

A critical research on the indian endeavor to achieve regional and strategic glob...

[Finance](#), [Investment](#)



Introduction

India, under the administration of Prime Minister Manmohan Singh has steadily become a favorable area for foreign direct investment (FDI). The relatively huge market size of the country together with its positive cost structure and favorable macroeconomic climate have paved the way for foreign investors to invest highly within the aforementioned. The vastly educated workforce of India together with its strong management talent and fluency of the English language have also made the country gain its competitive advantage against its Asian neighbors (Business Monitor International C, par. 35).

Not until recently, the country has expressed its endeavors to surpass China in terms of FDI and eventually its leadership in the global market. Such an attempt appears to be highly reasonable as although India's FDI's inflows are relatively small, the aforementioned has been perceived by the international business community as more skill-intensive; technology centered, as it focuses more on information and communication technology (ICT); and service oriented, as it is notable in terms of its investment in its services sector. Within the fiscal year of 2006-2007, the FDI of the country tripled to US\$16 billion, hence paving the way for India to attain an investment target of US\$30 billion for the fiscal year of 2007-2008 (Business Monitor International C, par. 36).

Background of the Problem

Despite the perceived competitive advantage of the country in regard to the race for FDI attraction, there are a number of criticisms telling that India is not capable of winning the race to attract FDI investments by the year 2010 (Dasgupta, par. 1). Foremost of the reasons that are noted are its weak domestic politics that resulted from the faction that came about from the controversial Indo-US nuclear issue (Business Monitor International A, par. 1-2). The Indo-US Nuclear Deal has caused huge disagreements most especially among citizens that eventually paved the way to early factions in terms of their patronage to a particular party and eventually the possibility of an early election. Together with this, growing concerns in terms of the inflation rate of the country is also evident as the inflation rate has already risen to 7.0% + according to the World Bank (Business Monitor International A, par. 4). Furthermore, the foreign policy of India in relation to its competition to China for its business transactions in Africa appears to be far behind hence leaving a number of foreign investors wary in terms of furthering its business ties with the country (Business Monitor International A, par 8-9).

The foreign policy of India in relation to its competition to China for its business transactions on certain countries such as Africa also appears to be very far behind (Business Monitor International A, par 8-9). This state of affairs has further taken toll due to the projected moderation of the economic growth of India; as the aforementioned is expected to come in moderation after it had reached the 18-year high growth of 9.4% during the fiscal year of 2006-2007, hence implying that the economic expansion of the

country is decelerating despite the optimism posed by the government (Business Monitor International B, par 2-3).

The budget of India for the fiscal year 2008-2009 has also been seen as very unrealistic and populist in nature, which was criticized to be done primarily to serve political interests rather than cater on the pressing needs of the country. In effect of this, it has been perceived by critics that the current budget plan of the Indian government is only an attempt of the aforementioned to please all of its constituents (Business Monitor International B, par. 17).

Despite of this, the overall business environment of the country appears to be promising due to its improving policies on direct foreign investment and its highly educated and competitive human resource. Albeit concerns on certain issues such as red tapes, lack of protection of intellectual property rights and lack of competition on the emergence of Western players that poses a threat on the outsourcing industry are also one of the major concerns (Business Monitor International C, par. 4).

Significance of the Study

The study is important in order to know if India would be capable of surpassing the regional and then eventually the strategic global dominance of China. In addition to this, the study is relevant in order to assess if the most vital preconditions of establishing regional and global superiority are attained or could be attained by India relative to the disposition of China in terms of political, economic and business factors. It is with this respect that

the research would be able to identify if India could be able to surpass China in terms of attracting foreign direct investments (FDI).

The Global Business Policy Council in October 2004 reported that India has ranked third as the most attractive FDI location in the world. China maintains the number one post, followed by the United States and then eventually India. Ahrari pointed out that China has outscored India in certain categories such as " government incentives, financial economic stability, economic reform, production/labor costs, market growth potential, and access to export markets" (par. 5). However, India maintained its dominance in areas of business processing and information technology (IT) provision.

Finally, the study is relevant in order to provide an overview of both the advantages and disadvantages of pursuing an investment in India. The study would provide an overview of the political, economic and business disposition of the country and both of its positive and negative implications toward international businesses. It is with this respect that not only an informed perception of India as a favorable or unfavorable location for business ventures could be formulated but also perception of such is significantly tied to one of its closest competitor for FDIs, and that is China.

Objectives

For the purpose of this study, the research aims to:

Provide an overview of the race of India and China for regional and strategic global dominance.

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Identify if India is capable of surpassing China in terms of three major preconditions:

Political

Factors

Economic

Factors

Business

Environment

Factors

Provide a summary of the details to consider upon launching an international business venture in India.

