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India and China -Looking Below the Surface to Compare These Two Rising Asian Business Giants

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Abstract

India has emerged as a trading superpower and as an increasing magnet for FDI. Its role in the international economy to this point has been less remarked than the rise and dominance of China but increasingly India will be appreciated for the opportunities it is creating for its citizens, employers and foreign and domestic firms. India & China can be compared along many dimensions to better understand the reasons for the disparities in the growth rates, GDP, exports & FDI. A few of the parameters are:

- Political Systems
- Monetary Policies
- Fiscal Policies (Tax Regimes)
- Quality of living
- Infrastructure Availability
- Skilled manpower

The two Asian giants – India and China have shown several developments in different sectors from the early times, which eventually contributed towards a steep rise in the economy of the respective countries. However, when it comes to comparing the economy of both the countries, China usually stays on the top. The economists points out, Chinese Government constantly implies new, which certainly has an impact in the first rising economy. Both the countries are putting in their best efforts to analyze their core economic strengths and gradually establish themselves as the superpower in the World Economy

India and China: An Introduction

Both China and India are still desperately poor countries with large disparities in incomes across each country. In China nearly half of the country's labor force remains in agriculture (about 60 percent in India). Also, despite all the talk about Indian software engineers and Nobel laureates and Chinese engineering whizzes, India has the largest number of illiterate people in the world and China also is burdened with a large number of rural poorly educated who will offer continued challenges for economic development. (India’s illiteracy rate is nearly 40 percent and China’s is nearly 10 percent according to World Bank statistics.) Of the total of 2.5 billion people in these two countries, nearly 1.5 billion earn less than US$2 a day, according to World Bank calculations. The opportunities in both countries are substantial; the challenges are also large.

What took China ahead of India and what keeps it ahead

In 1980, the economies of China and India were almost the same in terms of gross domestic product (GDP). India's GDP per capita was, in fact, slightly higher than that of its much larger eastern neighbour. Then, the Chinese economy grew at an average rate of 10 percent between 1980 and 2010, leaving India far behind. In fact, Chinese manufacturing sector is presently eight times the size of India's.There are many reasons for China's rapid pace of growth. These include business-friendly environment created by the setting up of Special Economic Zones and business-friendly labour policies.

S. Ramakrishna Velamuri, Chair, Strategy & Entrepreneurship Department, and Academic Director of Centre for Entrepreneurship and Investment, Europe International Business School, has a different argument on why China succeeded the way it did when it launched its business-friendly policies and, more importantly, why India could not have replicated the success even if it had embraced similar policies.

In 1982, the literacy rate in China was 64.4 per cent, compared to India's 37. The average years of schooling in China was far higher than that in India then. In every measure, China was far better than India. In terms of healthcare - be it infant mortality, life expectancy - China had a far healthier population, he said. Then there is gender gap. China has traditionally been a society that had encouraged gender equality. India, even today, fares badly on that parameter. Recent studies have ranked China at No.61 in terms of gender equality as against India's 113 among 134 nations.

In another attribute - economic empowerment of women - China holds the No.50 spot, compared to India's 131 today. Labour force participation by women in China is 74 per cent, while it is just 34 per cent in India. In women's education, China is at No.85, against India's 121.If a strong human capital is the reason that catalysed China's rapid growth, there are a few less attributed reasons for the sustainability of the growth.

Jay Anand, Professor of Strategy at Ohio State University, gave two interesting reasons involving strategy for it. He said that multinational companies approached China and India very differently. They saw India as a large market for their products, while China was seen as a manufacturing base for supply to the rest of the world, he said. This, he added, also explains the large difference in foreign direct investment (FDI) flow into the two countries.

Akbar Zaheer, Professor in Strategic Management, University of Minnesota, shared a few other reasons, political stability being one. He said that the Chinese were paranoid about political instability, especially after the collapse of the erstwhile Soviet Union. "They have a great sense of importance for political stability," he said.

Although India is in a better shape now to reap the advantage as its demographic dividend is intact and the quality of higher education is far better than in China. Also, some private sector innovations in healthcare in select areas such as ophthalmology have ensured that India is far ahead of China. "India has to learn from China and invest in human capital for generating and sustaining higher rate of economic growth," Velamuri said.

