

# Investing in hi-tech industries in china: pros and cons assignment

[Business](#)



1. 0 Introduction China introduced market reforms in the early 1980s; only a third of the economy is now directly state-controlled. Since joining the World Trade Organization in 2001, China has rapidly become an economic force, doubling its share of global manufacturing output and creating a commodity-market boom. In 2004 China became the largest exporter of information and communication technology (ICT) exports.

In China, the Hi-tech industry, that includes software industry is a recent phenomenon and the early industry participants were government-funded research institutions spin-offs Legend and Founder were setting up their operations in the year of 1980. China's market-oriented economy reforms has largely encouraged a large numbers of entrepreneurs to apply their technical skills and set up new ventures to produce software for the vast home market. However, the Chinese software industry has been privately owned recently.

According to Heberer (2000), the Chinese government has not only publicly endorsed their " Heroic" entrepreneurial activities and regarded them as a consequence of economic reforms and has been implemented a range of policies that target property rights, taxation, venture creation and export to promote the growth. 2. 0 Pros 2. 1 Huge Potential Market for Semiconductor ( China VS Vietnam ) a) Population and Markets Size According to Distribution of World Population-Data Report 2006, the China alone comprises about 20% of the world population and is the largest population countries in the world.

Estimate, its population already achieved around 1.32 billion. It means that, it is a quite huge potential market because of their largest population.

However, estimates population of Vietnam is around 87 million and near to 1.3% of the world population. It means that, the market size in Vietnam is not very huge and potential if compared with China. So, as wise investors they will choose China as a market to invest not only the hi-tech industries but also others. b) Stage of the Markets China is already the world's largest market for mobile phones and the second largest for personal computers.

It is also the largest producer of televisions. Domestic demand for those three products creates an almost insatiable hunger for semiconductors. Howell's report predicted that the Chinese market for computer chips would grow at a rate of 21.5 percent per year from 2002 to 2008. The US market has been growing by 7.3 percent per year. This shows that the China market is high potential for the foreign investors to invest at there because it has already developed now and not on the infant stage again. It has already had the knowledge about this hi-tech sector and already had the infrastructures that are suitable.

However, Vietnam now is only on the infant stages and just started to develop their hi-tech industries. So, it was not very stable if compared with China. Besides that, their start-up costs are also quite high because of the poorly developed infrastructure. So as a result, the investors will choose to invest in China but not Vietnam. c) Labor and Wages One of the principal attractions of China and Vietnam for the foreign investors is their large,

relatively well educated and inexpensive labor forces. As a comparison, the labor in Vietnam poses some problems for foreign investors.

There is a shortage of managerial talent and skilled workers, resulting in higher salaries for those employees. Another factor raising the costs of skilled and managerial workers is Vietnam's sharply progressive personal income tax system that results in labor costs 2-3 times higher than in other Asian countries for relatively high-paid local staff. d) Encouragements of China government Since 1997, China has revised the industry guide for foreign investors on three occasions in the hope of channeling foreign investment to serve the needs of industrial restructuring.

According to Justin Lin, director of the China Center for Economic Research of Peking University said it was time China started to be more discerning with foreign investment. Their priority now is not to attract as much foreign investment as possible, but to bring in new high-tech industries that they currently don't have. Besides that, Jin Bosheng, a research analyst with the Ministry of Commerce, said the government was showing particular interest in new high-tech industries, especially electronics, biology, petrochemicals and medicines, which indicated it was seeking to redirect foreign investment.

In 27 September 2007, a senior official said China welcomed more overseas investment to develop the country's hi-tech industry. According to Zhang Xiaoqiang, vice minister of the National Development and Reform Commission said that China welcomed more international hi-tech companies to set up regional headquarters, R&D centers, procurement centers and training centers in China, and encourages domestic enterprises to explore

<https://assignbuster.com/investing-in-hi-tech-industries-in-china-pros-and-cons-assignment/>

overseas hi-tech markets. As one of the world's largest hi-tech industry and largest hi-tech exporter, China produces more computers, mobile phones, antibiotics and vaccines than any other countries worldwide.

