

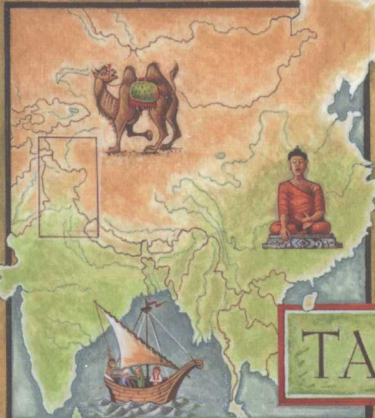


# BILLIONS

## entrepreneurs

How China and India Are Reshaping Their Futures, and Yours

With  
A New  
Preface



TARUN KHANNA

# BILLIONS OF ENTREPRENEURS

HOW CHINA AND INDIA  
ARE RESHAPING THEIR  
FUTURES—AND YOURS

TARUN KHANNA

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## PREFACE

The barrage of news of China and India is, by now, commonplace in all forms of media, and even in popular discourse. My metric for the latter is the frequent conversations I have in car services to and from various airports all over the world. Chauffeurs in Brazil, Canada, the United Kingdom—and, indeed, China and India—have, in just the past few months of my travels, had strong views about the happenings in these two large nations. If I revert to the more systematic benchmark used in this book's introduction earlier—the fraction of major articles on the front page of the *New York Times*, to use one bellwether publication—that metric is higher than it has ever been in the past quarter century; indeed, by a rough and ready analysis it is higher than it has ever been in the past century (other than the brief years corresponding to the birth of modern Chinese and Indian nation states).

So it is useful to take stock of the thesis I laid out in *Billions of Entrepreneurs*, first published in 2008, and the antecedent argument in a coauthored article in *Foreign Policy* magazine in 2003. The thesis, to my mind, remains rock-solid. It was, simply, that the strength of China was a strong, indeed entrepreneurial, government; and the strength of India was an increasingly and justifiably confident private sector.

Each country had corresponding Achilles' heels, though. The Chinese indigenous private sector remained emasculated; despite some successes, these were too few successful enterprises for an economy of China's size, and the line between public and private was increasingly blurred. Meanwhile, the Indian state struggled to get its house in order, even though it now recognized the need for change. Indians will recall the cartoonist R. K. Laxman's creation, *The Common Man*, a silent and ubiquitous testimonial to the absurdity of everyday life in India, often featuring the antics of the country's political classes. Laxman serves, to my mind, a purpose as cathartic as that of the American cartoonist Scott Adams, creator of the *Dilbert* comic strip that parodies the futility of corporate life.

The muscle of China's government is most evident in the overflowing coffers of its sovereign wealth funds, for example those of the China Investment Corporation (CIC), whose lucre is being dispensed liberally around the world as China buys access to scarce raw materials, among other things, with nary a concern for price. As of 2010, tens of billions of dollars had been invested just in the United States, not to mention in Chinese holdings of U.S. treasury bills.

The sinews of India's private sector can be seen dramatically in the grass-roots entrepreneurial efforts that have landed numerous entities on the *Forbes* Global 2000 list. In 2003, there were twenty firms on this list; today there are thirty. These have been created without conventional state-led activism—indeed, often in the face of a state characterized if not by intransigence, then at least by benign neglect.

Also in a category similar to the private sector—to the extent it remains driven by private, nonstate initiative—is the strength of civil society. Here India leads China handily. While Western nongovernment organizations continue to be active in China, they must tread warily for fear of antagonizing the state and having their activities constrained. And the oxymoron popular in China, GONGO (government-owned nongovernment organization), says it all. You can only be an NGO if you are not one! Indian civil society, with its rambunctious chaos, could not be more different than that of China.

Of course, there have been changes in both countries in the past few years. For example, in the wake of a dramatic financial slowdown in the developed world, the confidence of the Chinese has risen, and they have been less solicitous of Western investment than before. This has not gone down too well with the captains of Western industry, who claim that life is not as easy as it used to be for foreign investors in China. Notwithstanding this, perhaps some good will result if China genuinely supports indigenous private enterprise (as opposed to foreign private enterprise). Meanwhile, the appointment of a leading Indian entrepreneur to a cabinet-level position in the highest echelons of India's government has given India-watchers hope that change in the sclerotic state is nigh. But these changes are noteworthy because they are somewhat exceptional, not because they are yet the norm.