Provide recommendations on how India can further improve its strategic plan in terms of achieving regional and strategic dominance.

Review of Related Literature

This section of the research focuses on three major areas, the political risks of doing business in India, which are characterized by its domestic politics and foreign policies. Economic risks are also taken into consideration, with specific focus on the economy of India, its fiscal policies, and its monetary policies. The business environment of the country is the last focus, leaning towards the study of the strengths, weaknesses, opportunities and threats of India, the foreign investment policy of the country, and the operational risks that should be considered in doing business in the aforementioned.

Political Risk

Looking into the political risks of India allows to significantly understand the depth of both of its domestic politics together with its implications to the political stability of the country and robustness of the government. Together with this, the foreign policies of the country are also taken into consideration,

most especially the Indo-African Forum Summit in New Delhi that allowed the country to effectively align its strategies not only to cater to its growing resource concerns but also to its goal of catching up with China as one of the global leaders in the international market.

Domestic Politics

One of the major determining factors of a successful business venture in India is highly dependent on its domestic politics. The general elections in the country will be due by May 2009; albeit with this, the currently ruling Indian National Congress (INC) party has suffered a number of setbacks last year when it has failed to satisfactorily respond to the controversial Indo-US nuclear issue. Difficulties further emerge as the rise of the inflation rate. In effect of this, growing unpopularity of the ruling party has caused a huge faction in the current administration, and its instability is further expected to be carried until 2009 (Business Monitor International A, par. 1-2).

The Indo-US Nuclear Deal has caused huge disagreements most especially among citizens that eventually paved the way to early factions in terms of their patronage to a particular party and eventually the possibility of an early election. The Indo-US Nuclear Deal was first announced in 2006 which allowed the United States to give India civilian nuclear fuel and technology despite that New Delhi has not signed the Nuclear Non-Proliferation Treaty (NPT). In effect of this, one of the currently ruling party, Indian National Congress (INC) have objected on the deal on grounds of the violation of the country's sovereignty, and eventually have pledged to deprive the currently ruling United Progressive Alliance (UPA) of its dominance in the parliament if

Prime Minister Manmohan Singh had decided to push through with the project. Despite of this, Prime Minister Singh had expressed strong confidence of the success of the Indo-US Nuclear Deal, hence ensuing among the country the possible incident of an early election (Business Monitor International A, par. 3).

The inflation in the country according to the World Bank is approximately 7.0%+ hence leaving 80% of the country's 1.1 billion people to live on less than \$2 USD on a day. In effect of this, citizens are left nostalgic of the 1980s most especially during the times when the country is still a leader in the global economy. Economists have attributed these costs however to various global factors such as food and oil prices; albeit critics of the government has attributed root causes to them due to its encouragement of futures trading in agricultural commodity. In effect of this, the Communist Party General Secretary, Prakash Karat has threatened to intensify the agitation of the UPFA government did not undergo effective measures in order to curb inflation and ban future trading of 25 agricultural commodity. This issue then is expected to be used by various political parties to lambaste the government in the upcoming federal elections (Business Monitor International A, par. 4).

Foreign Policy

The foreign policy of India in relation to its competition to China for its business transactions in Africa appears to be far behind (Business Monitor International A, par 8-9). In April of this year, Prime Minister Manmohan Singh have conducted its first Indo-African Forum Summit in New Delhi

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through the announcement of the Duty Free Preference Scheme for Least Developed Countries that will give preferential market access for exports for the 34 poorest African nations. The summit is expected to help renew and strengthen the relationship between India and Africa as New Delhi is currently attempting to take a strong ground against China in the strategic plan to secure access to natural resources and food supplies (Business Monitor International A, par 10). Since the country is looking forward to achieve an annual economic growth of 9.0% the demand of the citizens for energy, food and natural resources has also risen and is further expected to heighten for the next few years. In order to solve this growing concern, India has seen Africa as one of the major sources of these immediate needs. Albeit, since China's active policy is in place, India despite its historic ties with Africa that came about as an effect of the British colonial rule, still fall behind China and is further expected to be so for the next few years (Business Monitor International A, par 10).

The figure below shows that the bilateral trade between India and Africa has risen by more than 250% from 1996 to 2006. Starting from \$3.94 billion USD to \$10.17 Billion USD is evidence that the country is indeed significantly improving in terms of its agreement with the continent.