In 2006, the total revenue of the hi-tech industry exceeded 5.3 trillion Yuan (706 billion US dollars), with its added-value contributing 8 percent of GDP growth. Hi-tech export stood at 281.5 billion dollars in 2006, more than four times of that in 2002, almost a third of China's total exports volume. Besides that, China also plan to focus on nine major special projects in the next few years, including integrated circuit and software, new generation mobile communication, next generation internet, digital voice and video technologies, advanced computing, biological medicine, commercial airplanes, satellite as well as new materials.

This shows that the hi-tech industries market in China is high potential and it's expected to increase the revenue of hi-tech industry in the next few years. So, it can be simply said that the encouragement of China government is to make the foreign investors more easily to invest at there without much more barriers.

## 2.2 Tax and Government Policy in Biotechnology Industry (China VS India)

??? According to the Chinese Academy of Sciences (CAS), China is likely to become one of the top five countries in the world in terms of scale of biotechnology industry by 2020. The biotechnology market in China consists of agricultural biotechnology, biopharmaceutical, industrial biotechnology, biological resources technology, and environmental biotechnology. ??? Over the period 2001-2005, the annual government investments increased significantly 400% from USD 100 million in 2001 to USD 1.2 billion by 2005,

and expected to reach USD 8.8 billion in 2010 as the government intends to transform China into one of the leading biotechnology players in the world. According to the "2006-2020 National Medium and Long-term S&T Development Plan", the government is expected to invest USD 111.8 billion or 2.5% of expected GDP, into overall R by 2020, with biotechnology as top priority over other industries. As China has focused on agriculture biotech products, biotech protein drugs, and traditional Chinese medicine, India has achieved success in areas of enzymes, vaccines (recombinant Hepatitis B), diagnostics, and veterinary products (animal health products). To attract potential investors to invest in biotech industry, China has advantages of low cost set up for manufacturing units and R, large pool of low cost professionals, and a relaxed regulatory environment. However, India has advantages of low-cost technology (for clinical trial, R, molecule synthesis), reasonable cost scientists and researchers, a network of bioscience centers, and a strong IT infrastructure. However, biotech in India still lacks the infrastructure required for R in molecular modeling, protein engineering, drug designing and immunological studies. Both the India and Chinese governments have put in place various investment-friendly measures to encourage growth. While the India government offers 150% weighted average tax deduction of R expenditure for recognized R facilities, the Chinese government provides biotech firms with around 2 year tax exemptions on profitability and followed by a 50% rebate on enterprise tax for the next 3 years which is usually extended for another 3 years. Besides this, foreign investment enterprises (FIEs) in China may enjoy a preferential corporate income tax rate of 25%. A 15% tax rate may apply expansion from

solely for high-tech enterprises located in National High-Tech Industrial Development Zone to Special Economic Zones, National Hi-Tech Industrial Development Zones and National Grade Economic and Technical Development Zones. ??? For FIEs located in Investment Zones (IZs), they may enjoy tax breaks and tax refunds.

Under tax breaks, FIEs may receive a 50% discount on the corporation income tax (CIT), exemption of tax for a two-year period with a further reduction by half for the next 3 years and preferential CIT rate of 10% for the year which export value more than 70%. ??? Under tax refunds, if foreign enterprise reinvestment its profit made in China, they may receive a refund for the entire amount of CIT paid on the amount of the investment. ??? Under tax deduction policy in China, reasonable salary and advertising expenses are deductible for FIEs and FIEs may deduct donations for public welfare or charity up to 12% of their taxable income. Chinese government also provided FIEs enjoy tax credit for any purchase special equipment that protect environment, reduces the consumption of energy or water, raises manufacturing safety and etc. Any revenue derived from qualified environment protection, energy and water saving projects and technology transfer can also enjoy tax reduction or exemption. ??? For the import of equipment for foreign invested projects which are subject to the Category of Encouragement can enjoy tariff and import-stage value-added tax exemption. For the great projects with a total investment of US\$ 10 million or more, the hi-tech projects located in National Economic and Technological Development Zones (NETDZs) shall be exempted from the land use fee, and the pre-retained site available for their investment project may be exempt

