

Wallerstein and the future

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I

At one time all societies were mini-systems existing in isolation. Wallerstein defines world economies as entities with a single division of labour and multiple cultural systems. These come in two variants:

- One with a common political system (world empires)
- One without such a common system (world systems)

Till the advent of capitalism world economies were unstable. "Countries" more correctly regions were prone to takeover by a group leading to the establishment of world empires.

World empires killed economic dynamism. They were characterized by rulers who engaged in excessive consumption, imposed high taxes and had little interest in productive investment. Businesspeople (merchants and traders) were held in low esteem. True there was customary law with property rights but the possibility of abuse was always present. Of course the excesses of the rulers were subject to some check; the absence of good communication meant that local communities were often left in peace and taxes not collected.

By 1500 a new type of world economy emerged; a capitalist one. The state was not the central economic agent. That role was played by a new group the bourgeoisie, who unlike the medieval trader possessed political power and demanded from the state, policies which would further their self interest one of which was to assure favourable terms of trade.

Wallerstein speaks of core states and peripheral ones. In the early days of capitalism the core states were in Western Europe principally Britain and the Netherlands and peripheral in Eastern Europe notably Poland. Peripheral states need not have been colonies but often they were. When they were World Systems could be identical to World Empires but for the fact that in World systems the driving force was the individual capitalist and in world Empires the state.

If the years following 1500 saw the emergence of a new system the World System, it also saw the emergence of a new class of merchants and bourgeoisie. Presumably you could have capitalism within a country without much contact with the outside world...an autarkic capitalist society, but the way capitalism arose in Western Europe, it was tied up very much with overseas trade. In the US a hundred years later capitalism seems to have developed autonomously. America was till recent times a fairly autarkic.

So “class” is not absent in Wallerstein’s analysis. His contribution is to put class in the context of the world economy. There were both capitalists and proletariats in core societies and in peripheral societies but given the pattern of trade characterised as it was by unequal exchange the capitalists in the periphery were dependent and weak and the proletariats in the core were privileged.

Unequal exchange was buttressed by political power; either there was outright colonisation or neo-colonisation where the states in the periphery though nominally independent were subject to the dictates of the core states.

Whether the periphery was colonised or “neo-colonised” there was a set pattern to the form of capitalist development. A major form was the plantation, with some processing activity. There was little by way of factory mode manufacturing and when there were these served the local market. In general raw materials were exported and manufactured products imported. An important economic actor was the buyer of raw materials. Generally plantations were owned by capitalists from the core states and the buyers were also from the core states operating through local agents. Local capitalists were circumscribed and dependent. Even when they engaged in manufacturing the products were for the local market and of indifferent quality.

After WW II the process of decolonisation began which continued for 30 years (till the seventies). Different countries followed different policies. The buzzword was “Development”. This often took the form of state intervention and a policy of industrialisation through import substitution. Politically they claimed to be non-aligned. Other countries followed a different agenda: more market friendly policies and more open to international trade and investment. These states tended to be in the good books of the core nations and were not as vocally anti western.

To Wallerstein capitalist development implies some form of imperialism. In the early stages it was imperialism within Europe; this then extended to the rest of the world. The world wide division of labour that Wallerstein speaks of is not bereft of class analysis. Division of labour is not just people pursuing different occupations; it is also about the distinction between those who do the work and those who manage. Thus to the extent that the interests of managers and owners are intertwined class and division of labour go together. Wallerstein gives an analysis of class relations in an inter-country basis. His key contribution is to argue for and to demonstrate that capitalist development without global exploitation would be impossible. For the core to prosper there has to be a periphery to exploit.

To Wallerstein the period after WW II brought about mere cosmetic changes in the world order. The hegemony of the “north” continues over the south till this day. Writing in 1999 he says:

If we look at the last thirty years, what do we really see? First of all, a greatly increased polarization of the world-system. Never in modern history has the gap between what we call North and South been so great. The gap is economic, social, and demographic. The curve is straight upward. Secondly, we see a greatly increased polarization within the states of the North. Those who are doing well have never done so well, it is true. (However, as we noted, this varies amongst the triad according to decade.) But the zones of poverty are also escalating.