Figure 1: India's Bilateral Trade with Africa (US\$bn)

Source: Business Monitor International A

Albeit the data above also suggests that despite the developments of India with regard to its relationship with Africa, it is very evident that the country

still falls behind China. The figure above shows that that the two-way trade between China and Africa has risen from \$3. 48 Billion USD to \$49. 74 billion USD in the same period of time. The failure of the country to address its growing gap between itself and China has brought and will further bring forth negative effects in the future. The demand of energy of the country which is primarily sustained by imports (70%) is forecasted to double by the year 2030 as stated by the International Energy Agency. In effect of this, if India will not be able to have access to the resources that it needs, it is more likely for the country to have an energy crisis. Other demands for natural resources are expected to heighten as the economy of the country expands; in which most notable of this are the demand for food as the rising level of wealth of the country has its own implications as well on the citizen's dietary intake (Business Monitor International A, par 10).

Since Africa has a population that is expected to be more than one billion by the year 2015, together with its recorded economic growth of 6. 0% in 2007, the aforementioned provides a huge opportunity for Indian exporters to tap into a potentially huge consumer market. Significant advantages of the country lie in its deep rooted association with Africa in comparison to China due to its deep history of colonialism together with the trade and cultural ties that it has brought (Business Monitor International A, par 11-12). India has also significantly noted that the relationship of India in relation to African economies has always been cost-effective together with the provision of appropriate technologies that will provide development assistance hence adopting a multi-pronged approach. Due to such a relationship, the use of

lines of credit was adopted together with the creation of assets in Africa and the establishment of high-tech projects by India. In addition with this, India has also been fostering partnerships in certain areas that include human resources development, health, capacity-building, and information, communication and technology (ICT) utilization (Businessline, par. 2). However this significant advantage is slowly being marginalized by the economic strength of China. In order to somehow compensate for this, India has been seeking to regain some its lost ground through the act of marching China's political influence together with pursuing a seat within the UN Security Council (Business Monitor International A, par 11-12).

Economic Risk

The economic risks of India centers on the discussion of its economy most especially the economic expansion strategy of the country followed by certain policies with regard to its tax measures. The current budget for the 2007-2008 fiscal year of India has been highly criticized due to its populist nature despite constant justifications from the government of the utility that it is supposed to bring. Finally, this section also focuses on the discussion of the inflation rate of India and what the government has done in order to solve it.

The Economy of India

The economic growth of India is expected to come in moderation after it had reached the 18-year high growth of 9.4% during the fiscal year of 2006-2007. Despite that the GDP of the country is expected to expand by 8.5% in

the fiscal year of 2007-2008, it should be significantly noted that it would be followed by a 7.9% decline in the fiscal year of 2008-2009. Although the fiscal stimulus provided by the government would surely aid to increase demand, such is projected to be offset by a tighter monetary policy and supply-side restrictions and a slow down in the global market (Business Monitor International B, par 1). The effect of the weakening investment climate together with the slowly declining US demand, the impact of the US recession and its effect to the health of the domestic economy of India could be seen as one of the major factors that caused the downward trend of the GDP of the country.

In effect of this, the data above reveals that indeed the economic expansion of the country is decelerating despite the optimism posed by the government. Finance Minister P. Chidambaram projected that there will be a 8.8% projection increase for the fiscal year 2007-2008, however as Business Monitor International suggests, this projection appears to be very unattainable (Business Monitor International B, par 2-3). Despite the expansionary fiscal policy of the country that was introduced in 2008 that will expect to provide the economy of India a robust support, Business Monitor International believed that the inflationary pressures would prevent the Reserve Bank of India (RBI) to perform a significant reduction of interest rates as growth moderates (Business Monitor International B, par 4).

According to Business Monitor International, the Finance Minister was not able to take advantage of the initial economic strength of the country through acts of reduction of deficit and debts. The Prime Minister, could have

opt to have a tighter fiscal policy that would allow for a greater absorption of capital inflows and at the same time help to keep the inflation within the country in close monitor. Albeit, since as stated on the early sections of this research, the political factors of the country have prevented the government to effectively deal with the issue together with the issue of acquiring appropriate budget (Business Monitor International B, par 4).

The economic slow down of the United States has caused the projected decline of export target of the country. For instance, the collapse of the US housing market together with the closure of furniture retail stores in the country has placed the furniture business of India in an unfavorable disposition. The orders for furnitures have gone down to as much as 70% hence causing job cuts in the country; while the consistent increase of fuel costs have significantly affected the prices of cotton, hence leaving no other option for companies to employ cost cutting measures other than employee lay offs (Business Monitor International B, par 13-15).