India catching up with Chinese economy

Both China and India accounts for almost 2.5 billion people, and has shown rapid economic transformation in the past few years. As per the recent report prepared by the UK financial services Barclays, due to the economic growth of China and India, Asian economy is no more seeing a hunch.

China vs. India 2030 – Global Forecast

Item	China	India
Size of economy in global terms	2nd	4th
Global position in purchasing power parity	2nd	3rd
Global ranking among fastest growing economies	20th	12th
Per capita income (US$)	10,700	8,900
World per capita income ranking	80th	88th
Number of workers (millions)	175	600
Population growth rate	0.82%	1.01%
Total population in global terms	19%	21.5%
Percentage of global trade	8%	5.5%
Global trade (US$bn, 2008)	9,824	4,500
Total rail track (km)	200,000	130,000
Total highway length (km in millions)	1.8	0.9
Total number of English speakers (millions)	10	250

There are multitudes of factors that play a pivotal role in shaping the economy of both the countries, which would include social, political and other factors. In terms of exchange rates, the economy of China is in the second position, whereas Indian economy is considered as the 11th largest economies in the world. India has just started to come in lime-light and its growth patterns have mirrored that of China's grow at an average of about 8% annually until the financial crisis hit, India's economy currently is in 12th position, and is likely to break into global top 10 in terms of size. By 2030, India will have overtaken China both in terms of population and GDP growth rates.

The Indo-China bilateral trade has grown significantly since 2005, except for the crisis- hit year 2009. Chinese imports of Indian goods fell 26.6% more than Indian imports of Chinese goods. The inequality of trade has led to tension as Indian manufacturers have to surpass the route of low-cost Chinese goods.

India & China – Comparison of two Asian Giants

1.Size

China is the world's third-largest country after Russia and Canada and is the second largest country by land area. India is about a third of China's size.

2.Population

China tops India at 1.3 billion people compared to India at just over 1 billion but India is growing at a faster rate and has a younger population.

3.Political system

China is a communist country which economically is following market reforms that encourage free trade and capitalist-based business models. India, by comparison, is the world's largest democracy, but with a system of commerce that until the 1980s was based on the Soviet model and has since been reforming itself to follow more free trade and capitalist-based models. China has been reforming its economy since 1978; India has been working since 1991 but at a faster rate of speed.

4.Manufacturing

In terms of manufacturing China's lead over India in terms of manufacturing is considerable. China is the world's third largest nation in terms of manufacturing after the U.S. and Japan. India is a still impressive, but much further back 12th place in the same list according to Global Insight and the Financial Times. This points out the fact that to this point, India's success in expanding its service industry has yet to be as firmly demonstrated in the manufacturing sector.

	2006		**2025**
1	US	1	China
2	Japan	2	US
3	China	3	Japan
4	Germany	4	Germany
5	France	5	South Korea
6	UK	6	France
7	South Korea	7	India
8	Italy	8	UK
9	Brazil	9	Italy
10	Canada	10	Brazil
11	Russia	11	Russia
12	India	12	Indonesia
13	Spain	13	Mexico
14	Mexico	14	Taiwan
15	Indonedia	15	Canada

Top 15 Manufactuing Nations

5. Tax Regimes

As can be seen, India has introduced a tax regime that is vastly more advantageous in the Special Economic Zones than China. Another benefit of India over China with respect to locating in the Special Economic Zones is that India does not discriminate between manufacturing and services and either can offer the above incentives, which is not the case in China. (Service companies are treated less favorably in China for incentives.)

Both India and China have done fairly well when it comes to tax structures and other central and regional levies within the country. Moreover, India is on the cusp of landmark tax reform, especially in indirect taxes through introduction of GST.

While China did away with preferential tax incentives largely available to foreign investors in free trade zones, with unification of tax base in 2008; India has shored-up tax incentives in special economic zones to gives its infrastructure sector a much-needed boost.