In the first edition of *Billions of Entrepreneurs*, I commented on the potential for symbiosis between China and India. There are plenty of skeptics of this view, and they are usually focused on trade statistics. As it turns out, bilateral trade has skyrocketed. China's exports to India in 2009 were \$30 billion, and India's to China were just over half that, making each country a significant partner for the other. This, however, overstates the symbiosis, since India mostly exports raw materials, and is not nearly as important to China as vice versa. So indeed it is a work-in-progress, particularly given continued

border tensions. But I aver that it is a mistake to read progress toward this view, or lack thereof, in annual changes in trade statistics. Rather, so-called game-changing events are likelier to herald substantive shifts. Consider the recent attempt to revitalize Nalanda University, center of Buddhist learning in the fourth to seventh centuries, by a global group of mentors, chaired by Professor Amartya Sen. It is worth restating the obvious, that the symbiosis that I spoke of then has been in evidence for most of the past two thousand years.

Since the writing of *Billions of Entrepreneurs*, so-called South-South trade has multiplied as well. I spent a week in Brazil last month, which included launching the Portuguese edition of this book, and encountered growing interest in China (as Brazil is a source of much raw material for China—iron ore, soybeans, and the like) and in India (these two countries face a number of common challenges having to do with health, education, and urbanization, among others). And this is just an example of the South-South interaction playing out daily.

As I remind my students, it is now almost commonplace to imagine that one could build a billion-dollar corporation from scratch without having to visit the erstwhile temples of high finance—New York or London—whereas, in my student days at Harvard, one could not make this claim. Entrepreneurship has truly gone global, and China and India are leading this charge, each in their own way, each with verve and enthusiasm, in a process that by and large ought to be celebrated.

—Tarun Khanna  
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## Reimagining China *and* India

The educations of most Americans, even graduates of prestigious Ivy League schools, barely acknowledge China and India. In his 2001 commencement speech, Yale University's president, Richard C. Levin, lamented, "The Mayor of Shanghai asked me why . . . every schoolchild in China can identify the author and date of our Declaration of Independence and so few of ours can identify when the Qing Dynasty fell, when the Long March occurred, and when the Communists took power."<sup>1</sup>

How could the 2001 graduating class of this prestigious Ivy League school not know more about China? After all, the Yale-China connection has proved resilient over several decades. Yung Wing, a member of the Class of 1854 at Yale College and the first Chinese to receive an American degree, returned home and established educational missions that sent 100 Chinese boys to preparatory schools and colleges throughout New England. These missions were built on the foundation of a fortune made in India. Elihu Yale, one of Yale's earliest benefactors, was for some twenty years a member of the British East India Company and had served as the second governor of a settlement in Madras (present-day Chennai in southern India) in 1687. In 1718, Cotton Mather, who represented a small institution of learning, the Collegiate School of Connecticut, approached Yale. Mather needed money for a new building in New Haven. Yale obliged by sending him a carton of goods that the school subsequently sold for 560 pounds sterling, a huge sum in those days, and named the new building after its benefactor.<sup>2</sup> Thus, Yankee-India trade facilitated Yale, and Yale facilitated US-China bonhomie. So why did Yale's students seemingly pay so little attention to China and India?

Years ago in Bangalore, when it was better known as a summer residence for the British in colonial India than as the outsourcing capital of the world, my father and mother regularly invoked the names of “Yale,” “Princeton,” and “Harvard.” The American comic book heroes Superman and Batman ruled my childhood imagination. As a teenager, I learned that Wall Street opened doors with money, Hollywood captured dreams on celluloid, and the Americanism, “upward mobility,” had nothing to do with pulley systems. I applied to the American Ivy Leagues as a backup to the hyper-competitive Indian Institutes of Technology (IIT). So, even though I passed the difficult entrance exam to the IIT and was accepted to IIT Madras, I chose Princeton University because it could fulfill my wanderlust.