<https://assignbuster.com/investing-in-hi-tech-industries-in-china-pros-and-cons-assignment/>

from their down payment within first 5 years after land for project is approved by the local land and finance authorities. Investors are allowed to pay the land price by installments. They also may be refunded 50% of income tax already paid on the area-retained portion in the following five years in accordance with the local financial possibilities. Beside that, to encourage foreign investment's projects to operate for a period of 15 years or more, exempt from land use fee in the first 5 years and allowed a 50% reduction in the next 5-years will be offered by Chinese government. ??? Nevertheless, the FIEs in India may enjoy a preferential corporate income tax rate at 42.33%. But for those FIEs that income are equal or less than Rs 10 million, they may enjoy a preferential corporate income tax rate at 41.2%. If their tax payable as per regular tax provision is less than 7.5% of its book profits, FIEs have to pay for Minimum Alternative Tax at 7.%. ??? The government of India also provides tax incentives for corporate profit, allowance accelerated depreciation and deductibility of certain expenses subject to certain conditions. ??? Government of India offers biodiesel a fully exemption of excise duty. ??? Under new policy for 2006-2010, the estimated budget plan to invest in biotech industry by China is \$ 1.6 billion, but by India is only \$ 400 million. ??? Under the fiscal incentives, the China and India will offer policy guidelines enabling biotech firms to get bank loans on a priority basis and schemes to provide government grants. In additional, China also plans to increase financial support to biotech including venture capital, legislative efforts to write biosafety laws and the tax policies will certainly be revised to allow more research facilities to remain tax free for longer than the current 3-years. In short, China has more advantages than



India in term of the incentives given to the development of biotechnology in that country. Foreign investors will be more advantageous when they have any incentive or tax exemptions from the host country which they invested. .

3 Politics Stability ( China VS India & South Korea ) India is the largest democracy in the world. It has the biggest number of people with franchise rights and the largest number of political parties. They have seen about seven Governments in the last 9 years at the centre though the Constitution of India provides for a five-year term for the Parliament and the government. The same situation prevails in the states as well where the people sleep with one government in office and rise with another government in office.

This unstable situation in politics in India has caused immense damage to their economy. Consequently, they are going backward in social, political, and economic fields. The people of India are the worst affected a lot for whose benefit and welfare all such provisions and systems have been evolved by the founding fathers of their nation. The Constitution of India is a vast and model Constitution and it ensures and guarantees that the welfare of the people of India is dedicated them.

Unfortunately, the system of governance is the Parliamentary form of government which does not seem to be working well. It is the need of the hour to ponder over it and evolve a better, effective, and workable system of governance ensuring political stability in the country. On “ India’s Strategic Environment and the Role of the Military”, Indian Air Chief Marshal Shashindra Pal Tyagi highlight that a resurgent, politically stable and

economically booming India on one hand; and a poor India that is struggling to break the poverty barriers on the other hand.

He emphasized that India is trying to break out of centuries of poverty. The primary goal of India is economic progress. He argued that no economic growth is possible without peace and stability, and no peace and stability is possible, in turn, without military power. Therefore, according to him, India's military power will have to play a crucial role within India's strategic environment in the next 20-25 years to ensure peace and stability and thus, ensure India's sustained economic growth. ACM Tyagi divided India's strategic environment into external and internal parts.

On the external front, he identified two key strands: ??? political instability in India's immediate neighborhood ??? the presence of various nuclear powers in the region He pointed out that the political systems in almost all of India's neighbors are not stable and it is hard to predict what kind of political systems would ultimately take root in these countries. In his opinion, the political systems of India's neighbors are either in flux or under severe strain, such as Nepal, Pakistan, Afghanistan, China, Bangladesh and Sri Lanka.