Tax	China	India
Corporate income tax	25%	30.9% to 42.23%
Education surcharge	Nil	2% to3%
Business (turnover) tax	5%	Nil
Wealth tax	Nil	1% (if t/o above US$32,600)
Dividend tax to overseas parent	10%	14%
Transaction-based taxes	**China**	**India**
VAT	17%	12.5%
GST	Nil	16%
Withholding taxes on royalties charge from overseas	0-45% depending on service, average 20%	10-40% depending if permanent establishment is in India or not

6. Company Development

Tax incentives are not the only area that India is ahead of China in. Generally, Indian capital markets far exceed their Chinese counterparts in terms of transparency and predictability. Indian companies can list domestically on the Bombay Stock Exchange, Asia's oldest exchange. China has both the Shanghai and Shenzhen stock exchanges. Shanghai is larger than Bombay in terms of capitalization (Bombay has US$1 trillion with 4,833 companies and Shanghai has US$1.7 trillion with 849 companies) but what differs the two exchanges is not just their size but that Bombay is run to international standards and has tremendous stability in the quality of its companies. On the other hand, China's Securities Commission has no powers to impose punishments, which must be imposed by the courts. Further as the government is the major stockholder of its State-owned enterprises all these firms are not subject to independent policing and true financial analysis meaning that the value of many of these firms is suspect. This means that generally India has the more transparent economy.

7. Company Management Capabilities

India, however, is not only ahead in financial transparency. Although there are many excellent Chinese companies, generally the management abilities of many Chinese businesses is not as strong as their Indian counterparts. Part of this is due to the fact that reform in China started barely 30 years ago and that management training has not become of interest till recently. Also, it is a factor that in many respects it is the rest of the world that came to China to produce in the last decade and not China's homegrown export industry that has driven exports. In fact, if one looks at cross-border activity, China has yet to become active in acquisitions to-date, although there is indications this is starting to change. Big acquisitions by Chinese businesses include Lenovo's takeover of IBM's PC business and more recently the Chinese acquisition of an interest in Blackstone, which is a different twist on things.

On the other hand, Indian companies have been on a tear building up international assets and expanding throughout the world. Recent examples:

- Tata Steel's $13.6 Billion Acquisition of Corus
- Mittal Steel's even larger $31 billion purchase of Arcelor
- Tata Group's acquisition of U.S.-based Glaceau, a health drinks and water manufacturer, for US$677 million
- Tata Tea's purchase of a controlling stake in Britain's Tetley for US$407 million
- India's wind energy firm Suzlon's acquisition of Hansent Transmission for $324 million
- Infosys's $28 million acquisition from Phillips of BPO centers in Chennai; Lodz, Poland and Bangkok, Thailand.
- Indian Phamaceutical giant Ranbaxy's acquisition of Romania's Terapia
- Ballarpur Industries (an Indian Paper and Pulp company) and JP Morgan's

acquisition of Malaysia's Sabah Forest Industries

As can be seen from the above examples, Indian companies are actively becoming world players. Chinese companies really can't match the breadth or the depth of acquisitions and this is giving Indian companies a lead over their Chinese counterparts.

8. Communication

Despite what some Europeans, and especially the French, have come to think; English is the international language of business and one of the further reasons for India's success is the fact that Indian businesses generally speak it at all levels and with a high degree of precision, while Chinese businesses do not. Although Mandarin is the world's most spoken native language, with some 874,000,000 native speakers, it is also spoken in only 16 countries in any substantial proportion of the population and those are all in Asia. English is the world's third largest spoken language with over 380 million people speaking it natively. Despite the fact the absolute total is much less, the spread of countries – 104 speaking English in a high proportion of the population and 71 as an official language – is six and a half times greater than Mandarin and over 600 million people speak English as a second language, including 89% of current students in the world's other developed powerhouse, the EU. The fact is that Mandarin is still a regional Asian language and not a world language in the same way as English is.

9. The Government Intervention

While a vast majority of China's growth comes from state-owned companies, India's economic miracle can be largely attributed to its private sector story. Even India's state-owned companies are gradually logging change from its conventional business model hit by red-tapism. China's state-owned and subsidized model has led to unfair competition and frequent government interventions paving way for difference in decision making and executive talent within the two countries.

10.The Business Environment

In China, the business hubs are already established and running with efficient administration in place. However, India isn't up to China standards yet when it comes to development and execution of large-scale projects including infrastructure solutions.

But, on the other hand, even China is facing certain headwinds such as increase in labour unrest and strikes due to protectionist policies. The same also applies to social media and internet interventions administered by the Chinese government. Even the levels of corruption is different in both the places – with that at China being more of disguised as favors and connections; rather than in the form of 'baksheesh' that is prevalent in India.

11. Economy

- **In terms of GDP**: India's estimated GDP is around USD 1.537 trillion, while China is far ahead with GDP of USD 5.878 trillion. It has been observed in the recent past as well that China's GDP is consistently ahead of India. India is running little behind to china, even when we talk about per capita GDP. Comparing both the Asian countries, China has a labour force of about 813.5 million, while India has almost has half of it with 467 million.