Table 1: The Economic Activity of India

Source: Business Monitor International B

The table above shows the economic activity of the country; and as shown in the figure, the real GDP growth of India is expected to be unstable starting 2009 until 2012 together with its GDP per capita. Despite the increase in population and imminent increase of demand for resources and together with jobs, the industrial output of the country is still expected to go down as an effect of the monetary policy tightening and slow global expansion of the

economy. The automotive market of the country is expected to stutter in March 2008 as the total vehicles sales that include two and three wheelers have fell down by 4. 7%. In relation to this, motorcycles sales that have been initially strong in the country have also fell down by 11. 9% and the sale of three-wheeler vehicles have also gone down to 9. 71% (Business Monitor International B, par. 6). As such it is with this respect that it could be implied that foremost among the things that investors must consider upon investing within the country other than the weakening domestic politics is the careful planning of investment to certain industries that are lagging such as the automotive and the furniture sector. Careful consideration and study should also be made upon the industry to which the business venture must be done, and strategic plans and goals should also be set in accordance to the economic disposition of countries in which India highly depends for its revenues such as the United States.

The Fiscal Policy

The budget of India for the fiscal year 2008-2009 has been tagged as having a populist nature due to the increasing number of tax giveaways implemented by the Prime Minister. Although the income tax exception limit has been raised to INR150, 000 (US\$3, 760) from INR110, 000, various excise duties were however cut on a range of products such as pharmaceutical goods and small cars, together with wireless data cards (Business Monitor International B, par. 22). It has been seen that the current budget plan of the Indian government is an attempt of the aforementioned to please all of its constituents (Business Monitor International B, par. 17).

Chidambaram is expected to spend on a rural job guarantee scheme at INR160 billion and pledged INR140 billion for the development of rural infrastructures. In addition to this, reforms has been pledged within the coal and power industries and the government have even emphasized that it would create steps to open the financial sector as well as the developing market for exchange-traded currency and interest rate futures. With regard to the financial and capital markets side, the Prime Minister said that the will be withdrawing the Cash Transaction Tax on April 2009 (Business Monitor International B, par. 23).

Table 2: The Fiscal Policy of India

Source: Business Monitor International B

The table above shows that although the revenues of the country are projected to increase until 2012, the budget balance remained to be significantly high. Business Monitor International pointed out that such came about primarily from critical measure from the increase of short-term capital gains tax from 10% to 15%. Although there was no increase in the Securities Transaction Tax, the announcement of the government to get more revenue by imposing a Commodities Transaction Tax may cause unsettlement to a number of financial markets (Business Monitor International B, par. 24). The most controversial of such is Chidambaram's new budget that primarily centers on the waiver of agricultural loans. In order to reduce the debts of the farmers, the government is looking forward to invest INR60 billion (US\$15 billion) to serve as a 4% waiver to the total bank loans of the aforementioned. It has been estimated that about 40 million Indian farmers

would benefit from the proposed program. However, a number of critics have pointed out that such a move from the government is only tailored to have the INC gain a relatively better image that primarily resulted from its failure to address rampant inequalities in the country (Business Monitor International B, par. 25).

The Monetary Policy

Growth in wholesale price inflation (WPI) of India has slowed down from 7.41% y-o-y increase that was recorded on March 29 of this year. This rate has been recorded to be the highest since November 2004 of 7.33%. According to Business Monitor International, causes for high prices of commodities are primarily caused by external factors. Although the Reserve Bank of India (RBI) has opted to increase the cash reserve ratio (CRR) from 7.50% to 8.00% the measure would still take a while before such could have significant effect on the prices of commodities (Business Monitor International B, par. 31-32).

Figure 2: India - Repurchase Rate (%)

Source: Business Monitor International B

RBI Governor Yaga Venugopal Reddy has stated that the inflation rate for India is indeed huge and what the central bank can do is to hike the key policy rate as the repurchase rate for the country remains to be at 7.75% and is still unchanged since March 2007, as shown in the figure above. It could be seen that since April 2007, the repurchase rate of the country

remained the same until a year after- April 2008 (Business Monitor International B, par. 33).

Since the WPI of in India remained significantly high, the government has attributed its cause primarily to the increasing prices of food, metal and fuels, most especially now that the latter has recently hit a record of US\$117 per barrel on April 18 of this year; in addition to this, Business Monitor International has also attributed the inflation rate to the populist 2008-2009 Fiscal Year Budget and the most recent Sixth Pay Commission Recommendations (Business Monitor International B, par 34).

Figure 3: India - Wholesale Price Inflation, Weekly (y-o-y)

Source: Business Monitor International B

The figure above shows that the wholesale price inflation of the country remained to be increasing since December 2007. On April 12, WPI spent its eight consecutive week above 5.00%, that is the level of inflation that the central bank desires to maintain for the current fiscal year, hence resulting to a number of policy changes. Foremost of this is the country's increase of the minimum export price for grain in order to boost local supplies and also to force most of its suppliers to ship rice at \$US 1,000 per tone, excluding freight from US\$650 per tone. In March of the same year, the government has also cut the import tax on vegetable oil, which is already the fifth reduction since January 2007. In addition to this, the government has also withdrawn its refund tax schemes for its exports of steel and cement that

resulted due to high domestic prices of commodities and domestic supplies (Business Monitor International B, par 34-35).

