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The Power of Nations: the Softer Side for Success

By

Usha C. V. Haley

In the post-cold-war period, the sizes of standing armies and brute force have less power and influence than environments that promote commerce, innovation and higher-quality life. After all, not foreign armies, but its own crumbling economy, defeated the Soviet Union.

As with everything else, how one measures national power and influence depends on why one measures these concepts, what measures one uses and how one interprets them.

Converting nations' GDPs into dollars can provide misleading data, not least because of grossly undervalued, overvalued or widely-fluctuating currencies. Consequently, economists often use Purchasing Power Parity (PPP) rather than raw GDP to gauge the relative sizes of national economies. PPP takes into account the differences in prices of goods and services between nations. A haircut for instance is much cheaper in Beijing than in New York, so a dollar buys more in China than in the USA. PPP corrects for this by valuing goods and services on a like-to-like basis.

Measured at market-exchange rates, China's GDP accounts for only 4 percent of global output, making its economy the world's seventh largest. But, using PPP, China moves into second place behind the USA, with 13 percent of world output. Based on PPP, the ten largest economies in the world are the USA, China, Japan, India, Germany, France, the UK, Italy, Brazil and Russia.

However, having the largest economies may not contribute to offering citizens the highest quality of life. The United Nations Development Program (UNDP) offers some insights into quality of life within these nations based on its Human Development Index (HDI). The HDI incorporates three components: life expectancy, education, and income (based on PPP). All three components have equal weight. The HDI ranks 173 nations and areas, industrial and developing, on a scale ranging from 0.0 to 1.0. The latest figures (drawing on 2002) data have Norway, Sweden, Australia, Canada and the Netherlands as providing the highest quality of life. The next five are Belgium, Iceland, the USA, Japan and Ireland. The world's largest economies do not necessarily provide the best places in which to live: the UK ranks 12th, France 16th, Germany 19th, Italy 21st, Russia 57th, Brazil 72nd, China 94th, and India 127th.

The World Economic Forum (WEF) believes that economic measures alone do not capture a nation's ability to compete successfully in the new global economy. In its recently released 2004 Global Competitiveness Index (GCI), the WEF used publicly-available hard data, and a survey of 8,700 senior business executives from 104 nations for a more-textured, qualitative, understanding of countries and their powers. The GCI includes components from the macroenvironment, pubic institutions and technology such as the quality of economic policies, the fairness and transparency of courts, and technological prowess.

Finland ranks first for the third time in four years, with Sweden, Norway and Denmark joining it among the top six in the Geneva institute's 2004 study. The USA ranks second for the second year. Fourth-ranked Taiwan and seventh-ranked Singapore are the top Asian nations, because of the former's strong grasp of technology production and research and the latter's solid economic environment. Japan, ranks ninth, rising from 21st in 2001, because of the nation's economic recovery. Others in the top-ten include Switzerland and Iceland.

The other largest economies fare from good to middling to poor in the Global Competitiveness Index. The UK ranks eleventh, France 27th, Italy 47th, Brazil 57th and Russia 70th.

The GCI places China and India, in the middle of the pack. China ranks 46th, down two places from last year; India is 55th, up one place. Germany, the world's third-largest economy ranks 13th overall, and dead last among 104 nations for tax systems because of its complexity.

China's inadequate public institutions, including its banking system, social-safety nets and pension system, offset its incredible macroeconomic performance in the GCI.

Yet, China's institutional problems have not kept investors away. China succeeded in attracting $53 billion of foreign direct investment (FDI) last year, surpassing the USA for the first time as the world's most popular place to invest, according to the Organization for Economic Cooperation and Development. China's government says it expects to attract another $50 billion of FDI this year.

Another recent survey by management consultants A. T. Kearney found that big companies' executives viewed China as the most attractive place to invest. The USA came in second, with India third and closing fast.

In our book, *The Chinese Tao of Business: The Logic of Successful Business Strategy*, we reported that despite China's draw on investors, and its enormous economy, most foreign companies operating in China had never made a profit there. The few companies that had made profits in China had understood and altered their strategic assumptions to the new environment. Many, though not all, came from Greater China, including Taiwan and Hong Kong.

Indeed, the hegemonic power of countries stems from their civilizational and cultural dominance. Not coincidentally, the countries expected to attract the most FDI, the USA, China and India, enjoy enormous hegemonic power. Cultural assumptions affect all aspects of business from our assumptions on how people should relate in work environments to what kinds of data we should use for strategic decisions (qualitative or quantitative). Haier, the major Chinese white-good manufacturer, has made a special effort to make its US employees aware of this civilizational chasm. Employees must undergo a 40-hour initiation program before Haier hires them. The program stresses teamwork, safety and the importance of quality, as well as an understanding of Chinese history, culture and philosophy. Haier also flies workers to China. This trip has included climbing the Great Wall. As more multinational companies emerge from ancient civilizations such as China, India and Japan, and more foreign companies invest there, understanding the civilizational chasm assumes far more importance for global success.

Usha C. V. Haley (PhD) is a Professor of Management and International Business at the University of New Haven, Connecticut, USA and co-author of The Chinese Tao of Business: The Logic of Successful Business Strategy (John Wiley & Sons, 2004). She may be contacted at uhaley@asia-pacific.com or tel/fax 1-212-208-2468.