In a later article he continues with this theme and extends it. The gulf is not only large but getting larger. But this cannot go on any more. The capitalist world is running out of areas to exploit, the environment is getting worse, natural resources are depleted. Thus a collapse of the system is on the cards.

II

I am afraid I don't agree. The situation could not be more different. The gulf is actually narrowing, perhaps slowly but certainly surely. This does not call into question Wallerstein's entire thesis. He may well be right about the past. But his scenario of the future (and even the present) does not pass scrutiny. Imperialism (western) was associated with capitalism because of a particular set of circumstances. This no longer holds.

What is the picture today? Much depends upon how we measure GDP, market exchange rates, or purchasing power parity rates. Both have their merits and demerits. Sticking to PPP for the moment we see that China is coming close to challenging the US as the world's largest economy. Two tables, estimates for 2006 prepared by the CIA and actuals for 2005 are given below:

Rank	Country	GDP (purchasing power parity)	Date of Information
1	World	\$ 65,000,000,000,000	2006 est.
2	United States	\$ 12,980,000,000,000	2006 est.
3	European Union	\$ 12,820,000,000,000	2006 est.
4	China	\$ 10,000,000,000,000	2006 est.
5	Japan	\$ 4,220,000,000,000	2006 est.
6	India	\$ 4,042,000,000,000	2006 est.
7	Germany	\$ 2,585,000,000,000	2006 est.
8	United Kingdom	\$ 1,903,000,000,000	2006 est.
9	France	\$ 1,871,000,000,000	2006 est.
10	Italy	\$ 1,727,000,000,000	2006 est.
11	Russia	\$ 1,723,000,000,000	2006 est.
12	Brazil	\$ 1,616,000,000,000	2006 est.
13	Korea, South	\$ 1,180,000,000,000	2006 est.
14	Canada	\$ 1,165,000,000,000	2006 est.
15	Mexico	\$ 1,134,000,000,000	2006 est.
16	Spain	\$ 1,070,000,000,000	2006 est.
17	Indonesia	\$ 935,000,000,000	2006 est.
18	Taiwan	\$ 668,300,000,000	2006 est.
19	Australia	\$ 666,300,000,000	2006 est.

20	Turkey	\$ 627,200,000,000	2006 est.
21	Iran	\$ 610,400,000,000	2006 est.
22	Argentina	\$ 599,100,000,000	2006 est.

PPP GDP 2005

Ranking	Economy	(millions of international dollars)
1	United States	12,409,465
2	China	8,572,666 ^a
3	Japan	3,943,754
4	India	3,815,553 ^b
5	Germany	2,417,537
6	United Kingdom	1,926,809
7	France	1,829,559
8	Italy	1,667,753
9	Brazil	1,627,262
10	Russian Federation	1,559,934
11	Spain	1,133,539
12	Canada	1,061,236
13	Korea, Rep.	1,056,084
14	Mexico	1,052,443
15	Indonesia	847,415
16	Australia	643,066
17	Turkey	612,312
18	Argentina	558,755
19	South Africa	557,971 ^b
20	Thailand	549,265

Not only are some of these economies very large (note that China is nudging the US and the EU-27) they are also growing very fast. This has been noticed by several authorities notably consulting firms. Projections have been made for 2020 (CIA) 2025 (DB) 2030 (World Bank) and 2050 (Goldman Sachs and PWC). (I will not go into details here. Full references are given.)

