An Exploratory Comparative Analysis of Asian Markets: China versus India

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Abstract

This study investigates the differences in the business environments of the two most populous Asian countries--China and India--which are also two of the most important economies in the world in terms of size and influence. Although China started its economic reform and development earlier than India did, India is quickly catching up and these two countries have become a battleground for attracting direct foreign investments. An understanding of what is happening in these two countries has become an urgent, important topic in global business. For this study, an exploratory descriptive analysis is performed to cross-examine various economic, demographic, and cultural data of these two giants to uncover both their differences and commonalities.

Keywords: Business, China, Culture, Economy, India, Life, Population.

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1. Introduction

This study investigates the business environments of two of Asia’s biggest economies: China and India. The significance of these two countries for international business can easily be inferred by the massive size of their populations, comprising about 37% of the global population. Their abundant cheap labor has attracted the attention of manufacturing industries worldwide and their rapidly rising numbers of middle income people have opened up a wide range of business opportunities. Although China started its economic reform and development earlier than India, India is quickly catching up and these two countries have become a battleground for attracting direct foreign investments. An understanding about what is happening in these two Asian countries becomes an urgent, important topic in global business. In this study, recent economic, demographic, and cultural data, and also subjective assessments from people who have visited/lived in the countries are examined, and their data are also compared to those of the US as an example of a leading advanced economy. Although many data sources are used in this exploratory study, The World Factbook-CIA and World Bank Data are relied upon for most of the analysis.

2. Analysis

2.1. Comparison of Population Data

The population of a country is an important starting point for any international business decisions, as size is an indicator for a potential consumer base/market size and has implication relating to the cost and availability of labor in a country. For this study, in addition to the current population size, the fertility rate and demographics are further explored to understand trends of each country’s population.

Table 1: Population Comparison: China and India

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<tr>
<th></th>
<th>USA</th>
<th>China</th>
<th>India</th>
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<tbody>
<tr>
<td>Demographics</td>
<td>Indexmundi (2010)</td>
<td>33.1%</td>
<td>31.8%</td>
</tr>
</tbody>
</table>

Source: The World Factbook-CIA (TWF-CIA) and Indexmundi

Population: China and India are the two most populous countries in the world comprising about 37% of global population (calculated based on UN Dept of Economics and Social Affairs Data (2013)). The authors believe the combined population size of these two countries may be even higher than 37% if people not reported in China to avoid the ‘one child’ policy penalty are properly counted and a better census counting system is available in India. A rapidly rising income level has resulted in a significant portion of their populations moving to a different class of potential consumer.

Fertility Rate: The fertility rate i.e. the number of babies a woman gives births to, implies an interesting future trend in these two countries. Considering the fact that fertility rate of 2.1 (Stein, 2007) is needed to sustain the current population size in the future, it is predicted that India will become the most populous country in the not too distant future. A recent UN report predicts it will be in 2028 (BBC, 2013). The authors think this growth may present a strategic juncture point for consumer product/service industries, especially industries catering to the young. At the current Chinese rate 1.60, far below the self-replacement level, its population will shrink gradually and may cause labor shortages, especially young workers.

Age Demographics: The age demographic data for people age 24 and under shows India has the highest percentage of young people (46.6%) compared to that of China and US. It is interesting to note that the China’s rate (31.8%) is even less than that of US 33.1%; indicating that China’s population is aging.

2.2. Economy

There are two important economic data to consider when a company makes a business decision in a country: GDP (Gross Domestic Product) and GDP Per Capita (GDP divided by population). GDP, commonly used as an indicator of the economic power and health of a country, is the monetary value of all the finished goods and services produced within a country’s borders in a year and it includes all of private and public consumption, government outlays, investments and exports less imports that occur within a country.

Table 2: Economy Comparison: China vs. India

<table>
<thead>
<tr>
<th></th>
<th>USA</th>
<th>China</th>
<th>India</th>
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<tbody>
<tr>
<td>GDP Growth Rate 2015/2016 est.</td>
<td>S. (2015)</td>
<td>2.7% &amp; 2.8%</td>
<td>7.1% &amp; 7.6%</td>
</tr>
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</table>


GDP and GDP per Capita: China recently became the second largest economy in the world right after the US and its GDP (on an exchange rate basis) is now over 10 trillion dollars, while India recently passed the 2 trillion dollar mark this year (Table 2). Notably, India’s economy is merely 20% of China’s. To understand economic productivity and consumption level at a personal level, the GDP per Capita figures are investigated. Both countries’
GDP PCs (exchange rate basis) are still far behind those of developed countries; they are even lower than the poverty line of US at US$ 11,770 (US Federal Poverty Guidelines, 2015). China’s and India’s GDP PCs (exchange rate basis) are merely 14% and 3% of those of US respectively. Even after being adjusted for living cost (purchasing power parity), they are merely 25% and 11% of the U.S. respectively. China’s per capita (GDP PC) is 5 times bigger than that of India. It would appear that different business strategies should be formulated to conduct business in each of these two countries as these differences will lead to different patterns of consumption and consumer behavior. Interestingly, China and India are both ranked very high in terms of the number of billionaires. Comparing this data with the GDP per Capita figures there exists a serious level of income disparity between the rich and poor in these two countries.