When I arrived in Princeton in September 1984, I was a curiosity; very few undergraduate students came from India back then, and none of my first-year roommates—talented, ambitious individuals who went on to achieve considerable success—could locate my home country on a world map. One thought it was “right by Arabia,” a remark that made me retire to my bunk bed in tears.

Now, having lived more than half my life in the United States and presently raising my two children as Indian Americans in a western suburb of Boston, I remain puzzled by Americans’ geographical naiveté. My colleagues and friends, who constitute a rather well-traveled and well-informed group of people, still know very little about India. How can this particular demographic maintain a worldview that excludes 2.4 billion of the Earth’s population?

Today’s economic projections suggest that in less than a generation China and India will become the largest and third largest world economies, respectively, in terms of purchasing power parity, and together they will account for nearly 40 percent of world trade, a position they occupied a century ago and more than their collective 15 percent today. Demographic projections based on current populations—1.3 billion in China and 1.1 billion in India—suggest that within that same period the weight of the world economy will shift from today’s developed nations onto the two emerging countries. Billions of entrepreneurs will ultimately power this transition, and not just Chinese and Indian entrepreneurs who take companies public, but also politicians who lead anew and idealists who force us to imagine better futures. The world’s future is irrefutably tied to that of China and India. Yet the United States is woefully uninformed about the past and present of both countries.

For these reasons, I was privately relieved to hear President Levin admonish the 2001 graduating class about its self-centeredness. His remarks struck me as emblematic of an awakening in American education to the significance of the East, which in turn reflects an awakening in American society.

The annual May Day event in 2005 at the Shady Hill School in Cambridge featured both the performance of an elaborate Chinese lion dance (*wushi* in Chinese) by the fifth grade and a concert, given by about fifty faculty and staff, of a vibrant North Indian dance, sung to *bhangra* rock by a Sikh singer Daler Mehndi. The singer now has global appeal, and his albums are available in record stores in nearby Harvard Square. What's more, the entire fifth-grade curriculum at the progressive then ninety-year-old private school is now centered on China. For the coming years, at least, the school's immersion method of teaching will allow impressionable ten-year-old minds to absorb information about the Opium Wars, the Silk Road, and calligraphic art as they learn math, literature, science, and geography.

This cultural awareness extends to the public school system. Students at nearby Martin Luther King Jr. elementary school study Mandarin for thirty minutes daily beginning in kindergarten and continuing through eighth grade and write to pen pals in China every year beginning in fourth grade. The school is one of hundreds in the United States named for the 1960s civil rights hero Martin Luther King Jr., a visionary African American who schooled himself in the non-violence theories Mahatma Gandhi developed in India. Teachers are also educating themselves about China. For example, Deborah Linder, a tenth-grade history teacher at Newton South High School in Newton, Massachusetts, spent her February vacation in 2004 on a two-week trip through southern China, a trip organized specifically for teachers by a non-profit organization called Primary Source, with the aid of Harvard's Asia center.

My student Andy Klump's transition from complete unawareness of Asia to immersion in China amidst skepticism from his peers, limited support from Harvard Business School for his China aspirations, and nothing in his working-class upbringing to predispose him to his odyssey, is another hopeful harbinger to this awakening to the riches of the East. In fact, his experience likens that of the early American ships that headed to Canton, China, in the 1770s. The destination was seen as uncertain, a journey reserved for the adventurous, especially at a time when American traders had to compete against the more established British.

Klump's fascination with China was triggered by summer travel through Asia. It was enough to cause him to eschew lucrative high-tech job offers, and instead systematically search for an elusive sales position on the mainland. After daily Mandarin classes and months of late-night phone calls to China, Klump was fortunate to find a summer internship at Intel's software lab in Shanghai. That summer, as he sought to help disseminate Intel's technology in the region, Klump's daily routine consisted of an hour-long bus commute (costing 30 cents) during which he spoke to anyone with whom he could strike up a conversation to supplement his biweekly Mandarin lessons.

A fellow traveler once said, “You’re famous because you are the only *laowai* [slang for foreigner] who has ever come here and said *ni hao* [hello] to everyone.”

Work in the lab was rigorous, requiring continual interface with the government. The Shanghai government was not the slow bureaucracy he associated with federal jobs. In China, the government demanded performance and held to aggressive timelines. His boss said, “The head members of the local branch of the Communist Party set the deadline and they are reviewing the finished product. You won’t feel so good saying no to a Communist Party member.”