If we look at the PWC-Goldman Sachs projection for 2050 we find that China will have a GDP which is 43% more than that of the US, and India will be equal to the US (in PPP terms)

Per capita income is another story of course. The very large economies of China and India are, even if we use PPP per capita income quite poor, and this is notably so for India. But there is no doubt that per capita income has been steadily increasing over the past few years and there has been a dramatic improvement in standards of living in China. To be sure the rise in per capita income has been accompanied by an increase in inequality but this is more because the recent prosperity has been restricted to some regions or groups, rather than an absolute decline in the standard of living of the disadvantaged. Indeed there are indications that the percentage of people below poverty line is decreasing in both countries and very sharply so in China.

I will mainly concentrate on India and China. Between them they have almost 40% of the world's population and I can claim to speak relatively authoritatively on various aspects of Indian society and economy. But India and China are not the only countries that support my case against Wallerstein. Brazil, Mexico and Indonesia are also

examples of countries showing significant economic growth with long term implications for the balance of world economic power.

III

This sharp rise in incomes and subsequent narrowing of the gap are due to many factors. Any simple minded explanation will not do. The Washington consensus is that economic liberalization and free trade has been the reason and that if more growth is desired more liberalization is the answer.

A closer look at the Indian data shows that the upward trend in growth goes back to at least ten years before the economic reforms of 1992. Till the early 1980s India was mired in a trap; low rate of savings and investment high population growth. For various reasons population growth rate started to decline from the eighties and the ratio of investment to GDP increased. (This was mainly if not entirely domestic investment; there was very little foreign investment then). If we make the usual assumptions about incremental capital-output ratios we see that a rise in investment shall result in a rise in the GDP growth rate. And given a slow decline in the population growth rate this has to result in a growth of per capita income.

Of course this begs the question of why the share of savings and investment increased. It would be trite to say that this was because of the thrifty nature of Indians. I would say that a number of reasons contributed to this; high interest rates, institutional mechanisms of channeling savings to investment, an investment programme and so on.

A basic feature of India (and China) was that till the late seventies, for a good 30 years after liberation, independence or whatever you will the state was the major economic actor. This had its plusses and minuses. Sure there was a great deal of X-inefficiency, (delays, waste etc) but institutions were built (economic, political, social educational and cultural). Many of these institutions if not all had their origin much further back; in some cases to the mid 19th Century. India has not had any abrupt break with the past. Society and institutions have evolved over 150 years. You may ask why 150 and not 3000. That is a big story.

The state nurtured capabilities. For instance, an elaborate programme of research in science and technology was put in place covering each and every branch from defence to agriculture. The actual numbers of people involved may have been minuscule in terms of India's population but it did lead the diffusion of a positive approach towards science and modernity. The relative isolation meant that a class of entrepreneurs arose who were highly dependent on the state but not on foreign capital.

The economic reform policies of 1992 and the subsequent opening up of the Indian economy was less a revolution than a correction. Policy changes came about slowly. The political system meant that every change however small and however sensible was hotly contested. Thus the reforms in India have been incremental. The government withdrew from some areas of economic activity, lifted some controls, particularly exchange control, but it still remains a player as an enabler and facilitator in areas such as physical and social infrastructure.

IV

I would like to build upon the notion of capability. It is closely linked to the idea of organizations. Standard economic theory, in particular standard neo-classical theory does not have a well developed theory of organizations. Whatever developments there are have come, as is to be expected, from the management literature.

An organization creates value; by coordinating the activities of a group of individuals more can be achieved than can be achieved by them acting separately.

Porter analyzed this phenomenon and postulated that a firm consisted of a series of value generating activities which he called the value chain. He identified two kinds of activities, primary (inbound logistics, operations, outbound logistics, marketing and service) and support (firm infrastructure, HR management, technology development and procurement). The goal of a firm's activities is to offer the customer a level of value that exceeds the cost of these activities. The firm's profit depends upon effective performance of these activities, so that the amount the customer is willing to pay exceeds the cost of the activities.

A firm can take either of two stances. It can pursue cost advantage: better understand costs and squeeze them out of value adding activities or it can pursue differentiation that is pursue some activities better than their competitors so that the customers are willing to pay more. Whichever stance it takes the intention is to do well and even better.

