Business environment – china vs india

Business Environment – China vs India ‘ For Australian businesses looking to expand their operations overseas, China is a more attractive location than India. ’ To what extent do you agree with this statement? Justify your answer. ____ Introduction In the year 2007, China and India ranked first and second respectively in the list of ideal foreign direct investment (FDI) destinations, according to A T Kearney, a global strategic management consulting firm (The Press Trust of India Limited, 2007a). The two nations, because of their similarities in geopolitical, economic and demographic aspects, are often compared with each other.

To determine which one is more attractive for businesses to expand to, this essay will examine the business environment of both countries from the following perspectives: political/legal, economic, socio-cultural and technological. Political/Legal China and India both have ponderous bureaucracy systems created by history and tradition. Since the opening of China’s market to foreign investors in 1978 and India in 1991, they have been gradually moving from centrally planned economic system towards decentralisation. However, besides their continuous movements in order to provide businesses a better environment, significant problems still exist. In realising that foreign investments are the key source of the nation’s economic rise, the Chinese government has given special preferences to foreign investors (Financial Express, 2006). This is mostly done through reduction of most favoured nation (MFN) tariff rate.

In India, on the other hand, fair competition exists between domestic and foreign investors. Although the Indian government states that it aims to reduce its MFN tariff rate, which currently doubles the rate in China, to other

ASEAN country levels, it is in reality a big challenge because a large portion of the nation’s tax revenue comes from customs tariffs (Henley, 2004). Nevertheless, India overall has a better internal taxation system, with lower tax rates and easier ways of payments, according to a report by World Bank, IFC and PricewaterhouseCoopers (The Press Trust of India Limited, 2007b). China, after joining the World Trade Organisation, is under the progress of developing a more comprehensive and enforceable judicial system to help ease business operations. It is also creating institutions that aim at improving commercial dispute settlement, patents and intellectual property rights protection (Siddharthan & Lakehera, 2005). As a legacy of the British colonisation, India, being the largest democracy in the world in terms of population, already has a well-developed commercial legal framework (Grainger & Chatterjee, 2007).

However, the Indian institutions are not functioning efficiently because of poor government regulation in design and quality of implementation. For this reason, doing business in India is, in fact, more costly than in China, especially for smaller firms (Singh, 2007). One issue that troubles businesses in both China and India at the moment is the complexity in setting up and closing down businesses. Despite the fact that there is no specific statute regulating FDI in India in contrast with China, it has much more excessive regulation of entry and exit than China (Henley, 2004). Another issue businesses seeking to operate in China and India may need to consider is bribery. According to the Transparency International 2006 Bribe Payers Index, India and China ranked first and second respectively in exporting countries that are likely to bribe their way through to winning contract (Nevin, 2006).

This well signals the internal corruption levels of both countries. Overall, the political/legal environment in China appears to be more optimistic. Economic China and India are very much similar in terms of pure economic conditions. Both countries have huge market potential. China has a population of almost 1.

3 billion and its real GDP growth rate between 2004 and 2006 averaged at 10 percent. India at the same time has an average real GDP growth rate of 8 percent, with a population of over 1 billion as well (Cetron, 2004) (CESifo Forum, 2007). Economic growth has led to increasing consumer spending. According to the World Bank, in 2004, China and India were already respectively the second and fourth largest economies in the world based on purchasing power parity (Henley, 2004). The trend is expected to continue for several years ahead. Apart from being target sales markets, China and India are also among the ideal locations for production.

Statistics show that the unit cost of labour is similarly low in both countries (Jain, 2006), with China having a higher literacy rate of over 80 percent compared to 60 percent in India (Cetron, 2007). It is clear that while China currently has a great and still improving economic environment, and leads the world in growth prospects, India is not far from catching up. Socio-culturalTradition plays a key role in the shaping of today’s Chinese and Indian economies. Confucianism is the major guidance of social norms in China, along with Buddhism and Taoism, each blended with the other two ideologies. Because of the absence of a legal-rational system, successful businesses in China generally depend on developing and maintaining strong social relationships and networks, which is compatible with Confucius teachings (Grainger & Chatterjee, 2007). It is therefore essential for foreigners to study Chinese customs before entering the market.

In the case of India, as a result of the traditional caste system, Indians have a preference for hierarchical relationships. In rural areas, many workers are still employed based on their caste rather than skill (Grainger & Chatterjee, 2007). This may be an obstacle for foreign companies investing in related areas. One huge social advantage India has over China though is its English speaking background inherited from British colonisation.

Although China has included English as a compulsory subject even in primary schools, it is still hard for most Chinese to master this language due to its considerable difference to Chinese. Furthermore, good English speakers in China generally demand salaries of $100, 000US which is too much for back-office jobs (Aiyar, 2007). India, thus, wins over China in the ease of conducting businesses at socio-cultural level. Technological Conducting businesses overseas inevitably involves electronic commerce (e-commerce). According to a study done by Raven, Huang and Kim (2007), China is notably ahead of India in infrastructure and internet penetration, among other factors that form an e-commerce environment.

The Indian Finance Minister P. Chidambaram also admitted, “ We wish to emulate China in the matter of infrastructure” (Organisation of Asia-Pacific News Agencies, 2007). However, there is also the argument that India is actually better prepared for e-commerce than is China because of its advantages in " legal support for virtual transactions and digital signatures, well-developed private sector and entrepreneurship, the regulatory environment including taxation, and openness to trade and investment" (Raven et al, 2007). Indeed, China is yet to catch up with India's world famous immense pool of skilled IT workers, which makes it the top outsourcing destination for research and development (R&D).

Nevertheless, in 2006, China's spending on R&D took second place in the world. The government is looking to increase its R&D spending from about 1. 23 percent of GDP in 2004 to 2. 5 percent in 2020.

One of the reasons that give China the confidence in improving its R&D is the fact that 40% of undergraduates in China are engineering majors (Cetron & Davies, 2008). In general, improvement in technologic environment is the area where China and India has to learn from each other. Conclusion It may appear to be true that China has an overall better business environment because it has a more foreign investor-friendly structure and top economic growth rates. However, India also has magnificent growth prospect, along with the advantage of being closer to the Western culture.

Both countries are also on their way to improve technologies to create more business potential. Therefore, only time can tell which country, in the long term, will attract more foreign investments. Reference ? Aiyar, S. S.

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