Back in Boston, Klump creatively pitched himself to Dell for work in China, at a time when Dell’s 5 percent market share in the personal computer market was dwarfed by the local giant’s, Legend, later renamed Lenovo. Klump was hired as the first foreigner working directly in sales in all of greater China, with the same quota as his Chinese colleagues.

His classmates’ reactions? “You have got to be joking! You are graduating from Harvard Business School and accepting a job that pays less than my 24-year-old sister earns. No one in their right mind would make such a decision.” Even more appalling to his classmates, Klump, who spoke Chinese with the fluency of an eight-year-old, had spoken to his direct manager in China for a total of twenty minutes, was the only *laowai* in the one hundred-person Beijing office and the three hundred-person China sales force, and had signed on in the midst of the SARS debacle when it was unclear whether an epidemic would unfold on the mainland or not.<sup>3</sup>

In China Klump soon learned that his manager’s version of leadership was to emphasize the importance of hitting his quarterly quota of half a million dollars in sales—to be done in only ten weeks because the holidays cut short that particular quarter—and to convince him that “there is no such thing as strategy. You need to erase that word from your brain. Strategy only exists for the folks who run this company. You are here to execute. Now pick up the phone and execute.” Klump’s first execution in rudimentary Mandarin resulted in the phone being slammed down on him, and in his mentor’s tough-love assurance that failure to reach \$50,000 in sales by weekend would diminish his career prospects.

After hitting just 21 percent of his first quarterly quota, Klump comfortably exceeded his next quarterly quotas. Who would have predicted this? Klump strode up the ranks of the all-Chinese sales force. He had a four-million-dollar quota for all of China with eight salespeople reporting to him, and learned the art of persuading them to do his bidding. A number of his clients offered him lucrative positions. After three years Klump had taught himself to communicate with customers, to work with and motivate

mainstream Chinese employees even as a *laowai*, and to appreciate the role of government as a customer, regulator, and even as entrepreneur.

Klump, Deborah, the Shady Hill School, and the Martin Luther King Jr. School are at the forefront of those who are preparing for a new global reality. Overall, however, the West's understanding about the East remains pretty dismal.

A powerful sign that Americans tenaciously hold onto a worldview that excludes a large portion of the Earth's population is the media's minimal coverage of China and India. For most of the past 150 years, less than 2 percent of the major stories in any given year in the *New York Times* have been on China or India.<sup>4</sup> Interest today, by this measure, has risen to 4 percent, nearly as high as it has ever been in the past century. What coverage there is today is largely culinary (lo mein, chicken curry), literary (Jhumpa Lahiri, Yu Hua), cinematic (Bruce Lee, Jackie Chan, Bollywood), or tourist oriented (Great Wall, Taj Mahal). Alarmism is also popular; for example, certain television pundits regularly blame American unemployment on outsourcing to China and India, even though objective data suggest that the effect of outsourcing on Western workers is insignificant.<sup>5</sup> Such cultural stereotyping and scaremongering reveal the West's minimal understanding of the East.

Consider Harold Isaacs's 1956 book, *Scratches on Our Minds: American Views on China and India*.<sup>6</sup> A journalist for *Newsweek* magazine, Isaacs covered the Chinese revolution and World War II-related events in the China-Burma-India theater. To illuminate the "Vagueness about Asia," which he deemed the "natural condition even of the educated American," Isaacs asked 181 Americans—leading academics, businessmen, diplomats, journalists, and missionaries—open-ended questions about their impressions of China and India. Two-thirds of respondents had positive images of the Chinese, describing them as intelligent, attractive, and decent. These impressions were largely based on popular novels like Pearl S. Buck's *The Good Earth* that portrayed Chinese characters favorably. American views of India were influenced by Rudyard Kipling's poem *Gunga Din*, whose main character, the water bearer whom Kipling portrays as admirable but native and therefore a lower form of life, was the Indian best known to Americans after Mohandas Gandhi. Feeding this negative imagery was Katherine Mayo's best-selling and scathing critique of Hinduism, *Mother India*, which ensured that antipathy toward Indians was at a level deeper than that prompted by policy differences. In 1982 the prominent American scholar John King Fairbank characterized Indians as "timorous cowering creatures, too delicate to fight like the Chinese . . . and they never smile at anyone," whereas the Chinese "are vigorous and smiling, the greatest contrast to the lassitude and repression of the Indians."<sup>7</sup>

