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   HYPOTHESES

   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

   FINDINGS

   RECOMMENDATIONS/SUGGESTIONS

   CONCLUSIONS

   SCOPE FOR FURTHER RESEARCH

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   REFERENCES

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- Bowersox, Donald J., Closs, David J., (1996), "Logistical Management." Tata McGraw, Hill, New Delhi.
- Hunker, H.L. and A.J. Wright (1963), "Factors of Industrial Location in Ohio" Ohio State University, Nigeria.

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- Sharma T., Kwatra, G. (2008) Effectiveness of Social Advertising: A Study of Selected Campaigns, Corporate Social Responsibility, Edited by David Crowther & Nicholas Capaldi, Ashgate Research Companion to Corporate Social Responsibility, Chapter 15, pp 287-303.

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- Schemenner, R.W., Huber, J.C. and Cook, R.L. (1987), "Geographic Differences and the Location of New Manufacturing Facilities," Journal of Urban Economics, Vol. 21, No. 1, pp. 83-104.

**CONFERENCE PAPERS**

- Garg, Sambhav (2011): "Business Ethics" Paper presented at the Annual International Conference for the All India Management Association, New Delhi, India, 19–22 June.

**UNPUBLISHED DISSERTATIONS AND THESES**

- Kumar S. (2011): "Customer Value: A Comparative Study of Rural and Urban Customers," Thesis, Kurukshetra University, Kurukshetra.

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**WEBSITE**

- Garg, Bhavet (2011): Towards a New Natural Gas Policy, Political Weekly, Viewed on January 01, 2012 http://epw.in/user/viewabstract.jsp

# BUSINESS ENVIRONMENT IN INDIA AND CHINA: KEY INDICATORS AND GROWTH OF ECONOMY

*AMITA MAXWELL*
*ASST. PROFESSOR*
*JOSEPH SCHOOL OF BUSINESS STUDIES*
*SHIATS -DEEMED UNIVERSITY*
*ALLAHABAD*

## ABSTRACT

*The present paper is an attempt to explore the key indicators of business environment or economic development in China and India and the impact of these environmental variables on the growth of both economies over the years. As India and china share many things in common and both are now emerging as world's second and third largest economies respectively, historical perspective of both countries is traced and based on reports, secondary data from various findings a comparison has been made between both the countries on five key factors namely; government regulations/political-legal environment, economic reforms, labour market, attitude towards foreign direct investment and marketing base in order to compare the situation in both economies over the years and how favourable the environment is in terms of business and investments for both economies.. The study aims at finding out the challenges and opportunities for India in today's era of liberalization, privatization and globalization and how does India stand in comparison to china.*

## KEYWORDS

business environment, economies, India, China.

## INTRODUCTION

The present paper is an attempt to explore the key indicators of business environment or economic development in India and China and the impact of these environmental variables on the growth of both economies over the years. There are obvious reasons for making such an analysis or comparison because of the following reasons:

- China and India are among the largest economies in the world today
- They have also been among the fastest growing over the last two decades and a half. They both entered the 1980s at comparable levels of per capita income following three decades of growth-China at an average rate of 4.4 percent per annum, and India at a rate of 3.75 percent[1].
- Since then China's economy has taken off to a state of unprecedented growth that averaged 10.1 percent per annum in the 1980s, 10.3 per cent per annum in the 1990s, and has yet to show any sign of slowing down[2].
- India's GDP growth has also picked up to an averaged 5.6 per cent a year in the 1980s, 6 percent per annum in the 1990s', and even higher since. Although India's growth rate has been remarkably high by any standard, the sustained growth gap between the two countries has intrigued observers, especially given what seemed to be significant similarities in their initial conditions.

Why is per capita income so much higher today in China than in India? And why is China's GDP growing so much faster? These questions are often open up to deliberations and debate among academicians, scholars, industrialists and people in the government.

## HISTORICAL PERSPECTIVE- INDIA

After Independence in 1947, India adhered to socialist policies. In the 1980s, Prime Minister P. V. Narasimha Rao initiated some reforms. In 1991, after India faced a balance of payments crisis, it had to pledge 20 tons of gold to Union Bank of Switzerland and 47 tons to Bank of England as part of a bailout deal with the International Monetary Fund (IMF). In addition, IMF required India to undertake a series of structural economic reforms [1]. As a result of this requirement, the government of P. V. Narasimha Rao and his finance minister Manmohan Singh (the present Prime Minister of India) started breakthrough reforms, although they did not implement many of the reforms IMF wanted. The new neo-liberal policies included opening for international trade and investment, deregulation, initiation of privatization, tax reforms, and inflation-controlling measures. The overall direction of liberalisation has since remained the same, irrespective of the ruling party, although no party has yet tried to take on powerful lobbies such as the trade unions and farmers, or contentious issues such as reforming labour laws and reducing agricultural subsidies.[3] The main objective of the government was to transform the economic system from socialism to capitalism so as to achieve high economic growth and industrialize the nation for the well-being of Indian citizens. Today India is mainly characterized as a market economy.