The Business Environment

The strength of the business environment of India is seen to be primarily centered on its US\$16.9 billion in direct foreign investment inflows in 2006, which is a 153% increase compared to 2005. In addition, the its relatively cost effective yet skilled English-speaking human resource has allowed the influx of jobs from the West hence making India an ideal outsourcing haven to North America and Europe (Business Monitor International C, par. 1). The country could also highly benefit if it would invest more on the liberalization and deregulation of its local industry in order to enhance its competitiveness in the global market. In addition, the inclination of Prime Minister Manmohan Singh to increase the availability of long-term financing most specially for large infrastructure projects is also seen as a major opportunity for the country (Business Monitor International C, par. 3).

India should however look towards providing solution to the emergence of red tapes that highly cripples the local firm hence reducing its competitiveness in the international market. In the same manner, intellectual property rights within the country should also be protected, hence allowing more opportunity for patented products and increased human resource investmentmotivationtogether with the possible revenue that it can contribute to the economy (Business Monitor International C, par. 2). Threats in terms of the emergence of Western players most especially multinational companies such as Accenture and IBM hence causing increased

competition in the outsourcing sector must be taken into close study of the government. The intense competition among Foreign Direct Investments (FDI) of the country to China is also a major threat as the country has excessive bureaucracy and poor infrastructure in comparison with China (Business Monitor International C, par. 4).

Foreign Investment Policy in India in Relation to China

The government of India is dedicated in terms of liberalizing its FDI framework through the increase in caps on investment in terms of civil aviation and promised loosening of restrictions on foreign investment in the retail sector. However even if the country has already made a significant number of improvements since 2000, the full actualization of its FDI potentials still require a number of improvements in a huge range of areas. Foremost among such is the capability to enable the legal environment for investors, reduce the burden in terms of international regulations and the capability of the country to make the labor market flexible (Business Monitor International C, par. 36). Although India has improved majority of its restraints in terms of foreign investments since 1991, there are still some areas wherein a wide array of prohibitions is still evident (Business Monitor International C, par. 37).

The government of India has already operated an automatic system of FDI approval in a number of sectors which has been gradually increasing since the 1990s. In addition to this, Prime Minister Singh has also decided to have certain restricted areas open to FDI, albeit as of January 2008, most of the issues has not been resolved yet (Business Monitor International C, par. 39).

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There are however certain areas that do not require government approval but only notifications from the Reserve Bank of India (RBI); others however still needs approval from the Foreign Investment Promotion Board or the Cabinet Committee on Foreign Investment (Business Monitor International C, par. 40). There are however certain areas that are open to 100% FDI such as the manufacturing, advertising and film, power, coal and lignite processing, drug manufacturing, business-to-business e-commerce, hotels, tourism and restaurants, non-banking financial services, petroleum marketing, ports, postal services, and telecoms equipment manufacturing (Business Monitor International C, par. 41).

Investments in the real estates are still under some prohibitions such as retailing, legal services, agriculture and plantations (except tea), security services, and railways (Business Monitor International C, par. 42). Despite of these restrictions, India is still notable for its leadership in terms of ICT, software, business services and consumer electronics FDI in which key country sources cater to the US, UK and Germany (Business Monitor International C, par. 43).

In order to somehow match the competitive advantage of China, Prime Minister Singh has been planning to implement an aggressive special economic zone (SEZ) policy that will enable the country to further develop its manufacturing sector through offering tax breaks and other incentives in special zones in order to attract overseas capital from its Asian neighbors such as Dubai and Singapore (Business Monitor International C, par. 44).

The Special Economic Zone Act of India is expected to attract industrial

investments in its rural areas through the act of offering a 15-year tax holiday for certain activities within the jurisdiction of the said zone. It is with this respect that the act is expected to generate one million jobs together with investments amounting to INR590 billion by 2009 (Business Monitor International C, par. 45).

Operational Risks in Doing Business in India

Despite of the loosening of restrictions most specially in FDIs, there are still a number of notable risks that must be considered upon doing business in India. The UK Foreign and Commonwealth Office (FCO) said that terrorism in India is still among the highest among the considerations to be noted upon decisions of launching a business venture. India still ranked second in the world in terms of its Global Terrorism Indicator Index, in which the top post has been tagged to Sudan. FCO noted a number of indiscriminate attacks in cities in which there is an abundance of British expatriates and foreign travelers. Since July 2006, terrorist attacks has been seen in major cities such as Mumbai, New Delhi and Hyderabad; other metropolitan areas has also witness attacks, most specially those in Chennai, Delhi, Mumbai and Kolkata in December 2007 (Business Monitor International C, par. 46).