**GDP growth rate**: China had been recognized as the fastest growing economy (in terms of GDP) of the world over the last decade or so, but this was changed. Based on the GDP growth outlooks (Table 2) India already outgrew China in 2015 and it is projected that India’s growth rate will increase to 7.5% and China’s growth rate will slip to 7.0% in 2016. Lower oil prices and the weak US dollar have propelled the recent growth of the Indian economy. India has therefore become attractive for emerging market investors.

Based on the trending chart (Figure 1) of the GDP growth rates during the recent global recession period, although both China and India experienced the slowing growth during 2010-2012, the GDP growth rate in India had been increasing rapidly since 2012 while the GDP growth rate in China had been stagnant and declining during 2012-2014 and this trend seems to continue. It is also noteworthy for further investigation that the global recession in 2008 did not affect the growth rate in India; in fact India’s growth rate was even accelerating in 2009 and 2010.

![Figure-1. GDP Growth Rate](Source: The World Bank Data (2006-2014))

It should be remembered, however, that even though China’s growth rate is slowing, its prodigious growth rate over the last 35 years has given it a very large lead over India in terms of overall GDP (Matt, 2015).

**FDI and International Trade**: Foreign direct investment (FDI) data is a good indicator of a country’s financial health and also how attractive a country is for foreign investment. As shown in Table 2 the FDI in India is merely 11.4 % of FDI in China; 289 billion (USD) worth of FDI inflows were made to China while 33 billion dollars of FDI inflows went to India in 2014. What may make the India’s financial situation more difficult is its trade balance. In 2014, China produced 674 billion dollars’ worth of excess foreign reserves through trade (export minus import). On the contrary, India incurred a shortage of 144 billion dollars of foreign currency. This leads to two markedly different financial situations of the two countries: China as a creditor and India as a debtor. India’s burden of paying interest on debts will be not lessened in the near future and, unlike China, India may carry a major financial burden and inflationary risks due to the foreign reserve shortage.

### 2.3. Business Environments

For this study, amongst many areas, average employee wage, difficulty of starting a business, corruption, pollution, and Internet penetration and average speed data are examined to understand the business environments in China and India.

<table>
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<tr>
<th>Table 3. Business Environment Comparison: China and India</th>
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<tbody>
<tr>
<td><strong>Employee Earning Monthly (ILO (International Labor Organization), 2015)</strong></td>
</tr>
<tr>
<td>$3,518.60</td>
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<tr>
<td><strong>Start A Business Ranking (Days to Register) (TWBD, 2014)</strong></td>
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<tr>
<td><strong>/189 countries</strong></td>
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<td><strong>Transparency Rate (Transparency, 2014)</strong></td>
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<tr>
<td><strong>/175 countries</strong></td>
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<tr>
<td><strong>Pollution Status</strong></td>
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<tr>
<td><strong>top 20 most polluted cities (Numbeo, 2015)</strong></td>
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<tr>
<td><strong>Internet Penetration (Internetlivestats, 2014)</strong></td>
</tr>
<tr>
<td><strong>/175 countries</strong></td>
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<td><strong>(Economiza, 2014)</strong></td>
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<td><strong>Rank 11</strong></td>
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Source: Economiza, ILO (International Labor Organization), Internetlivestats, Numbeo, Transparency.

**Average wage**: As shown in Table 3 the wage difference between these two countries is significant. For this study, the average employee monthly wage figures shown in the Global Wage Report in 2012 are referenced. It is noteworthy that, after being recalculated in US dollars (2014 exchange rate), the nominal average employee monthly wages are very low compared to developed countries. US monthly wage is US$ 3,500 a month, whereas in China it
is US$ 629 a month and India only US$ 163 a month, i.e. 1/7th and 1/20th of the US respectively, and the wage in China is almost 4 times that in India. Although the labor cost does not take the quality of labor into account, and there are other important factors to consider such as infrastructure constraints, the potential financial benefits from the cheap labor cost in India is currently so great and obvious that many companies (especially in labor intensive industries) move their facilities and business centers to India. Considering the potential labor shortage concerns in China, the transition of labor intensive industries to India may accelerate in the next decade. China’s growth engine for the last several decades has been in manufacturing, and it has been considered the world’s factory. China is attempting to transition to a more service-based economy, because much of its advantage in low manufacturing cost has disappeared. In 2014, the average manufacturing labor cost per hour in China was $3.52, while it was only $0.92 in India (Bruce, 2014).