India is the world's most populous democracy. According to the International Monetary Fund, as of 2011, the Indian economy is nominally worth US$1.843 trillion; it is the tenth-largest economy by market exchange rates, and is, at US$4.469 trillion, the third-largest by purchasing power parity, or PPP. India is one of the world's fastest-growing economies. Until 1991, all Indian governments followed protectionist policies that were influenced by socialist economics. Widespread state intervention and regulation largely walled the economy off from the outside world. An acute balance of payments crisis in 1991 forced the nation to liberalise its economy; since then it has slowly moved towards a free-market system by emphasizing both foreign trade and direct investment inflows. India's recent economic model is largely capitalist.

Major industries include textiles, telecommunications, chemicals, food processing, steel, transport equipment, cement, mining, petroleum, machinery, and software. India was the world's fifteenth-largest importer in 2009 and the eighteenth-largest exporter. Major exports include petroleum products, textile goods, jewelry, software, engineering goods, chemicals, and leather manufactures. Major imports include crude oil, machinery, gems, fertiliser, and chemicals. Between 2001 and 2011, the contribution of petrochemical and engineering goods to total exports grew from 14% to 42%. Despite impressive economic growth during recent decades, India continues to face socio-economic challenges. The World Bank cautions that, for India to achieve its economic potential, it must continue to focus on public sector reform, transport infrastructure, agricultural and rural development, removal of labour regulations, education, energy security, and public health and nutrition.

## HISTORICAL PERSPECTIVE- CHINA

The People's Republic of China (PRC) is the world's second largest economy after the United States. It is the world's fastest-growing major economy, with growth rates averaging 10% over the past 30 years. China is also the largest exporter and second largest importer of goods in the world. The country's per capita GDP (nominal) was 5,184 (International Monetary Fund, 90th in the world) in 2011. As China's economic importance has grown, so has attention to the structure and health of that economy.

Since the late 1970s China has moved from a closed, centrally planned system to a more market-oriented one that plays a major global role - in 2010 China became the world's largest exporter. Reforms began with the phasing out of collectivized agriculture, and expanded to include the gradual liberalization of prices, fiscal decentralization, increased autonomy for state enterprises, creation of a diversified banking system, development of stock markets, rapid growth of

[1] *http://en.wikipedia.org/wiki/India*.
[2] *http://en.wikipedia.org/wiki/India*.
[3] *http://en.wikipedia.org/wiki/India* economic_liberalization_in_india.

the private sector, and opening to foreign trade and investment. China has implemented reforms in a gradualist fashion. In recent years, China has renewed its support for state-owned enterprises in sectors it considers important to "economic security," explicitly looking to foster globally competitive national champions.

A comparative analysis to gauge the business environment of India and China is based on the following **key indicators**:

## GOVERNMENT REGULATIONS/ POLITICAL-LEGAL ENVIRONMENT

Governmental regulation and control, procedural complexities, political stability, legal environment are detrimental in deciding whether the host country offers conducive business environment or not, which becomes a crucial deciding factor and drawing strategy to invest or not by a company. A discussion is made on how conducive or feasible environment both countries provide and how it impacts foreign investment in the country. Below are some statistics based on World Bank Report, in terms of ease of doing business (based on 10 parameters).

4.1 Economies are ranked on their **ease of doing business**, from 1 – 183. A high ranking on the ease of doing business index means the regulatory environment is more conducive to the starting and operation of a local firm. This index averages the country's percentile rankings on 10 topics, made up of a variety of indicators, giving equal weight to each topic. The rankings for all economies are benchmarked to June 2011.

The table below is shown to indicate top five economies in terms of ease of business and data for India and china is shown to make comparison, ranking of all countries is not shown as it will be too detailed and not useful under this head.