Other than terrorism, risks in terms of security should also be noted as petty theft within crowded areas of the country such as markets, airports and bus and railway stations are also evident. The crime rate in the country has been noted to increase such as handbag snatching, drugging and robbing of travelers on trains, scams and intimidation among tourists in Agra and Jaipur; risks on women, most specially those who travel alone is also very

high as they have the tendency to be harassed and assaulted (Business Monitor International C, par. 47).

Comparative Analysis

The comparative analysis primarily centers on the strengths, opportunities, weaknesses and threats (SWOT) analysis of India as evident on the secondary data presented on the literature review; as significantly compared to the SWOT analysis of China. From the data presented, the assessment of the research is given as to the disposition of India being an economic force second to China.

The Political Risks of India versus China

Secondary data as based on the literature review revealed that foremost of the political risks of doing business in India is centered on its domestic politics that resulted from the faction that came about from the controversial Indo-US nuclear issue (Business Monitor International A, par. 1-2). In addition, the growing concerns in terms of the inflation rate of the country are also notable as the aforementioned has already risen to 7.0% + according to the World Bank (Business Monitor International A, par. 4).

The foreign policy of the country in relation to its competition to China for its business transactions in Africa appears to be far behind as well, hence leaving a number of foreign investors wary in terms of furthering its business ties with the country (Business Monitor International A, par 8-9). This state of affairs has further taken toll to India due to the projected moderation of the economic growth of the aforementioned as the economic growth of the

country has been forecasted to slow down after it had reached the 18-year high growth of 9.4% during the fiscal year of 2006-2007 (Business Monitor International B, par 2-3).

However notable strengths of India could be seen on the aforementioned being one of the largest democratic institutions in the globe, hence providing guarantees of justice, liberty and equality (Business Monitor International D, par. 5). If developed, India's elected district and village councils, otherwise known as panchayats in Hindi could pave the way for a 40% reduction of all development spending, and in addition, lessen bureaucratic corruption (Business Monitor International D, par. 6).

The table below shows the SWOT analysis of the political disposition of China. It could be seen from the table that although the government system in the country is Communist in nature, it is however stable in terms of providing political security within the country, albeit when significantly compared to the government of India, it appears to be that China could be slow in terms of responding to not only changes within its society but also the global community in general (Business Monitor International D).

Table 3: SWOT Analysis of the Politics of China

Strengths

Weaknesses

The Chinese Communist Party, which has governed China for the past 57 years, remains secure in its position as the sole political party in China.

As with any other dictatorship, China's political system is inherently unstable

and unable to respond to the wider changes taking place in Chinese society. As its economy expands, China's regional political influence will continue to grow, and will soon be able to provide a challenge to US hegemony in the region.

China's relationship with Taiwan remains problematic, with Beijing refusing to rule out the threat of force in the event of a declaration of independence by Taiwan.

Opportunities

Threats

Relations with the US are strong, as Washington needs China's support to bring nuclear North Korea to the negotiating table.

Growing corruption, widening inequalities, increasing rural poverty and environmental degradation have led to an increase in social unrest in recent years.

President Hu Jintao has now consolidated his position following the retirement of ex-president Jiang Zemin from his position as China's military chief.

Source: Business Monitor International D

Although the ties of India with the United States is robust as evident on its continuing good relationship most specially in terms of business process outsourcing (BPO) and information and communication technology (ICT), this competitive advantage is projected to be soon attained by China by slowly establishing its strong ties with the US government as the result of its role in terms of having North Korea negotiate with the United States (Business

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Monitor International D). Albeit, like any other country in Asia, India and China still poses significant problems most especially in dealing with issues of corruption and inequalities within the society.

From the data above, it could be implied that the most notable political risk in terms of doing business in India is its fractioned political framework that resulted from its relatively weak government control in which changes in terms of its international policies that could have enabled higher FDIs, is significantly affected. China however, due to the strong hold of the Communist party has enabled the country to provide relatively faster policy changes that are in accordance with the international market.

The Economic Risks of India versus China

From the secondary data presented on the literature review, it could be seen that the economic growth of India is expected to come in moderation despite it reaching the 18-year high growth of 9.4% during the fiscal year of 2006-2007. In addition to this, criticisms in terms of the budget of India for the fiscal year 2008-2009 has been pointed out to be very unrealistic and populist in nature hence raising concerns of the aforementioned done to primarily serve political interests rather than cater on the pressing needs of the country (Business Monitor International B, par. 17). Together with these issues, growth in wholesale price inflation (WPI) of India has slowed down from 7.41% y-o-y increase that was recorded on March 29 of this year. This rate has been recorded to be the highest since November 2004 of 7.33%.