A firm may specialize in one or more activities and the extent to which a firm performs upstream and down stream activities is the degree of vertical integration. Value chain analysis helps to facilitate outsourcing decisions.

A firm's value chain is part of a larger system (value system) that includes the value chains of upstream suppliers and downstream distribution channels and customers. Linkages exist not only in a firm's value chain, but also between value chains. A firm's success in developing and sustaining competitive advantage depends not only upon its own value chain but also upon its ability to manage the value system of which it is a part.

An important offshoot of value system analysis is the concept of value addition. In a closed economy value addition takes place within the country. But in a globalised economy the value addition can take place in multiple locations. Economic prosperity of a country depends upon where this takes place and who appropriates it.

Neoclassical economic theory shows that vertical integration and outsourcing decisions depend upon transactions costs. The concept of value chain can illuminate the consequences of such decisions.

Consider the manufacture of cars. There are many kinds of economic activity in the making of cars. Consider GM and Chevrolet:

If a car is built in the US and sold there by a domestic company the entire value is generated and appropriated in the US. If built in India and sold in the US then some value is created in US (distribution channels) but a great deal of it is created in India. The profit will go to the GM in the United States. It could even be “made” in the US with components from India. I say made in quotes because the making could be just assembly of Indian made parts. The components can be made by Indian firms or in Chevrolet's own facilities. The profits will go to the owners of the manufacturing facility but value shall accrue to those who are associated with the manufacturing of components.

Moreover cars are not just about the making of components and sub-assemblies. They are also about design and R&D and about human resource management, accounts and administration generally. So far this has been done at or near the location of the manufacturing facility. Now quite a lot of it can be done just about anywhere

So we return to the question: where is the value addition take place? It is mainly where the economic activity takes place. Who appropriates it? Mainly by those who contribute critically to the activity. It can be the owners of capital but it can also be the suppliers of skills.

V

This helps us to understand micro processes. What about the macro picture; the economy of a country?

Both the savings-investment pattern and the location of value addition processes come in.

Not always will you have a country being equally good in all activities. It may be particularly good at some, moderately good at others. Classical theories of international trade proposed that comparative advantage rests on the factor endowments a country may be fortunate enough to inherit such as land and labour.

Porter argued that a country can create advanced factor endowments such as skilled labour, a technology and knowledge base, management skills and practices and business culture. Some of these are specific to some industries whereas others are general.

Therefore comparative advantage is not fixed. It can change over time and one can create a national comparative advantage in some fields. Just as a firm can have a competitive advantage over its rivals, a country can have a competitive advantage over other countries. In other words the industry of a country can have an edge over the same industry in other nations. By identifying and exploiting the competitive advantage a country can prosper.

Porter's suggests some important factors:

Factor endowments: A country creates its own important factors such as skilled resources and technological base. What matters is not so much the stock of factors but the extent that they are upgraded and deployed. Local disadvantages in factors of production *may* force innovation.

Complementary industries: When local supportive industries are competitive, firms will enjoy more cost effective and innovative inputs.

Local conditions (read cultures) affect a firm's structure and strategy. This helps to determine in which types of industries a country's firms will excel.

VI

I will now put before you the situation in two large countries China and India. Together they make up 38% of the world's population. Some of what I am to say about these countries also applies to some of their neighbouring countries such as Vietnam, Philippines and Thailand which have fairly large populations. So we could be talking of 50% of the world. But I will restrict my comments to China and India simply because I know them well.

Much has been written about the IT or information technology industry in India and a lot of hype has been generated. Still there is some element of truth.

Actually there are two different aspects of IT. One is software development and maintenance and the like. The other is what we call ITeS or IT enabled services. These are services which can be delivered from a remote location over the internet. Much of this is work related to manufacturing and finished services in the so-called developed world.

This work can be real time as with call centres and the like but it can also be off-line. Work can be of the very short time cycle without being real time such as legal work, financial services (equity research, for instance) and editing. But there can also be long time cycle work such as R&D. New possibilities are opening up all the time.