**TABLE 4.1**

| Economy | Ease of Doing Business Rank ▲ | Starting a Business | Dealing with Construction Permits | Getting Electricity | Registering Property | Getting Credit | Protecting Investors | Paying Taxes | Trading Across Borders | Enforcing Contracts | Resolving Insolvency |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Singapore | 1 | 4 | 3 | 5 | 14 | 8 | 2 | 4 | 1 | 12 | 2 |
| Hong Kong SAR, China | 2 | 5 | 1 | 4 | 57 | 4 | 3 | 3 | 2 | 5 | 16 |
| New Zealand | 3 | 1 | 2 | 31 | 3 | 4 | 1 | 36 | 27 | 10 | 18 |
| United States | 4 | 13 | 17 | 17 | 16 | 4 | 5 | 72 | 20 | 7 | 15 |
| Denmark | 5 | 31 | 10 | 13 | 11 | 24 | 29 | 14 | 7 | 32 | 9 |
| China | 91 | 151 | 179 | 115 | 40 | 67 | 97 | 122 | 60 | 16 | 75 |
| India | 132 | 166 | 181 | 98 | 97 | 40 | 46 | 147 | 109 | 182 | 128 |

Source*: World Bank Report, http://www.doingbusiness.org/data/exploreeconomies. http://www.doingbusiness.org/data/exploreeconomies/india/*

China's regulatory environment is more conducive than India's in terms of attracting foreign investment and starting new ventures in the country. India still needs to give up bureaucratic complexities and burdensome procedures to make it a conducive destination for new ventures.

4.2 The Heritage Foundation in partnership with the Wall Street Journal, US has published **index of economic freedom** data for the year 2010-12 for 184 countries, which throws light on country's overall score and its ranking on 10 definite parameters.

**TABLE 3.2: INDEX OF ECONOMIC FREEDOM DATA 2012**

| *COUNTRY* | *INDEX YEAR* | *OVERALL SCORE* |
|---|---|---|
| INDIA | 2012 | 51.2 |
| CHINA | 2012 | 54.6 |

*Source: http://www.heritage.org/index/ranking*

**TABLE 4.2 A**

| *COUNTRY* | *BUSINESS FREEDOM* | *TRADE FREEDOM* | *FISCAL FREEDOM* | *GOVT. SPENDING* | *MONETARY FREEDOM* | *INVESTMENT FREEDOM* |
|---|---|---|---|---|---|---|
| INDIA | 46.4 | 71.6 | 76.1 | 74.8 | 62.9 | 35.0 |
| CHINA | 35.5 | 64.1 | 70.4 | 84.1 | 74.2 | 25.0 |

*Source: http://www.heritage.org/index/ranking*

**TABLE 4.2 B**

| *COUNTRY* | *FINANCIAL FREEDOM* | *PATENT RIGHTS* | *FREEDOM FROM CORRUPTION* | *LABOUR FREEDOM* |
|---|---|---|---|---|
| INDIA | **40.0** | **50.0** | **33.0** | **74.2** |
| CHINA | **30.0** | **20.0** | **35.0** | **55.4** |

*Source: http://www.heritage.org/index/ranking*

**TABLE 4.2: TRANSPARENCY INTERNATIONAL CORRUPTION INDEX 2011**

| *COUNTRY* | *INDEX YEAR* | *OVERALL SCORE* | *POSITION* |
|---|---|---|---|
| INDIA | 2011 | 3.1 | 95 (dropped eight places) |
| CHINA | 2011 | 3.6 | 75 |

* Based on 17 surveys, ranks 183 countries, 0-highly corrupt, 10 least corrupt/clean.

*Source: Economic Times, December 2nd, 2011; pg. 22.*

China's overall score is higher than that of India in terms of economic freedom, the key factors which influence a investor's decision to employ capital in a country are less interference from the government, and freedom in terms of factors like; financial, labour, monetary, trade, business etc, as can be seen above India's indices are lower signaling an impediment for economic growth.

4.3 Heritage Foundation in partnership with the Wall Street Journal, US has published **index of micro economic data** for the year 2010-12 for 184 countries, which throws light on country's overall score and its ranking on 11 definite parameters.

**TABLE 4.3 A: MICRO ECONOMIC DATA 2012**

| *COUNTRY* | *INDEX YEAR* | *OVERALL SCORE* |
|---|---|---|
| INDIA | 2012 | 54.6 |
| CHINA | 2012 | 51.2 |

*Source: http://www.heritage.org/index/ranking*

TABLE 4.3 B

| COUNTRY | TARIFF RATE | INCOME TAX RATE | CORPORATE TAX RATE | POPULATION (MILLION) | GDP (MILLION) |
|---|---|---|---|---|---|
| INDIA | 7.9 | 30.9 | 34.0 | 1215.9 | 4060.4 |
| CHINA | 4.2 | 45.0 | 25.0 | 1341.4 | 10085.7 |