Americans' ideas about India are even more striking given that the United States had long-standing commercial and cultural links with India. By some estimates, between 1795 and 1805 the United States traded more with India than with all continental European nations put together. Despite these links, Americans interpreted the art and curios they bought from India as the work of heathens, so that India was ensconced in the American mind as the once-great civilization in terminal decline.

I chose to write a comparative book because I believe that we can better understand China's choices when juxtaposed against India's, and vice versa. There are historical similarities—they each underwent their first significant unifications in approximately 200 B.C.E., under the Mauryas in India and the Han dynasty in China. The British humiliated India for two centuries, and China endured its own century of humiliation. Both countries were scarred deeply. Both countries underwent radical political shifts at roughly the same time: China became a modern state in 1949, when Mao Zedong took power. This was just two years after Jawaharlal Nehru assumed leadership of independent India in 1947. Mao and Nehru were the architects of visionary plans for their respective new countries; two enormously influential leaders whose very different choices had very different consequences, despite many similarities in size, proximity, and antiquity. These surface similarities, yet starkly different paths, make the past five decades represent a kind of petri dish for social scientists, where we can learn something profound about how societies develop.

Mine is an attempt to illuminate contemporary vagueness about what's happening in China and India. I argue that despite the flux and largely positive economic changes in each of the two countries in the last decades, the "iron frames" that gird these changes are radically different. China features a top-down model of development, with an omniscient Communist Party articulating a central direction and circumscribing all but marginal dissent. Local Party officials have increasing economic autonomy, which they have used to amazing effect, but only within a context of more severely constrained political centralization. The Party political line simply must be toed. India exhibits greater heterogeneity and pluralism, manifesting itself to the outsider as chaos, but also enabling productive ferment on the ground. An inefficient market, but a market nonetheless, results from competition at multiple levels in providing services, competing for talent, political horse-trading, as the media jostles for attention in undisciplined fashion. While China courts foreign capital and has only recently and reluctantly acknowledged the private sector, its internal opacity and lack of private property rights emasculate its internal markets in comparison to the parts of India where competition is allowed to run amuck. On the other

hand, its unconstrained fiat allows it to override coalitions that might block material progress in a way that India just cannot. The pros and cons of the two countries' approaches differ.

In this book, I uncover China and India—Hangzhou and Hyderabad, Qingdao and Bangalore, Dalian and Chennai—to show the radical underlying differences between China and India. Westerners might be able to reimagine these two vibrant contemporaries and interpret their current events in the context of their respective rich, ancient, and varied histories. I hope to answer, among other things, many questions that naturally occur to a curious modern observer of these countries, such as these:

Why can China build cities overnight while Indians have trouble building roads?

Why does China prohibit free elections while Indians, in free and fair elections, vote in officials with criminal records?

Why do the Chinese like their brethren who settle overseas while Indians apparently do not?

Why are many Chinese so unhealthy, but healthier than Indians?

Why are there so few world-class indigenous private companies from mainland China despite the creation of a juggernaut of an economy?

Why has China out-muscled India in their common backyard?

Why was China “Indianized” in the past while India shunned China?

Why do the Chinese welcome Indians to China but Indians do not reciprocate?

The different paths taken by the two countries have another profound implication, only now becoming manifest: China and India together could have a stronger impact on each other and the world than either country could alone. What China is good at, India is not, and vice versa. The countries are inverted mirror images of each other. This complementarity creates grounds for an economic cooperation that has already begun, as native entrepreneurs tap into each other's backyards in a reprise of their long-term historical cooperation rather than their recent four decades of hostility. This mutualism is there for the world to benefit from, not only for native Chinese and Indians.

Given India's official ascendance to the nuclear club and China's massive deployment of resources to build a navy, security analysts and political scientists rightly emphasize the wariness with which the Himalayan giants glance

at each other. But these analysts and academics wrongly ignore the potential of mutually beneficial economic ties, especially when each country is more squarely focused on feeding its poor than on building military muscle.