So we are moving to a situation where high level work, with high value addition is being done in China and India. Moreover this work is in cutting edge areas like biotechnology, pharmaceutical development and (to some degree) in nanotechnologies.

Some cultural traits are required. Obviously legal work cannot be done without knowledge of the workings of common law and scientific cannot be done without a scientific temper. Also language becomes very important in legal work it is less so in pure science.

In general we can say that China seems to be slightly ahead of India as far as R&D in the physical and biological sciences is concerned. India is ahead in social science related R&D and cultural products such as media and some types of design (fashion?).

But it is not just R&D. from what I understand China is advancing quite fast in high tech manufacturing. And we see a great potential in high tech agriculture.

But technology is just part of the story. A massive reorganisation of agricultural practices is required. This means professional management across the board especially in logistics and supply chain management and we can see that happening.

This will have to be followed by brand building with respect to manufactured products and services and you can see that Chinese brands are just making their appearance: Lenovo, Huawei Haier and China Mobile.

But I don't want to get into the micro; details of particular industries. It is enough to say that macro figures for China and India and not just these two countries, for S.E. Asia and major players in Latin America (Brazil and Mexico) shows a rise.

VII

The future architecture of the world will be very different from what it is today and very different from what Wallerstein predicts.

Give PWC figures again

Centre of gravity will shift away from the North Atlantic. We are obviously not talking of an absolute decline but a relative one. And I don't just mean economic activity; I also mean political clout which underwritten as it always has been by military power.

The world will have to confront a very big China. Will it be an economic superpower? Certainly so, in terms of GDP. Will it lag technologically? Yes to some extent, also per capita income will be lower than that of the US and many EU countries. But the fact that its GDP will exceed the US by nearly 50% has enormous strategic significance. It is increasing its military might and it has both the capability and the will to assert itself.

This does in no way imply any overt clash with the West and in particular the US. There will be a flexing of muscle but war NO. Neither China nor India nor Brazil has any intention of rocking the boat.

The present system serves us well and we want to get the most out of it. There will naturally be a lot of haggling over details in the WTO and other bodies but in the end we are confident that we will have our way. It will take some time that's all.

By the middle of the 21st century the world will be made up of 3-4 major players in terms of economic and political power. It will be very much more balanced and one

does not see any confrontation with the West in any cataclysmic sense; the anti-western feeling that you see is really in a few pockets of the world and there are specific reasons for this.

As far as we (India) are concerned I foresee a situation of actual warmth towards the United States. This is already borne out in current opinion polls and there is no reason for change. Why is this so? Well, we feel at ease dealing with the US, there are no areas of conflict of interests other than negotiable ones. We are fascinated with high technology and we have no objection to having a “minority stake” in America’s technological advance. I think this will be true of other countries as well but I cannot speak with the same confidence.

With the other big player, China, relations will be wary, civilized and correct. Not warm. We see China as trying to contain and encircle us (concircle) and this makes us uncomfortable. On our part we will play the game too (with Vietnam, Korea and Japan) but will never allow things to get out of hand. A booming China means business for us. And in Asia we are perhaps unique in having no bad memories of Japan so that gives us a leverage vis-à-vis China.

So there will be a world with 3-4 nodes: the US, EU, China, India and Brazil and maybe a resurgent Russia. No “clash of civilisations” from these players; on the contrary a firm desire to maintain the world order. And no one will be anyone’s poodle. Japan and Korea given their small populations will get somewhat marginalised.

Of course there will be parts of the world which will feel left out, so you can expect some trouble but it can be contained (hopefully).

How can I say all this? As far as India is concerned we can see its future direction in its present. Countries or cultures have characteristics, personalities, shaped by past experience. So what are we? I will not talk of spirituality and the mysterious east.