*Source: http://www.heritage.org/index/ranking*

TABLE 4.3 C

| COUNTRY | GDP (PER CAPITA) | UNEMPLOYMENT RATE | INFLATION RATE | FDI INFLOW (MILLION) | TAX BURDEN (% OF GDP) | GOVT. EXP (% OF GDP) |
|---|---|---|---|---|---|---|
| INDIA | 3339 | 10.8 | 13.2 | 24639.9 | 16.8 | 29.0 |
| CHINA | 7519 | 4.3 | 3.3 | 105735 | 17.5 | 23.0 |

*Source: http://www.heritage.org/index/ranking*

The above data makes it clear that not only china's overall score is higher but its micro economic data is high is also high in comparison to India. This reflects more on country's economic health, being world's second largest economy, high economic growth rate, these data also reflect on overall soundness of its various sectors like manufacturing, service sector, agriculture etc and all this becomes an indicator of favourable business climate.

## LABOUR MARKET CONDITIONS

Any company desirous of investment in a nation is affected and influenced by its labour market conditions as it reflects on its production schedules, targets, bottom line, serving the market timely, industrial relations etc. An attempt has been made to understand chief highlights of india's and china's labour market components and how it affects their business environment.

**The demographics of the People's Republic of China** are identified by a large population with a relatively small youth division, which is partially a result of the People's Republic of China's one-child policy. One consequence of the "one child" policy is that China is now one of the most rapidly aging countries in the world. The population policies were implemented in China since 1979.

China's labor contract law applies to all of China-based employees, foreign or not. The congruity between foreign and Chinese employees recently got even closer with China's very recent (July 1, 2011) enactment of its new *Social Insurance Law*, this law applies equally to Chinese and foreign employees. The new social insurance system will cover the following:

- Pension insurance
- Unemployment insurance
- Work-related injury insurance; and
- Maternity insurance.

According to social insurance law the companies operating in china and employing non-chinese employees in their work force have to make contribution towards social insurance at a pre determined rate and also pay a percentage to Chinese government. This indirectly restricts major IT firms like Wipro, Infosys etc. to seek Chinese market. Currently Chinese to non-Chinese being a liberalized economy still wants to protect the interest of its people.

The outstanding labor market reform issues in China, reforms that took place in the mid 1980s and mid 1990s are believed by many to have made the Chinese labor market more flexible than India's in terms of the ease with which firms can adjust staffing levels to product market and technological developments. Related items of the labor laws in india include the 'service-rules' provisions of the Industrial Employment Act of 1946 and the provisions of the Contract Labor (Abolition and Regulation) Act of 1970. As a way out of such restrictions businesses may resort to contract workers, as per the provision of yet another law, namely, the Contract Labor Act. This law gives state governments the right to abolish contract labor in any industry in any part of the state. In states where recourse to contract labor has been more restricted as a result, keeping employment below the threshold level of 100 employees or contracting out jobs has been the only way of maintaining flexibility in the allocation of manpower.

However, the question of how far difference in this respect explains the performance gap between the two economies has yet to be addressed explicitly. The picture that emerges from a comparison of conventional indicators of availability between the two countries is rather mixed. China clearly has the advantage on adult literacy and school enrollment rates (including those for tertiary education), but India is also believed to have more qualified engineers and other categories (Deutsche Bank Research, 2005).[4] The indicator of firm level skill levels that we use in our performance equations is the proportion of workers that regularly use computers on their jobs.

India has one of the largest pool of scientific and technical manpower. The number of management graduates is also surging. It is widely recognised that given the right environment, Indian scientists and technical personnel can do excellently. Similarly, although the labour productivity in India is generally low, given the right environment it will be good. While several countries are facing labour shortage and may face diminishing labour supply, India presents the opposite picture. Cheap labour has particular attraction for several industries. India ranks 134$^{th}$ in **HDI (Human Development Index)** which is a composite index of life expectancy, literacy, standard of living whereas China ranks 101st out of 187 countries and regions in terms of human development conditions, in 2011 Human Development Report launched by the United Nation Development Programme (UNDP) this has serious consequences on the human capital of india, the country need to develop skilled work force to exploit opportunities existing in the labour market of India.