Despite of these economic criticisms, the strength of the Indian economy could be seen to lie on its huge supply of cost effective yet skilled labor. Its expertise as well in terms of IT-enabled services, call centers and software development remained to be one of the most notable income generating revenues of the country (Business Monitor International D, par. 9). Revenues of the country could also be further developed if tax exceptions would be minimized. The service sector, it effectively taxed would surely boost the revenue receipts of the country (Business Monitor International D, par. 10).

The table below shows the SWOT analysis for the economy of China. It could be seen from the table that the economy of the country has been steadily improving since 2005; in comparison with India which has been forecasted to having a moderate to declining economy in the next few years. Such an achievement on the part of the country could be seen on its effective policy makers and its dedication in terms of having the economy of the country developed (Business Monitor International D).

Table 4: SWOT Analysis of the Economy of China

Strengths

Weaknesses

China's economy grew by 10. 4% in 2005 and by 11. 1% in 2006, making it the fastest-growing major economy in the world.

China could be heading for a financial crisis unless it is able to reduce the level of non-performing loans (NPLs) in the state-owned banking sector.

The country's economic policymakers have proved themselves hugely capable, and will continue their methodical approach to reforming the

economy.

Still rapid investment could lead to over-capacity in the future, which might in turn lead to the re-emergence of deflationary pressures.

Opportunities

Threats

The latest data show that economic growth is slowly moving towards becoming more broad based, with consumption and net-exports contributing more to growth, although growth in fixed-asset investment remains rapid.

There are fears that the current high growth rate is unsustainable, and a soft-landing for the economy is still not assured.

As China's bilateral trade surplus with the US continues to increase, the country is coming under strong pressure from Washington for a further revaluation of the exchange rate.

Source: Business Monitor International D

From the table above, it could be implied that China has been implementing robust policies in terms of its economic development that could be significantly tied to the absence of intense politicking in the government that could have influence the entire decision making process. Although there are a number of weaknesses that China must be able to deal with such as the emergence of non-performing loans (NPLs), forecasts of overcapacity and other political pressures from Western countries, it has been perceived by the research that these weaknesses and threats could be effectively dealt with given more time and policy development and strategic planning.

As such, deducing from the data presented, the research figured that in order for India to establish its competitive advantage and be at par with the dominance of the Chinese economy, it must be able first to work on its populist budget plan and significantly try to do away with intense politicking in terms of implementing tax policies. From the analysis of the opportunities that India could work on, the further improvement of its tax measures appears to very promising as it could provide the country a competitive advantage not to mention solving its inflation rate problem.

The Business Environment of India versus China

The business environment framework of India could be tagged as very competitive due to the emergence of its improving policies on direct foreign investment and its highly educated and competitive human resource. Despite of this, there are still certain concerns on issues such as red tapes, lack of protection of intellectual property rights and lack of competition on the emergence of Western players that poses a threat on the outsourcing industry are also one of the major concerns (Business Monitor International C, par. 4).

The business environment of the country could however be improved provided that it would be able to further liberalize and deregulate its foreign policies. The support of the project of Prime Minister Manmohan Singh in terms of financing large infrastructure projects could be also noted to bring forth a more robust business environment (Business Monitor International D, par. 14).

Despite the notable cost effectiveness of the labor force of India, it could not be denied that the same competitive advantage is also possessed by China. One of the major strengths of the country is its cheap labor and its dominance in terms of FDI in the global market. It is with this respect that it could be said that both India and China are at the same level in terms of the advantages that its workforce can provide (Business Monitor International D).

Table 5: SWOT Analysis of the Business Environment of China

Strengths

Weaknesses

China joined the World Trade Organisation (WTO) in December 2001, and has been making steady progress in meeting its WTO commitments. Foreign companies continue to complain about the poor protection of intellectual property in China.

With its vast supply of cheap labour, the country remains the top destination for foreign direct investment (FDI) in the developing world.

China is classified by many of its major trading partners at the WTO as a non-market economy. This makes it more difficult for the country to defend itself against anti-dumping duties.

Opportunities

Threats

China is set to benefit after the Multi Fibre Arrangement (MFA), the system that restricts imports on clothing and textiles, came to an end in January 2005. The country could see its share of the global textile and clothing market double to 50%.

There are concerns that China could be the target of WTO-approved 'safeguard' measures should there be a surge of textiles from China now that the MFA has expired.

The Chinese government is giving more protection and encouragement to the private sector, which is now the most dynamic in the economy and accounts for most of the country's job growth.

Source: Business Monitor International D

The same weaknesses are also possessed by both India and China most especially in terms of its intellectual property rights; albeit it could be noted that China is one step ahead in comparison with India since its Multi Fibre Arrangement (MFA) to have the clothing and textiles restrictions lifted in January 2005 hence paving the way for its textile and clothing market to double (Business Monitor International D).

