The "Chindia" Globalisation Shock: How global mobility trends predict tougher challenges for global companies

In this internet age Google Earth has given us a new perspective that allows us to see locations as never before. The software has enabled expatriates, when preparing for an assignment, to see their host location, to identify community preferences and explore their routes to work. Mobility professionals can use it to locate or propose housing options, and to demonstrate the accessibility of shopping, schools, hospitals, etc. And it can help HR managers evaluate the expatriates' daily commute, or the childrens' daily school-run. The interactivity of Google Earth has brought destinations alive for expatriate families, and has become an indispensable tool for the relocation industry.

However, most HR and mobility specialists are so busy meeting daily commitments to customers that they have little time to examine mobility trends, or anticipate future relocation challenges that increased global mobility will bring. Unfortunately Google Earth's view from above can also obscure two global trends in progress within the visible landscape. In this two-part article I examine critical mobility processes driven by the global trends towards globalisation and urbanisation, and identify their likely implications for managers and mobility specialists. This first part focuses on how globalisation is influencing labour mobility today, and how it is likely to change over the next five years. In the winter edition, the second part will identify how organisations will have to change their internal culture and practices, if they are to gain competitive advantage from these changing mobility patterns. But what are these global mobility trends and processes?

People have been moving since the dawn of history, but during the last 200 years we have witnessed some of the largest changes in populations and labour forces. A 2003 study by the International Organisation for Migration shows that, in the 40 years before the First World War, migration to the New World in North America raised the American labour force by one third, and reduced the available labour in Europe by one eighth. By 2000, however, these mobility flows had changed, and Europe became a continent of immigration, taking in immigrants from Africa, Asia and Latin America.

At the same time a second trend, the spread of urbanisation, has been growing within nations, and has super-imposed itself on these global movements, as rural workers moved from the countryside to cities in search of employment or a better life. A report by *The Economist* estimates that each year some 70 million people move from rural areas into cities. China, alone, has seen the movement of 150 million of its population turn its towns into cities, such that Shenzhen, close to Hong Kong, grew from under 1 million in the early 1980s to 10.7 million by 2005, making it the fastest growing city in China.

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Urbanisation is now a global phenomenon, such that by mid-2007 the world passed the 50% mark where half of the global population are now living in a city.

These global trends in the movement of workers have significant implications for nations and cities, and many have important local labour market consequences for companies. In the United States, for example, the annual quota of 65,000 H-1 visas was applied for on the first day of application in April 2007, reflecting strong pent-up demand for skilled labour within American companies. Meanwhile in India, computer company Dell announced vacancies in Bangalore and received over 45,000 applications for 500 vacancies. In May 2004 when the European Union admitted ten new members, only the UK, Ireland and Sweden opened their labour markets to workers from the new member states. Studies now show that by end of 2006 some 680,000 people moved to the United Kingdom in search of work, while Ireland absorbed 107,000 by end of 2005. However, these movements of workers from the Baltic and Central European nations have resulted in local labour shortages in their home nations. Poland is now forced to recruit labour from its eastern neighbours Ukraine and Belarus to fill vacancies caused by the large migration westward of young Poles. Local shortages of temporary labour from these nations have caused German and Spanish farmers to restrict crop harvesting, and construction companies across Europe report vacancies for trades-persons and unskilled labour on many sites. Manufacturing is also facing labour shortages of skilled labour, with high levels of vacancies in factories in Germany, Slovakia and Poland. As of June 2007 the European Commission estimates that 3 million vacancies were unfilled across the Union. These mobility trends have had their biggest impacts in sectors requiring university education, such as information technology, where companies have had to recruit from India, South Africa and elsewhere. And the consequences of this university graduate mobility will exacerbate existing shortages, such that Europe will face a shortage of information technology staff of 300,000 by 2010, according to the Commission's latest report. Engineers too are in short supply, and one UK study predicts a shortage of 100,000 by 2010, while Germany currently estimates that it has 23,000 unfilled vacancies for engineers as of mid-2007. The United States is experiencing similar changes. For example, in 2000 as the dot.com boom was peaking, some 52% of engineers and scientists in Silicon Valley were foreign-born, but today studies show a 30% decline in skilled immigrants since 2001.

These local consequences of global

worker movements have created staffing and management problems for companies across Europe and USA, but relief does not appear in sight or prospect. Rather, some research suggests that over the next five years companies must prepare for potentially more disruptive mobility challenges. The OECD paper, *Making Globalisation Work (2007),* for example, suggests that labour mobility and labour markets are likely to enter a period of even greater unpredictability. It predicts that many developed economies will face what they call a "Chindia Globalisation shock", as China and India pursue greater integration with the global economy. The shock will come from having to adjust to competition from the huge populations of China and India, adding more labour, consumers and suppliers offering products and services to compete with the locals. Their paper identifies two new globalisation trends laden with mobility implications; 1) Chinese and Indian companies expanding globally outside their home markets, and 2) more rapid growth in the "outsourcing and off-shoring" of work from developed economies to India, China and other low cost locations.

