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## A Healthy Fear of China

**India needs its powerful neighbor to be a challenger, not a partner**

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Consider it a sign of the times that Chinese Premier Wen Jiabao chose to begin his trip to India last Saturday with a visit to the high-tech haven of Bangalore before traveling to New Delhi to talk politics. High-tech and business, naturally enough, are at the top of the agenda for this encounter between leaders of the world's emerging economic superpowers. Indians hope their Prime Minister Manmohan Singh can agree with Wen on ways to boost trade between the two countries and can reduce competition with China over access to the energy resources both nations need to fuel their economic growth. But the best gift Wen can give India is not a new trade deal or cheery expressions of international brotherhood: it's a jolt of anxiety.

Even more than the rest of the world, Indians are already stressed out by the inexorable rise of China, its neighbor, longtime rival and—in 1962—military nemesis. As the Indian politician Jairam Ramesh notes in his new book *Making Sense of Chindia*, recent years have seen "the mushrooming of a minor industry built around a comparative evaluation of India and China." This exercise is bound to give the former an inferiority complex. India underperforms China on just about every economic indicator. Its economy is smaller, and its growth rates, while impressive, are lower than China's. When Finance Minister Palaniappan Chidambaram made his budget speech to India's Parliament in February, he noted that the mainland's Finance Minister, during a recent G-7 meeting, "looked in my direction and told the gathering that China had received \$500 billion worth of foreign investment since China opened its economy in 1980. Of this, nearly \$60 billion came in calendar year 2004." Understandably, Chidambaram preferred not to state the equivalent figures for India: the country took in less than \$5 billion in foreign direct investment in 2003.

In the eyes of Indian businessmen, the biggest difference between the two countries is China's modern infrastructure—basic commercial necessities

such as roads, airports and electricity powerplants. When an Indian tech executive returns from China, "he's so stunned by what he's seen that he usually can't talk for the first two weeks," says Rajesh Rao, the CEO of Dhruva Interactive, a Bangalore-based electronic-game development company. Businessmen like Rao worry that the Chinese are planning for the next 10 years in Shanghai, whereas Bangalore—whose roads are filled with potholes, and whose traffic is a mess—is barely planning for the here and now.

Shock leads to a sense of urgency. Last week, when India's powerful Planning Commission argued the case for opening up the retail sector to foreign investment, it pointed out that China had benefited from the same move. When government officials launched a controversial slum clearance drive earlier this year in Bombay, they said they wanted to make the city more like Shanghai. This combination of envy and fear seems most intense in the one place where it has the least reason to exist: Bangalore. India's software companies and call centers, after all, have a huge head start on China. Yet last week, Azim Premji, the chairman of Wipro, one of India's biggest tech companies, warned that the Chinese could start to close this gap in the outsourcing sector once they have mastered English.

India's reformers like to say that their country needs a good crisis every few years. It was only when India nearly ran out of foreign exchange reserves in 1991 that the government realized that it had to start overhauling the economy. Many in Bangalore now worry that there is a new economic crisis looming: China. This fear may well prove to be baseless and in time, China could become a vast new market for Indian software companies. For now, though, Indian businessmen like Premji and politicians like Chidambaram are tactically using the Chinese threat to turn up the heat on those who are blocking reform. In a country where politicians and bureaucrats still use shibboleths accumulated over a half-century of socialism to obstruct progress, the word China works like a charm. After all, which self-respecting Indian minister looks forward to being humiliated once more by his Chinese counterpart at the next international powwow? That's why Wen, perceived as the emissary of an ominous economic rival, does India so much more good than as the head of a chummy trading partner.