Main characteristics are:

- Non-ideological: leading to a non revolutionary evolutionary view
- Argumentative: more correctly verbose but it does mean that issues get discussed
- Accommodating (finally): with respect to minorities whichever way you define them; there can be and there are horrible acts of violence but there is no doubt that a social churning is taking place
- Slow to change, cautious but steps once taken are irreversible
- No problem as such with modernity
- Basic institutions of governance are in place (judiciary, legislative, executive and fourth estate)

Given all this when I talk of the future I can say with some confidence that there will be no basic discontinuity. Life in 2050 will be an extension of today.

With respect to geopolitics we will follow our own inclinations; we will not go along the US on everything but there will certainly be no confrontation, far from it. Relations with EU will be OK and within the EU we will be closest to Britain. We will not rake up the past if you do not hark back to it. Actually the colonial legacy is a complex one and there is beginning of a very interesting debate on this but I will not discuss it here. On a lighter vein our tourism people seem to be quite keen on promoting *raj* as nostalgia.

The future is based on past experience.

VIII

I have two issues with Wallerstein. The first is with what he calls de-commodity-fication. He gives the example of universities and hospitals which is strange given that these are the very targets of privatisation and capitalist delivery. But how does de-commodity-fication work with objects of everyday need?

It may be OK for the jungle with primitive technology and use of barter and not cash. But in the modern world these products are not mass produced but crafted. This will only work in niche areas where super rich acquire stuff which is so classy that it does not even need to be branded; truly exclusive stuff, private hand crafted one of a kind products. But even here can one be sure that the de-commodified final product does not that commodity like components?

After all in order to exist we need mass produced products; we can do away with cars but what about buses? How are they to be produced? And even if we go back buses built in a garage would you be happy to get into a wide bodied jet aircraft built this way?

Very well capitalism may not be the only way. We should distinguish between organised activity and capitalism. Some enterprises can be privately owned some state owned some co-operatively owned but in the end the enterprise has to deliver. We have to judge them on their merit.

My next issue is with his apocalyptic view of the future. Is it growing out of his analysis? Are his theories wrong because his predictions certainly are, or at least I think so, or is it some bias or prejudice on his part that blinkers his vision? Perhaps it is both.

In the 17th cent capitalism may not have developed without unequal exchange. Something new was coming about. But we have seen that the US in 19th cent developed without unequal exchange in international trade although there was exploitation (slavery, immigrant workers etc). Also as late as the 20th century the West was technologically advanced and had an advantage. Their protagonists were not just weak but had not a clue. This allowed exploitation to go unchecked.

But the 21st century is very different. Now knowledge is diffused and it is no one's monopoly.

In the past “the other” to use a term I am not happy with was not in a position to fight back simply because he was not in the same wavelength. No longer so now, “the other” is as clued up. International institutions like the WTO etc are no longer simple instruments of domination. Even if that is the intention of some in the “developed world” they can be thwarted. These institutions can be turned to our advantage. We will not cop out but join in the game and win!

May be long after Wallerstein and demise of capitalism in the West it will thrive in other parts of the world. We will move the World Economic Forum from Davos to Simla!

Finally Wallerstein, why does he think like this? Now this is contentious and I would not like to offend anyone and certainly not Wallerstein but if you ask me it stems from a certain Euro-centrism and along with it a feeling that the world cannot possibly be any different. There is a feeling of guilt and of superiority.

The guilt comes from the theme that “we have exploited third world, done them incalculable harm etc. aren’t we bad” The superiority also comes from this “see we are on top and there is no way that we can be dethroned”. Not so. The world will take the form I have outlined; maybe not in 2050 but in 2060 or 2070. It hardly matters.

The West won the first round in the 18th-19th century. There were good reasons for this. But there will be many more rounds, you can be sure of that. And we too could pass away.

The story has no end. All I can say with some confidence and conviction is that the future will belong to those individuals, communities and nations (assuming that the nation state continues) who are prepared to use their intellect and apply reason. For is it not this that distinguishes us from other creatures?

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