[4] India's adult literacy rate stood at 68% against 95% for China in 2003 (Deutsche Bank Research, 2005). The tertiary enrollment rates for the same year were 11% and 13% for India and China respectively.

| | India | | |
|---|---|---|---|
| | GDP, current prices, billion $US | GDP, current PPP dollars, bn. | GDP Growth, % |
| **1990** | 323.5 | 744.6 | 5.6 |
| **1991** | 287.2 | 787.5 | 2.1 |
| **1992** | 289.7 | 841.5 | 4.4 |
| **1993** | 283.2 | 902.6 | 4.9 |
| **1994** | 321.6 | 978.7 | 6.2 |
| **1995** | 365.0 | 1072.6 | 7.4 |
| **1996** | 376.2 | 1175.6 | 7.6 |
| **1997** | 421.0 | 1245.8 | 4.1 |
| **1998** | 424.4 | 1335.7 | 6.0 |
| **1999** | 453.7 | 1453.4 | 7.2 |
| **2000** | 476.4 | 1571.5 | 5.8 |
| **2001** | 487.8 | 1669.4 | 3.9 |
| **2002** | 510.3 | 1773.8 | 4.6 |
| **2003** | 591.0 | 1935.1 | 6.9 |
| **2004** | 688.7 | 2157.4 | 7.6 |
| **2005** | 808.7 | 2431.2 | 9.0 |
| **2006** | 908.5 | 2748.9 | 9.5 |
| **2007** | 1152.8 | 3111.3 | 10.0 |
| **2008** | 1251.4 | 3377.1 | 6.2 |
| **2009** | 1264.9 | 3643.8 | 6.8 |
| **2010** | 1632.0 | 4057.8 | 10.1 |
| **2011** | 1843.4 | 4469.8 | 7.8 |

*Source: World Economic Outlook, September 2011*

| | China | | |
|---|---|---|---|
| | GDP, current prices, billion $US | GDP, current PPP dollars, bn. | GDP Growth, % |
| **1990** | 390.3 | 910.9 | 3.8 |
| **1991** | 409.2 | 1030.0 | 9.2 |
| **1992** | 488.2 | 1204.1 | 14.2 |
| **1993** | 613.2 | 1403.0 | 14.0 |
| **1994** | 559.2 | 1620.3 | 13.1 |
| **1995** | 727.9 | 1834.9 | 10.9 |
| **1996** | 856.1 | 2056.7 | 10.0 |
| **1997** | 952.6 | 2287.6 | 9.3 |
| **1998** | 1019.5 | 2493.9 | 7.8 |
| **1999** | 1083.3 | 2722.9 | 7.6 |
| **2000** | 1198.5 | 3015.4 | 8.4 |
| **2001** | 1324.8 | 3339.2 | 8.3 |
| **2002** | 1453.8 | 3702.0 | 9.1 |
| **2003** | 1641.0 | 4157.8 | 10.0 |
| **2004** | 1931.6 | 4697.9 | 10.1 |
| **2005** | 2256.9 | 5364.3 | 11.3 |
| **2006** | 2712.9 | 6240.8 | 12.7 |
| **2007** | 3494.2 | 7333.8 | 14.2 |
| **2008** | 4520.0 | 8216.0 | 9.6 |
| **2009** | 4990.5 | 9068.2 | 9.2 |
| **2010** | 5878.3 | 10119.9 | 10.3 |
| **2011** | 6988.5 | 11316.2 | 9.5 |

*Source: World Economic Outlook, September 2011.*

China has a mercantilist policy of export promotion and industrial upgrading, we should remember that before China embarked on its momentous policy shift, it had invested in its people in ways that India still has not. Basic health and education remain India's weak spots, in terms of its development achievements. This is despite national missions and numerous expenditure schemes. Why did China do better? One conjecture is that India's social fragmentation has played a role in its relatively poor performance on basic needs. But fixing this particular problem will require looking inward, not anywhere else[5].

The above data reveals differences in GDP of both countries which indicator of slackened total output of economy of India and inadequate, unskilled labour can be a factor affecting it.

[5] http://www.financialexpress.com/news/column-learning-from-china/912655/6

## ECONOMIC REFORMS

The **economic liberalization in India** refers to ongoing economic reforms in India that started on 24 July 1991. The fruits of liberalisation reached their peak in 2007, when India recorded its highest GDP growth rate of 9%. With this, India became the second fastest growing major economy in the world, next only to China. Organisation for Economic Co-operation and Development (OECD) report states that the average growth rate 7.5% will double the average income in a decade, and more reforms would speed up the pace. India grows at slower pace than China, which has been liberalising its economy since 1978. McKinsey states that removing main obstacles "*would free India's economy to grow as fast as China's, at 10 percent a year*". A case to mention is the latest proposal for single-brand was cleared by Parliament in the winter session, FDI in multi-brand retail was vehemently oppposed by all opposition parties, including UPA ally Trinamool Congress, after which the decision was put on hold by the government. Wal-Mart entered China in 1996 and it took more than a decade for the China operations to become successful[6]. Before the process of reform began in 1991, the government attempted to close the Indian economy to the outside world.