Certainly, the pundits' favorite issue, of who "wins," China or India, misses the point. I say this despite having co-authored "Can India Overtake China?" some years ago, an article that triggered this present intellectual odyssey.<sup>8</sup> I have come to realize that the real issue is that the differences between the two have created a jointness in new riches to be enjoyed by the countries and by those anywhere in the world who care to profit from their advent.

More than a century ago, Rudyard Kipling famously wrote,

*Take up the White Man's burden  
Send forth the best ye breed  
Go bind your sons to exile  
To serve your captives' need<sup>9</sup>*

There remains controversy about whether Kipling intended this to be racist or altruistic; nonetheless, "the white man's burden" rationalized Britain's right and need to govern the "heathens" of India. Perhaps because India was the jewel in Britain's empire, India fell out of America's orbit.

But this image of the hapless Easterner, as well as the milder image of irrelevance that Isaacs reaffirmed, are outdated and counterproductive. Nor is the other extreme, hysteria, warranted or sensible. Journalist Lou Dobbs' program on CNN excoriates outsourcing to China and India as taking away jobs from Americans even though objective data suggest that the effect of outsourcing on Western employment is still tiny. You know that hysteria is in the air when editorial cartoonists get into the act—locally, Harvard Business School students jokingly suggested, in an April Fools issue of the student-run daily, *The Harbus*, that the search for the new Dean of the school be outsourced to India.<sup>10</sup>

Nowhere is this going to touch a nerve more than in white-collar professions, historically much more immune to outsourcing, and nowhere more so than in health care, an intensely personal and therefore political issue. In April 2005 the award-winning television news show *60 Minutes* broadcast a story on medical tourism that showcased India-based Apollo hospitals as a hot destination for Western patients seeking top-quality health care at a tenth of the cost of what they would pay in the United States or the United Kingdom. Soon after the show aired, the Western clientele in the Apollo Group's Delhi hospital nearly doubled. Mirroring this U.S. publicity was the British press's extensive coverage of fourteen-year-old Elliot Knott from Dorset who decided to fly to India in August 2005 for surgery on his back, thus avoiding a nine-



month waiting list in his home country, facilitated by a British-Indian-owned company in the business of medical tourism.<sup>11</sup>

I don't believe that this is the last we'll hear of medical innovations in China or India. Diabetes, for instance, is a modern scourge, with close to 200 million sufferers worldwide. By 2030, when this number will be closer to 300 million, fully a third will live in China or India. While pure science-based cures will most likely be found in U.S. laboratories, many service innovations—such as treatment regimens, or insulin delivery mechanisms—will likely come from the need to treat the tens of millions of indigent sufferers in China and India. These in turn will benefit the poor and health-rationed in the U.S., perhaps as much as the pure science-based and probably prohibitively expensive treatments.

Gushing praise for Indian doctors from American and British medical tourists denied care in their homelands, and the possibility that the cure for chronic diseases is increasingly being searched for in China and India, hardly sound like a continuing burden on the White Man. Perhaps it foretells a reversal of this burden. Another passage from Kipling seems more appropriate.

*At the end of the fight is a tombstone white  
With the names of the late deceased  
And the epitaph dear  
A fool lies here  
Who tries to hustle the East*

Far better to be wise and informed about changes the world over than to be the “fool . . . who tries to hustle the East.”

But the best metaphor is not of burdens, real, imagined, or reversed, but of journeys of hope. There is renewed hope in China and India as they experience success in dealing with the world and put aside their mutual hostilities toward one another in favor of collaborations. There is hope too in the pioneering Western entrepreneurs who prefer to share in China and India's recent gains rather than attempt to derail, with misguided protectionism, the emergence of these two giants on the world stage.

### Listening at Nathu La: A Happy Mutualism

On July 6, 2006, high in the Himalayas, on the border of China and India, a historical event went largely unnoticed by the West. Nathu La—which means “listening ear pass” and was once part of the Silk Road—was opened for the first time in forty years. After a small ceremony presided over by Indian, Chinese, and Tibetan officials, a barbed-wire fence, previously