From the data presented, it could be implied that both India and China possess the same competitive advantage in terms of the service sector. The only factor that sets China apart from India is its relatively more liberalized foreign investment policies. Albeit, despite of this, it could be noted that India is already in the process of liberalizing its FDI restrictions; although concerns in terms of the speed and the extent of the liberalization remains to be relative to the highly politicized nature of its FDI policies.

Conclusion and Recommendations

This section of the research summarizes the main points of the study together with the details to be considered upon launching a business venture

in India. The aforementioned includes both the things that must be done and the risks that investors may encounter upon doing such. In addition, recommendations are given relative to the gaps and areas of improvement as patterned from various management paradigms.

Conclusion

Based from the secondary data presented and comparative analysis, it appears to be that India is still very far in terms of surpassing China in terms of achieving regional and strategic global dominance. Its weak political state could be seen as the root of its forecasted moderating economy together with its politically tainted budget and FDI policies. It should be noted however that the same competitive advantage in terms of its labor force are both possessed by India and China, however, foreign investments are still more likely to pour-in to China due to its highly liberalized FDI policies.

Details to Consider When Doing Business in India

From the data presented from the literature review and the comparative analysis, the research has summarized the basic factors that investors must consider before launching a business endeavor in India.

Foremost of the things that investors must perform in relation to the political, economic and business environment factors of the country is to first, closely study if the political climate in the country has already improved. Make sure that investments should be done way before the election started or a couple of months after the election has already finished in order to prevent political problems together with the difficulties of the

inevitable emergence of government instability, that could provide negative impact to the business to be launched. Third, close monitor must also be taken into consideration with regard to the country's inflation rates and its instability in order for an investor to effectively analyze the risks and opportunities that the business may gain in the country. Fourth, as the economic growth of India is also forecasted to come in moderation, international businesses must first study the industry in which their business belongs to. It must be significantly noted that there are a number of industries in India that are lagging such as the automobile industry, the furniture industry and the likes. Investments on robust businesses in India should however be considered like those belonging to IT-enabled services, call centers and software development. If an international business venture is seeking to invest on industries that are lagging, careful strategy and product repositioning must taken into close consideration. Fifth, as the business environment of India also appears to be very promising, investments in terms of the country's labor force are assured to have the same competitive advantage to China. It is with this respect that it could be said that when doing business in India, investments is expected to be favorable when focused on the country's human resource.

A business endeavor in India on the other hand, should refrain from investing in a particular industry that is already lagging, or immediately launch their business without careful study of the political and economic climate, most especially those in relation to the inflation rates of the country together with the constantly changing FDI policies. The location of the business must also

not be chosen arbitrarily or be chosen just in virtue of having a strategic area due to for instance a number of high consumer traffic, since threats of terrorism and other petty crimes most especially in cities and other crowded areas has been steadily noted.

Recommendations

In order for India to surpass China in terms of regional and strategic global dominance, the focus first in terms of resolving its political issues and eventually the improvement of its fiscal and monetary policies must be taken into consideration. The speed in which economic changes could be implemented rests on the capability of the government to disregard inclinations for political gains and instead focus on its FDI liberalization.

As for international business endeavors in India, other than the political, economic and business environment factors to be considered, it must be noted that the importance of considering cultural factors as a key element for business success must also be taken into close account. In addition, it is a fact that the goal of diversity and inclusion is an idea that is not easily welcomed in Asian countries. For instance, countries like China, and most especially that of Japan and South Korea are not really that open in terms of welcoming a very diverse workforce. When multinational companies go to Asia, it is imperative that they will exert their best efforts in order to blend within the cultural and national values and other differences within the workplace. For instance Chinese people do not necessarily cater on the idea that they should be thankful because of the presence of foreign investors within their country. Rather, the presence of multinational companies

appears to be as an intrusion that should be neutralized at least to have the organization and the business effectively running. Other evidences of the lack of acceptance on cultural diversity are evident on the role of women workers and their difficulty to rise the corporate ladder and belong to the middle senior management position (George, p. 2).

Albeit another part of the Chinese business culture that should be taken into consideration that could also be beneficial in terms of conducting one's business to India is their notion of the "guanxi". Guanxi as described by Yadong Luo (as cited from Alon and Shenker, p. 42) is a "complex, long-rooted, diverse impact and nebulous term associated with not only management, marketing and economics but also sociology, anthropology, psychology, organizational behavior and human resource management" (p. 41). Simply put, guanxi emphasizes on the importance of relations, more specifically the so-called reciprocal bonds between businesses. Chinese businessmen believed that in having the right guanxi, the risks and barriers of business would be prevented.

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