- The low annual growth rate of the economy of India before 1980, which stagnated around 3.5% from 1950s to 1980s, while per capita income averaged 1.3%. At the same time, Pakistan grew by 5%, Indonesia by 9%, Thailand by 9%, South Korea by 10% and in Taiwan by 12%.
- Only four or five licenses would be given for steel, electrical power and communications. License owners built up huge powerful empires.
- A huge public sector emerged. State-owned enterprises made large losses.
- Infrastructure investment was poor because of the public sector monopoly.
- Licence Raj established the "irresponsible, self-perpetuating bureaucracy that still exists throughout much of the country" and corruption flourished under this system.

Since 1978, China began to make major reforms to its economy. The Chinese leadership adopted a pragmatic perspective on many political and socioeconomic problems, and quickly began to introduce aspects of a capitalist economic system. Political and social stability, economic productivity, and public and consumer welfare were considered paramount. In the 1980s, China tried to combine central planning with market-oriented reforms to increase productivity, living standards, and technological quality without exacerbating inflation, unemployment, and budget deficits. Reforms began in the agricultural, industrial, fiscal, financial, banking, price setting, and labor systems.[49]

A decision was made in 1978 to permit foreign direct investment in several small "special economic zones" along the coast. In the early 1980s steps were taken to expand the number of areas that could accept foreign investment with a minimum of red tape, and related efforts were made to develop the legal and other infrastructures necessary to make this work well. The largely bureaucratic nature of China's economy, however, posed a number of inherent problems for foreign firms that wanted to operate in the Chinese environment, and China gradually had to add more incentives to attract foreign capital. This is in contrast to the picture of India when IBM and Coca-Cola had to withdrew in 1976 and could re enter only in 1991.

Economic reforms ushered in china since 1976 onwards and still going on has resulted in liberalization, privatization and globalization of Chinese economy, India after the world economic crisis aggravated by Gulf war of 90's, daunting foreign exchange reserve, flight of capital, liquidity crisis also realized that it is inevitable for her at this juncture to "open up" else perish, as a policy decision the then finance minister Dr. Manmohan Singh announced economic reforms in the form of New Industrial Policy (NIP) 1991 since then Indian economy has undergone sea changes in its economic posture or structure and is still going on. India still has to decide the degree of liberalization and privatization in order to trade-off.

## ATTITUDE TOWARDS FOREIGN INVESTMENT

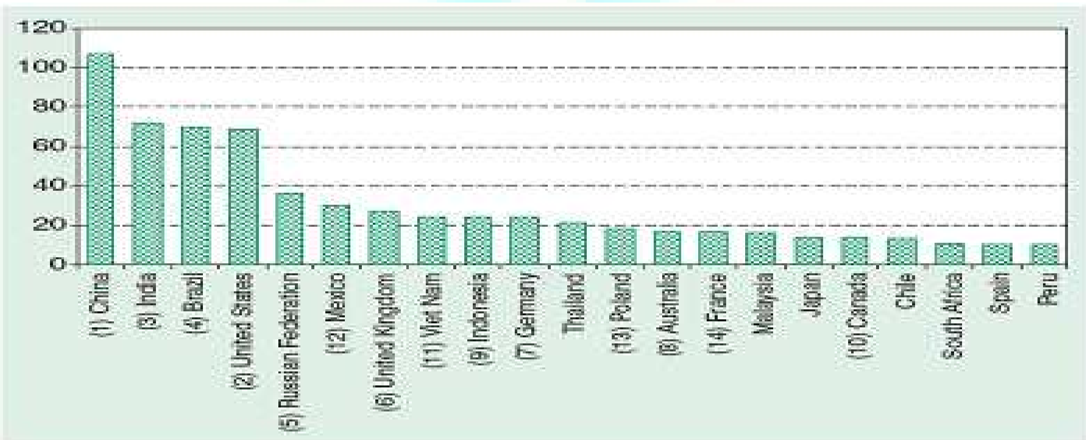
The last indicator of business environment is host government's attitude towards foreign direct investment (FDI), as mentioned above China stared to liberalize its economy much ahead of India in terms of wooing foreign capital, one already knows how imperative it is for the economic growth of a country and at this point china's position and leadership is obvious rather china's has used FDI as a strategic /competitive advantage in making itself a destination for foreign equity participation. An attempt has been made to study the comparative situation of these two countries in recent years.

**UNCTAD's World Investment Prospects Survey 2010–2012** provides an outlook on future trends in foreign direct investment (FDI) by the largest transnational corporations (TNCs).