From India's point of view of maintaining peace and stability and economic growth, he suggested that an established democratic political system in the region was clearly in India's interests, since it is widely believed that when there is an established democratic tradition, generally speaking and peace prevails. He clarified that India did not want to enforce or sell democracy but simply wanted to see more democracy in its region. The second key aspect of India's external environment to be noted was that India was in a region

where three nuclear powers-India, China, and Pakistan-operated, along with other nuclear powers.

Thus, besides the political instability, nuclear arms were a key element of India's strategic environment. Noting that terrorism is not only threatened the peace and the stability of India and its region but also the countries across the world. Since the peace and the stability are key ingredients for sustained economic growth, terrorism seems to threaten the peace and the stability in the region, it was critical to address the issue. Tyagi clarified that the need for ensuring economic security beyond India's geographical borders should not be taken out of the context to imply any grandiose hegemonic plans.

Rather, he highlighted that India's track record in the international arena and argued that the Indian armed forces had always played a very responsible role in international conflicts as part of UN peacekeeping forces. He conceded that the role of India's military was recently played crucial roles in disaster relief and disaster management in various countries including Sri Lanka, Indonesia, Pakistan, Philippines, and U. S. Thus, he envisioned that the military diplomacy would be the one of the key roles of the military in the next coming years.

In conclusion, ACM Tyagi made the case that India, with its impeccable track record, should be an active participant in the matters of international security. He hoped that all countries would continue to seek to live peacefully with each other in the future. South Korea In the early 1998, the KCTU and FKTU were instrumental in allowing Kim Dae Jung to implement

<https://assignbuster.com/investing-in-hi-tech-industries-in-china-pros-and-cons-assignment/>

far-reaching changes to the country's labor laws, which effectively destroyed the lifelong system that had protected the jobs of full-time workers in major companies. The level of unemployment rose rapidly by nearly fourfold to 8.8 percent in February 1999 and has since declined to 4.8 percent, which is still well above pre-crisis levels. Workers were also forced to accept wage cuts: according to the LG Economic Research institute, nominal wages fell on average by 2.5 percent in 1998. Many more workers are fearful of losing their jobs as the government presses ahead with its "Big Deals" to restructure the largest chaebol. In South Korea where there is little in the way of welfare, the loss of a job can quickly lead to poverty, homelessness, and despair.

It is little wonder that suicide rates have skyrocketed over the last two years??? a symptom of rising social tensions. Under the egalitarianism-oriented policies of the last two administrations, Koreans have suffered from deteriorating quality of life, skyrocketing housing and education costs, and social and political conflict. While the former dissidents were popular at first, they soon lost their mandate as they demonstrated a lack of understanding of the basic elements of stable governance.

They disregarded governmental institutions and neglected practical issues of state. What Korea ended up with was a dysfunctional government and serious mismanagement of national affairs. Because these administrations believed they were pursuing a historical mission of "rectifying" Korean history, they became self-righteous and intolerant to criticism. They tried to oppress the opposition and the press, becoming authoritarian leaders not

much different from those who preceded them. 3. 0 Cons 3. 1 Intellectual Property Rights

According to the China Daily on 4th of Jan 2008, " As China continues to strengthen its intellectual property laws and establish further transparency and predictability in its regulations and laws that govern business and investment, it will become an even more attractive market for foreign investment and truly become a ' land of opportunity' for USA companies and others around the globe," said US Commerce Secretary Carlos M. Gutierrez. However, In china, foreign managers frequently find themselves in a precarious position when considering how to protect the intellectual property of their firms. The concept of IP is defined in Chinese civil law and promulgated as a right of citizenship (NSP, 1997). However, continued pressure from the WTO through various agreements, reinforces the opinion that sustained economic growth depends on China for the protection of IPR (Zheng, 1997b). ??? Foreign managers of companies in industries like computer software, communications and pharmaceutical still face industry-specific problems because of the weak and ambiguous nature of laws concerning IP (Willard, 1996a, b). More generally, the continued willingness of the Chinese leadership to continue posting IP regulations suggests that IPR is firmly on the agenda of the leadership ??? In fact, there has been a serious economics and political implications especially in the case in both newly industrialized countries and emerging market economics which are generally characterized by an embryonic legal infrastructure. ??? US controls on exports of high-tech products to China have been a heated topic between the two countries currently.

