourced to acquire talent to help their businesses grow – and grow globally with employees all over the world.

For example, call centers are now a £3 billion (5.6 billion USD) industry, employing 700,000 workers whose starting salaries are almost



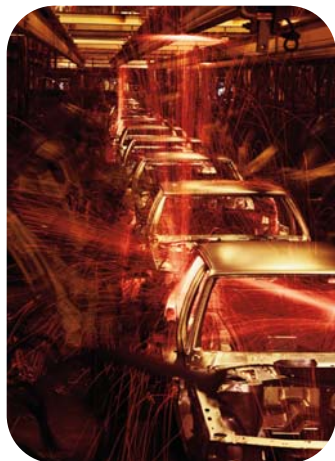
triple that of an average Indian graduate.¹⁰ In fact, the average annual income of India's entire work force is just \$737, versus \$42,027 in the United States. Even a college-educated Indian worker earns one fifth what his American counterpart does. And that well-educated and English speaking worker is willing to put in 12-hour days, six days a week. That's why U.S. companies are expected to employ more than 1.5 million service workers in India by 2008, a threefold increase from today (according to McKinsey & Co.).¹¹

"A moment comes, which comes but rarely in history, when we step out from the old to the new, when an age ends and when the soul of a nation, long suppressed, finds utterance."

This is the Moment

These eloquent words were spoken by the country's first prime minister, Jawaharlal Nehru, just after midnight on August 15, 1947, when independent India was born. Today, India celebrates the birth of a new independent Indian society: colorful, open, vibrant and ready for change.¹² Could Nehru have predicted that in 2007-2008 the market capitalization of the India stock market would be expected to cross the magic number of one trillion US dollars? In terms of market cap, worldwide rankings start with the US at number one, then Japan, China, and – India, Inc.¹³

Americans were at first scared of outsourcing, and reluctant to let jobs go. Now, enriching the huge Indian working class is creating a demand for all³ kinds of products and services – that can be provided by American companies. Retail sales are rising at 28% per year as malls proliferate: there were 3 malls in 2001, 100 in 2005, and a projected 345 by 2007. Services – including information technology, finance and R&D – employ 25% of Indian workers, but generate almost half of the GDP.¹⁴



In addition, many global companies are finding India to be attractive for investment and expansion.

- BMW invested \$23 million in a new assembly plant to build its 3-Series and 5-Series cars. The first 3 series rolled out in March 2007, with the 5 series following in May 2007¹⁵
- Cisco plans to invest \$1.1 billion in the next three years. The company's Bangalore office is already a major R&D hub
- Nokia is spending \$100 – \$150 million to expand production facilities in India¹⁶

Put Your Company on a Passage to India

The Indian boom presents tremendous opportunities to all kinds of companies, from small single-country organi-

zations to global entities. As of 2003, anywhere from one-half to two-thirds of all Fortune 500 companies have been outsourcing to India, and, according to Forrester Research, the amount of work done there for U.S. companies is expected to more than double.¹⁷

Boyden can help to sort out these opportunities and maximize a company's investment in its most important area: people. In 1946 Boyden pioneered the business of executive search, and is now among the leaders in that industry with over 65 offices in more than 40 countries. We are ideally positioned to help your company open an office, or even an entire facility in India. Staff an existing Indian office. Bring someone on board who can

lead your company into offshore expansion, or analyze and fill changing roles in your headquarters as non-strategic jobs go overseas. The world is benefiting from the work ethic, entrepreneurship, consumer culture and commitment to education that is the hallmark of the growing Indian workforce -- and so can your company.

"As soon as she landed in India, it seemed to her good, and when she saw the water flowing through the mosque tank, or the Ganges, or the moon caught in the shawl of night with all the other stars, it seemed a beautiful goal and an easy one."¹⁸

E.M. Forster,
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