While western managers struggle to recruit or motivate talented employees who are willing to take assignments in China and India, companies from China and India are increasing competition as they move into markets in the developed economies. One such Chinese company rising in prominence in western markets is Lenovo, the computer company which acquired the IBM personal computer and laptop business in 2005. To establish its global identity and keep its most critical talent, Lenovo moved its headquarters from China to North Carolina, a move that proved successful in reducing post-merger attrition. Other Chinese companies are now following the Chinese government's "Go Out" strategy, set in 2002, for building 30-50 Chinese global brands by 2010. Today Chinese company names such as Huawei, ZTE, Haier, Chery and CNOOC are becoming more visible, as they buy or build brands in Europe, North America and Africa. Some, like Lenovo, have been strategic moves, while others have been opportunistic, such as the Shanghai Automotive Industry Corporation's (SAIC) purchase of car designs from Rover of UK before it collapsed. SAIC have now built and launched their local version of the Rover 75 in China as the Roewe 750, and the Chinese company plans to sell this model in the UK during 2007, adding another supplier to a crowed automobile market.

The Chinese government is actively supporting the globalisation of their companies, many of which are state-owned enterprises. With foreign exchange reserves over $1.3 trillion, the government is encouraging Chinese companies and investors to enter foreign markets and make foreign acquisitions. Through this international investment the government is seeking to diversify its reserves and to reduce the upward pressure on the Renminbi. Earlier this year the government established its own State Investment Agency, which invested $3bn in shares of US private equity company Blackstone ahead of its flotation in New York. In November 2006 at a major Beijing conference for over 40 African heads of State, the Chinese government announced a $5bn loan fund specifically for African investments. It has since used national companies including Sinopec and CNOOC, to invest in African oil and mineral assets. Reuters estimates that there are now over 800 Chinese companies, mostly state-owned, operating in Africa. In a peculiar twist of globalisation, since neither the Chinese or Africans share a common language, the Chinese companies have brought into Africa their own Mandarin-speaking employees, so that over 10,000 Chinese are now working in Angola alone, while other undisclosed numbers work in Zambia and elsewhere throughout Africa. The government is also granting more freedom to individual investors in mainland China, and recently announced a decision to allow local Chinese citizens to invest in international equities through the Hong Kong Stock Exchange. These are only some of the publicly acknowledged activities that form part of China's globalisation shock, and are likely to under-estimate China's international presence in the global economy.

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And if Chinese companies are globalising, with their major thrust throughout Africa, Indian companies are on a globalising journey across Europe. Leading the Indian drive for global brand-building is Mittal Steel, the steelmaker led by Lakshmi Mittal and controlled by his family shareholding. Mittal Steel acquired Europe's largest steelmaker, Arcelor of Luxembourg in 2007 to form ArcelorMittal, now the largest steelmaker in the world. Not to be outdone, another Indian steelmaker, Tata Steel also acquired Corus, the Anglo-Dutch metal company, while another Tata Group company, Tata Motors has expressed its intention to bid for Jaguar and Land Rover, which are being sold by the Ford Motor Company. Meanwhile, leading Indian vehicle manufacturer Mahindra & Mahindra, after successfully launching an Indian designed and built Sports utility Vehicle, the Scorpio, plans to sell their SUV in the UK market during 2007. Another landmark Indian deal was United Breweries Holdings' purchase of Scotland's whisky distiller Whyte & Mackay. Altogether during 2006 Indian companies spent $23bn on international acquisitions, including 19 companies in Europe. Although they started later than the Chinese, the Indians are moving faster, and are causing globalisation shock in all developed economies through acquisitions and through the second trend of outsourcing and off-shoring.

This second trend shows India and China are leading the expansion of the global "trade in tasks", where tasks are performed in one nation and the results are transferred to other nations for final use. Most global companies have adopted outsourcing of non-core activities and have shifted their routine business processes and call-centres to specialist contractor companies. This "trade in tasks" has changed the established patterns of the past by moving the work, rather than the people, to India, and in 2006 India earned $48bn from providing off-shored services. The major Indian companies, Tata Consultancy Services, Wipro, Infosys and Satyam join with their global competitors IBM, Accenture, EDS and CapGemini to off-shore tasks from American and European clients, where it is performed by their Indian employees, among others. Similarly, manufacturing tasks are increasingly being traded globally, and the world's largest contract manufacturer, Flextronics, employs over 200,000 workers in 30 nations, including three sites in India. India's leading pharmaceutical

companies are also participating in this task movement, with Ranbaxy Laboratories operating 21 sites across Europe and one in USA, both manufacturing generics and developing new pharmaceutical compounds. Dr. Reddy's Laboratories, meanwhile has two manufacturing plants in the UK, and research laboratories in USA, as well as their Indian-based operations.

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These are only some examples of how Chinese and Indian companies are globalising and participating in the global trade in tasks that OECD expects to increase in the coming decade. But what are the managerial implications of these global and local trends? Some implications and consequences are already discernible. Firstly, western companies will continue to move work to China and India while cost savings can be achieved by trading in tasks. Secondly, this global movement of tasks will need more expatriates and/or business travellers to facilitate the establishment of local operations and to manage the associated supply chains. Thirdly, Chinese and Indian companies will intensify their brand-building in European and North American markets, so that they can attract a pricing premium. Fourthly, they will seek out and hire interculturally and linguistically competent local staff, to create the feelings of security that local customers in the developed markets expect. Finally, the "War for Talent" proclaimed by McKinsey ten years ago will intensify as the Chinese and Indian companies compete for the limited supply of interculturally competent managers and engineers that can implement their global strategies. These implications and changes will add to the managerial challenges of global companies and mobility professionals. How HR managers will have to change their companies, and mobility specialists their practices, to meet these new challenges will be the subject of the second part of this article.

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