<https://assignbuster.com/investing-in-hi-tech-industries-in-china-pros-and-cons-assignment/>

Washington has adopted a validated end-user program, under which approved Chinese companies are allowed to import certain high-tech goods for civilian use without obtaining individual licenses. ??? Beijing says the program blocks imports of high-tech products from the United States, but some in the country argue that certain exports to China might threaten USA national security. ??? The Wisconsin Project on Nuclear Arms Control, a non-profit research group, said in a report this week that the program “ increases the risk American goods will be illicitly sold to Syria or Iran or help China improve its armed forces”, and called on the US commerce department to suspend it. ??? One of the agreement was signed in Beijing by both countries last month and the most important outcomes of the Joint Commission on Commerce and Trade (JCCT) was the signing of the “ Guidelines for US-China High Technology and Strategic Trade Development”. ??? They are an important step toward working cooperatively to increase US exports of high technology to China and this will encourage the development of safe, secure high technology and strategic trade between our two countries. China’s growth presents opportunities for US exporters,” he said. “ China’s growing middle-class creates opportunities for US companies to bring goods to Chinese consumers. In turn, this will grow US exports, which is an important part of our economic agenda. ” Study Case : ??? SK Group Inc, a USA company is engaged in the semi-conductor business including microchips and high-tech products, in the USA and Europe with over 6000 employees worldwide. ??? SK Group’s management targeted Asia for expansion in consideration of the fast growth of its semi-conductor market.

That market comprised nearly one-half ( 48%) of the SK Group's \$ 16. 87 billion global revenues in 2000. ??? SK's Group's most competitive strategy is its unique product with advanced technology and design, therefore, the management wanted to select a high-control mode for entry into the Asian market. ??? It decided to establish a wholly owned subsidiary in one Asian country. The subsidiary would have dual roles as a manufacturing plant and a marketing channel of the SK Group in Asia. The regional choice had to bring the benefits of the Asian market share and low production cost to SK Group. ??? Therefore, South Korea and China were amongst their consideration. ??? South Korea??? possessed leading-edge technology and market position in the global semi-conductor industry; 3rd largest global market leader ; exports 40% of the world market; high-quality labor pool and stable semi-conductor ??? China— development of semi-conductor far behind South Korea; was expected to experience immense market growth ( after joining

WTO); competitive incentive with a cheap labor ??? In South Korea, strong labor union protection against minimum pay is considered to be a demerit from the foreign investor's point of view. ??? But however, in China, the intellectual property right protection is low and the corruption is high yet, SK Group still chooses the China as their expansion location. ??? For SK Group, the potential market benefits is the most important for their expansion to Asian market. SK Group's competitive assets are reflected by its size and multinational experience and its skills in developing differentiated products with their supreme technological capabilities and pioneering technology and design. ??? It might be risky for them into a country that has low intellectual

<https://assignbuster.com/investing-in-hi-tech-industries-in-china-pros-and-cons-assignment/>

property right protection and immature high-tech infrastructure. ???

However, the firm's substantial size will allow it to expand in high market potential through a high context entry mode, that's wholly owned subsidiary where the firm decided to before. Therefore, the worry about the technological and quality control risk is reduced. Therefore, intellectual property risk and potential market benefit come hand-in-hand. ??? As a result, China is the most suitable country in term of the potential market. In short, the cons for foreign investors to invest in China's Hi-Tech industry will definitely be a minor factor when the firm has its substantial huge size and strong competitive advantages for its products. However, it might be a major issue that need to be considered especially for those small-medium firms.