- **In terms of Agriculture**: In spite of all the differences, Agriculture forms the backbone of the economy in both the countries. China's agricultural techniques are far more advanced as compared to India, thus it yields better quality crops. The quality of agriculture in China contributes to the export of agriculture.

- **In terms of IT sectors**: India has taken its economy to a different level with the IT and the BPO industries. From the BPO sector, India has earned a contributing figure of $49.7 billion, whereas China contributed $35.76 billion.

- **FDI**: China started off with its liberalization policies and got immense exposure in the global market and started receiving Foreign Direct Investments (FDI's) since the middle of 1980's, while the liberalization policies in India got frozen by the 1990's. Investments in water management, healthcare management, communication, constant focus on labour and manpower are the core strength areas of China. Compared to the Indian Capital Market, Chinese market is less predictable and lacks transparency. The Indian stock market is far more grounded and provides a financial transparency. Currently, China is positioned far behind India due to its lack of management reform and somewhere due to its inability to increase acquisitions with different companies across the world, while India is expanding in its mergers as well as acquisition with the numerous international organizations.

12. Challenges faced by both the countries

- **India**

- Over population, eventually results in increasing poverty
- Lower literacy rates which further creates distinction between the educational opportunities between male and female
- Unemployment at large rates
- Lack of infrastructure and proper socio-economic development
- Low agricultural productivity due to the deficit of advanced technologies
- Corruption at all levels

- **China**

- The expansion in the economy has brought along inflation. Consumer price inflation is expected to cross the threshold in the upcoming days
- For the growing Chinese economy more power is required
- Sudden economic slowdown due to the unexpected increase of property prices
- Unemployment is yet another challenge that the growing Chinese economy is facing
- Transfer of the political power to the new hands
- The southern and the eastern region of china has a favourable economic growth whereas the north and the western region lacks income

Beware, China: India's Economy Could Have an Even Brighter Future

Long-term growth drivers for India

- ***"Demographic dividend"***: Half of India's 1.2-billion population is under the age of 25. By 2020, India will have the world's youngest population, with a median age of 29 years, compared with a median age of 37 in China. This demographic dividend could potentially give India the biggest labor force and make it the largest consumer market in the world.

- ***Growing middle class***: India's middle class of 250 million already represents one of the biggest consumer markets in the world. This educated, tech-savvy and relatively affluent group is expected to continue its rapid growth in the years ahead.

- ***Low penetration of goods and services***: Despite the economy's progress over the past quarter-century, the Indian market still has a relatively low penetration of goods and services, which translates into massive untapped potential. For example, in 2009, there were only 11 passenger cars per 1,000 people in India, compared with 34 in China, 179 in Brazil, 233 in Russia, and 440 in the U.S.

- ***A functioning democracy*****:** One of India's greatest strengths is that it is a vibrant and functioning – albeit a trifle chaotic – democracy, where the electorate regularly exercises its constitutional right to kick out non-performing governments. India's army, one of the world's largest, is also staunchly apolitical and has consistently remained aloof from political shenanigans

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- ***Established companies and institutions***: India has a thriving business sector with dynamic SMEs and large companies that are increasingly expanding overseas, educational institutions that are among the world's best, and competent financial organizations.

The IMF forecasts that India will become a $3-trillion threshold in 2019, which would make it the world's seventh biggest economy. But while the long-term outlook is very positive, the increase so far in 2015 in the BSE Sensex index has made valuations among the most expensive in the emerging market space. India should emerge as the brightest star in the BRIC firmament, threatening to eclipse perpetual economic luminary China.

Conclusion

Comparing several factors, China and India stands at more or less at the same juncture of economic development. Both the countries are looking forward to approach constructive developmental strategies to increase their effectiveness. While, China has opted for manufacture-led growth strategy, India finds it better to stick to the service based development models for an enhanced growth in economy. Apart from these strategies, overall encouragement in labour and manpower is required which would further be effective in combating unemployment challenges.

As can be seen from the above, on the surface, China looks like the stronger player but some of that difference is veneer only. India does have advantages in many areas and these areas are generally the sorts – finance, management, and communications - that have effects throughout the system. For these reasons, we believe India cannot be ignored.

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