

Advantages and disadvantages of investing in china



'BRIC countries' is the term that was mentioned first time in 2003. It means the four countries' group: Brazil, Russia, India and China. These countries are at similar stages of economic development and they attract a huge investors' attention from all around the globe. The analysts who've created the BRIC term forecast that China and India will become the world's dominant suppliers of manufactured goods and services, respectively, while Brazil and Russia will become similarly dominant as suppliers of raw materials. Brazil, Russia, India and China account more than 40% of the worldHYPERLINK " http://en.wikipedia.org/wiki/World_population" s population at the moment and according to the special forecasts their combined economies will overcome the current richest countries' economies by 2050. But we should emphasize that the BRIC countries are an emerging economic group (or bloc) and they do not form any kind of association or a political alliance.

I should note that international investment has to be reviewed in a great detail. An investor needs to have a clear understanding of what makes the international investing practice different to the local one.

The risks usually balance the potentially high rewards of investing and they may vary by country. The potential risks may reduce the investment to zero overnight. These possible risks of investing overseas include:

Currency risk (the fluctuations of exchange rates);

Lack of local knowledge and communication. The local news relevant to your investing field may be difficult to pick. The contact persons (for example, a <https://assignbuster.com/advantages-and-disadvantages-of-investing-in-china/>

colleague or a friend), who are able to advise you of what is going on in the field is very advisable to have.

Government policies risk. These emerging countries government policies could be very different to the western countries and you must take that into the account. As an investor, you need know the specific situations with government policies within the markets you are looking to invest in. In Brazil, Russia, India and China government policies are uite different and government framework may not be as you might expect;

Taxation changes. Every country has its own taxation system and it usually changes on a regular basis. The successful investor has to be fully aware of the taxation in the local market and also check the possibility of a double taxation agreement between the countries you are investing in and your resident country, because it may have a significant effect on your returns.

Advantages and disadvantages of investing in China vs. India

There is a high grown potential both in China and India and their industrial bases are expanding very rapidly.

Let's start with China – one of the fastest growing economies in the world and its actually the worldHYPERLINK “ http://en.wikipedia.org/wiki/Lists_of_countries_by_GDP” HYPERLINK “ http://en.wikipedia.org/wiki/Lists_of_countries_by_GDP” s second largest economy after the US. This country is also the largest exporter and second largest importer of goods in the world and it became the world's top manufacturer in 2011.

Despite the government control over all areas of the Chinese economy, there are few very substantial advantages of investing in China. First of all, China's market is a very attractive target market for international investments because of its huge potential consumers number (China's population currently counts 1.2 billion people). The living standards of China's population are constantly improving. Among the other tendencies, an increasing purchasing power of women can be mentioned. Therefore investing in the companies with safety and health image will help to build the trust with this consumer group. Second main advantage is the stability of China's economy.

Among the substantial disadvantages of investing in China the government's policy can be named in the first place. You should never underestimate the political risk that can influence most of businesses there. Although the Chinese economy was opened up for the international investors, there are some cultural issues and human rights issues that turn away the international business from dealing with this country's authorities. (Rein S., Jul. 20, 2010).

Now let's compare the investing climate on China to the India's investing conditions. According to the latest economic statistics, India was called 11th largest economy in the world by GDP and 4th largest by Purchasing Power Parity.

Foreign investors are increasingly attracted by the strong India's industry, increasing consumer confidence. This country was named has been ranked at the second place in global foreign direct investments in 2010 and will

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continue to remain among the top five attractive destinations for international investors till 2012. (Investing in India, Apr. 6, 2011).

Major advantages of investing in India also include a huge population (the second largest in the world, about 1, 12 billion people) and the largest young workforce at the same time. Besides it, India also has the most stable banking-financial system which guarantees a good financial discipline.

Despite the fact that India's economy is boasting, it faces the lack of fossil fuel resources (on the opposite to Brazil and Russia). Another disadvantage is the lack of infrastructure investments that causes a delay for the India's further growth.

Conclusion #1

As an executive of a large multinational company responsible for investing issues, I would advise the top management to prefer the India's booming economy because of its rather liberal government policy and stable financial conditions. This country's business environment seems to be more comfortable for the western investor than China's. But the final decision will definitely depend on the investing proposal itself and all its details should be considered carefully.

Advantages and disadvantages of investing in Brazil vs. Russia

Let's take a look at Brazil's investing opportunities first. The largest economic power in Latin America, Brazil is an excellent destination for

investments. It's the world's seventh largest by nominal GDP and seventh largest by purchasing power parity.

The hyper-inflation and unstable currency situation is over and Brazil is an investment hotspot along with China and India now. The main positive characteristics of its economy are: it is oriented inside the country, it is self-sufficient in oil and it's even a leader in alternative energy source as well.

Besides it, Brazil is the large exporter of: sugar, iron ore, soybeans, orange juice, pulp, paper, and now even oil. Brazil's agricultural, mining, manufacturing and service sectors are among the largest and most developed in Latin America.

Country's investing attractiveness was greatly influenced (in a good sense) by structural reforms (such as improved fiscal and monetary policies – lowering inflation, reducing net, paying off loans) and increased energy independence. (Daltorio T., Jan. 11, 2010)

The positive thing is also that the middle-class (i. e. a consumer audience with an average+ income who is able to buy the products and use the services) has grown significantly in the recent years.

It has to be emphasized that one of the most liberal investment climates for international investors among the emerging countries is actually a Brazil's one. There almost no restrictions for the outside investment in the financial market.

Speaking about the negative sides of investing in Brazil, some specialists say that its stock market can go up and down like a yo-yo because it's
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dominated by the changeable demand for raw materials. It can be regarded to Russia's economy as well. (Bloch B., n. d.)

Russia's consumer market counts over 140 million people. The country has the 12th largest economy in the world by nominal GDP and the seventh-largest by purchasing power. Its main investing advantages are: natural resources, a highly educated workforce, and technologically advanced research and production capabilities.

The political interference and regulations, economical and financial instability are the major disadvantages of investing in Russia. Some of the big companies had to leave this country because they were forced to do it. But the government policy has improved recently, so companies which had concerns about Russia's investing climate are now looking for the opportunities to start the business there again. (Davis G., Dec. 9, 2010)

Conclusion #2

In case of Brazil and Russia, I'm not sure which country to prefer as the investing target market, because these countries both have similar advantages and risks. Probably, the competitive advantages of Brazil are its government effective policy and the lower level of corruption in society.

And finally, I need to remind here the main rule of any successful investment that is not to put " all of your eggs in one basket". So, in order to minimize risks, you should strategically spread your investments among few business projects and countries/regions.