China and India are projected to be world's top two FDI destinations according to a recent survey of transnational corporations, it found that companies see China and India as the world's first and second most important destinations for foreign direct investment over the 2010 to 2012 period, respectively.The World Prospectus Survey 2010-2012 was released by the United Nations Conference on Trade and Development (UNCTAD), showing that China has once again retained title of the world's most important FDI destination. India, meanwhile, overtook the United States to claim the survey's second spot as the U.S. economy continues to struggle.

The figure below shows the top priority host economies for FDI for the 2010 to 2012 period (the number of times that the country is mentioned as a top priority for FDI by transnational corporations). The number in parenthesis is the country's rank in last year's UNCTAD survey.

**GRAPH 7.1: TOP PRIORITY HOST ECONOMIES FOR FDI FOR THE PERIOD 2010-2012**




Source: UNCTAD survey.

*Note: Rankings according to last year's survey are given in the parentheses before the name of each country. The countries without numbers were ranked outside the top 20 in the last year's survey.*

*Source: http://www.2point6billion.com/news/2010/09/07/china-and-india-are-worlds-top-two-fdi-destinations-un-survey-7026.html.*

The above data makes it apparent that china enjoys a favourable position in terms of FDI and is ranked number one destination for investment over years. This points out to favourable business environment of china in comparison to India.

[6] http://www.2point6billion.com/news/2012/02/02/india-and-chinas-retail-industries-compared-10759.html.

## MARKETING BASE

India has just liberalized its single brand retail to permit 100 percent foreign investment. A comparison of India and China's retail markets reveals some lessons for retailers in both markets. According to **International retail development rankings,** India ranks **fourth** globally for retail development on the 2011 Global Retail Development Index (GRDI), a study by global management consulting firm A.T. Kearney. As far as the retail industry is concerned, India is standing at the brink of a great economic opportunity.[7] In *the Goldman Sachs BRIC (Brazil, Russia, India and China) report,* India is predicted to be amongst the top three economies in the world by 2050, along with China and Brazil.

Meanwhile, China's retail development ranking took a dramatic fall from first in 2010 to sixth place in 2011. China's drop in the rankings (to where it now ranks below Kuwait) is quite surprising considering the country's impressive growth statistics.


*Source: 2011 A.T. Kearney Global Retail Development Index*

So why the big fall? Differences in demographics are a significant factor separating the two countries, with India's young population holding great future potential.

India is currently in what demographers call the "sweet spot," when the dependency ratio is low, resulting in a society with a huge population of people aged 15-65. For retailers, this **sweet spot** means a healthy stock of consumers poised to spend on a wide range of goods. While China is reaching the peak of this demographic phase, India can expect to stay in the so-called sweet spot until 2037 and harness this **demographic dividend**, China might slide down after 25-30 years span of time with those of working age and the increasing number of women in the workforce posed as dominant consumer groups.

Yet, according to the report, the main reason for China's slide in the GRDI rankings is high retail market saturation. As China developed rapidly after the reform and opening policy, so did its retail market. Foreign retailers entered retail markets not only in first-tier cities like Beijing and Shanghai, but also in second-tier and even third and fourth-tier cities. Corporate talk now is of expanding even further, drilling down into China's heartland of tiers five to seven – even taking in cities with populations of just 1-2 million.

In India, both Indian and foreign retailers are expanding outside Bangalore and Mumbai into India's growing second and third-tier cities, and now into rural areas. In addition to the draws of increasing salaries, double income group, economic growth, unsaturated markets, educated class, changing life style patterns and attractive real estate prices and availability, such areas are also seeing significant transportation and infrastructure developments that are paving the way for increased investment.

[7] Suja Nair, Retail Management, p. 12. 3rd Edition, Himalya Publishing House Pvt. Ltd.

| India's 2011-2012 Economic Outlook: Key Points (Indian Economic Advisory Council) | | |
|---|---|---|
| | 2010-2011 | 2011-2012 (Proj.) |
| GDP growth | 8.5% | 8.2% |
| Agriculture | 6.6% | 3.0% |
| Industry | 7.9% | 7.1% |
| Services | 9.4% | 10.0% |
| Investment rates | 36.4% of GDP | 36.7% of GDP |
| Domestic Savings | 33.8% of GDP | 34.0% of GDP |
| Current account deficit | US$44.3 bn (2.6% of GDP) | US$54.0 bn (2.7% of GDP) |
| Merchandise trade deficit | US$130.5 bn (7.6% of GDP) | US$154.0 bn (7.7% of GDP) |
| Invisible trade surplus | US$86.2 bn (5.0% of GDP) | US$100.0 bn (5.0% of GDP) |
| Capital flows | US$61.9 bn | US$72.0 bn |
| FDI inflows | US$23.4 bn | US$35.0 bn |
| FII inflows | US$30.3 bn | US$14.0 bn |
| Accumulation to reserves | US$15.2 bn | US$18.0 bn |

| GDP Growth by Sector (%, Constant Prices) Indian Economic Advisory Council | | | | | |
|---|---|---|---|---|---|
| | '07-'08 | '08-'09 | '09-'10 | '10-'11 | '11-'12 (Proj.) |
| Agriculture and allied activities | 5.8 | -0.1 | 0.4 | 6.6 | 3.0 |
| Mining and quarrying | 3.7 | 1.3 | 6.9 | 5.8 | 6.0 |
| Manufacturing | 10.3 | 4.2 | 8.8 | 8.3 | 7.0 |
| Electricity, gas and water supply | 8.3 | 4.9 | 6.4 | 5.7 | 7.0 |
| Construction | 10.7 | 5.4 | 7.0 | 8.1 | 7.5 |
| Trade, hotels, transport, storage and communication | 11.0 | 7.5 | 9.7 | 10.3 | 10.8 |
| Finance, insurance, real estate and business services | 11.9 | 12.5 | 9.2 | 9.9 | 9.8 |
| Community and personal services | 6.9 | 12.7 | 11.8 | 7.0 | 8.5 |

The onus is now on Indian businesses to expand and develop this market. With more diverse and unique consumer behavior in these regions, even the biggest retailers have diversified their marketing strategies and retailing formats to adapt to what Professor Anil Gupta of the Indian Institute of Management describes as a more discerning and less impulsive consumer who takes time to explore, understand and discuss before finally purchasing.

The India Brand Equity Foundation (IBEF) expects government initiatives to increase rural employment and access to credit to contribute to higher consumer spending in the near future. Given that India's demographic advantage and liberalization of the Indian market now represents an additional investment challenge and opportunity for global retailers which once produced high returns in China. Developed economies with saturated markets, shrinking market base, excess capital and technology are now eyeing developing economies like India which have high population growth and excess labour both skilled and unskilled, this creates a *win-win strategy* for both nations.

## CONCLUSION

The PREAMBLE to the Indian constitution inserted the word **SOCIALIST** in 1956 and since then government's interference on all fronts can be seen in the economy. On the other side the economic reforms taken up in 1991 have redefined the role of government in economic affairs and how far the government's role is diluted has to be tested in coming years given the compulsion to globalize, liberalize, privatize and dereserve.

Although Indian economy has given up over dose of regulation (*one should not forget that India could weather global economic crisis, September 2008-2010 due to tightly regulated economy*) as compared to pre 1991. Bureaucratic control, red tapism, procedural complexities and impediments, multiplicity of laws, nepotism, delayed decision making, political uncertainties, attitude, cultural beliefs of social group, value system, xenophobia of people are some of the key factors which have retarded India's growth and made India lag behind as compared to its contempories. There are numerous examples like TATA's Nano plant, ENRON project etc which clearly reveal the loss made to nation due to the above reasons, its time for India to rectify and learn from previous experiences. There is no doubt that we compare better to most developed countries of the world.

Arguably, China's successful embrace of one form of capitalism ("to get rich is glorious") in 1978 ultimately played a role in steering India's path of economic reform. Since then, China has often served as a benchmark for judging India's progress, because it is the only other country that matches India in population size. Sorting out the lessons from China's experience is always useful. China has also pursued, at various times, trade liberalisation, fiscal discipline, tax reform and restructuring of government expenditure priorities, in addition to liberalising foreign investment. India has also done much in these dimensions, except perhaps improving the quality of government expenditure. In these dimensions, India is not learning from China, so much as learning from basic economic principles.

India is now the fourth-largest economy behind the US, China and Japan. Numbers from 2010 show that the Japanese economy was worth $4.31 trillion, with India snapping at its heels at $4.06 trillion, **"India can topple Japan to become the third-largest economy in the world"** at purchasing power parity. This is a positive sign for India.

The question or debate should not be confined to china versus India or vice versa rather India and china working in *collaboration and complimenting* each other on all fronts to become emerging world powers and India should learn from china's success, because it did it *fast and much ahead* of others. But the real test for

India still remains **from being closed and conservative to becoming dynamic and liberal !** Its time for India to **OPEN UP AND OPEN UP IN RIGHT DIRECTION AND ATTITUDE!**

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