Starting a business: The Start a Business index, published in the World Bank, provides useful information to measure how easy or difficult it is to start/conduct a business in a country. For this paper, we use data from 2014. China ranked 128th and India ranked 158th out of 189 countries in this category. These data indicate how difficult and time consuming the process is to initiate and operate a business in these two countries. China is not new in this category due to its political structure as a socialistic, one-party controlled country, but it is very surprising to note that India is ranked even lower than China, and in fact, is rated as one of the lowest in the global ranking. A further study is needed to find a cause.

Corruption: To compare the corruption levels of both countries, we used Transparency International’s CPI (Corruption Perceptions Index) 2014 figures (the index measures people’s perceptions of how corrupt their public sector is). As Table 3 shows, both China and India ranked low in their transparency ratings; China 100th and India 85th out of 175 countries. This presents a huge operational challenge to foreign companies and investors. For example, US companies are subject to the anti-corruption Foreign Corrupt Practices Act (FCPA), which makes it illegal for companies and their supervisors to influence anyone with any personal payments or rewards in overseas business operations. Unfortunately corruption in China and India is rampant throughout their societies and enrooted/embedded in their culture so this problem cannot be easily overcome soon. It is thus very important to find an ethical, reliable local partner to initiate/conduct business in these two countries.

Pollution: To understand the pollution situations of these two countries, we used Numbeo.com data (world’s largest database of user contributed data about cities and countries worldwide) from April 2015 is referenced (Numbeo, 2015). The pollution index is an estimation of the overall pollution in the city. The biggest weight is given to air pollution, then to water pollution/accessibility, the two main pollution factors. Lesser weight is given to other pollution types. The results clearly indicate that China and India are among the most polluted countries in the world. 4 Chinese cities (3 cities in the top 10) and 5 Indian cities are included in the top 20 most polluted city list. In the 2014 WHO (World Health Organization) survey, which included 1,600 cities, Delhi, India has the highest level of the airborne particulate matter, called PM 2.5, considered most harmful to health and half of the top 20 cities in the world with the highest levels of PM 2.5 are located in India (Park, 2014). It is worrisome to note about three-fourths of the top 20 most polluted cities now lie in Asia, especially in China and India and the countries sit in between the two. These two countries continue to compete to attract more foreign investments and factories without adopting/practicing an effective anti-pollution strategy. Furthermore, the pollution situation continues to get worse in this region. Doubtlessly, the anti-pollution industry is booming with promising future in these two countries.

Internet Infrastructure: The Internet penetration and speed of a country is a useful indicator to understand the status of technology development and infrastructure. Both China and India’s Internet penetration rates (46% and 19% respectively) and its average speeds (3.8 mbps and 2.0 mbps respectively) are far behind those of the United States’ penetration rate 86.75% and speed (11.5 mbps). These data clearly show these two countries are in urgent need of improving their digital networking and computing infrastructure.

2.4. Culture and Living Conditions

For this study, education/literacy rate, religion, main language, life span, sanitation, and happiness index data are examined to explore the similarities and differences of cultures and living conditions in China and India.

<table>
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<tr>
<th>Table 4. Culture and Living: China and India</th>
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<tbody>
<tr>
<td>USA</td>
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<tr>
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<tr>
<td><strong>PISA test 2009 (Lehmann, 2015)</strong></td>
</tr>
<tr>
<td><strong>Religion (% Unaffiliated) (Censusindia, 2001; Pewforum, 2014)</strong></td>
</tr>
<tr>
<td><strong>Largest Religion (Censusindia, 2001; Pewforum, 2014)</strong></td>
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<tr>
<td><strong>Main Language (Census, 2010)</strong></td>
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Education and Literacy: It is in this area that the most glaring difference exists between India and China. In the 2009 Program for International Student Assessment (PISA) test for fifteen year olds in reading, math and science from seventy-four countries, India ranked seventy-third (second to last), whereas China was first (Lehmann, 2015). The Chinese results were from Shanghai, which isn’t representative of all of China, but the difference is stark.
Looking toward the future, where jobs will be far more dependent on a higher level of education, the future looks bleak for India. Companies looking for highly trained workers will have to do undertake much of the responsibility for education themselves. The prospect of a rapidly rising population qualified for mostly menial jobs is quite alarming in terms of the probability of social unrest.

The literacy rate of these two countries affirms similar findings. Compared to China’s (95.1%), the India’s literacy rate is merely 74%. In another words, 26% of Indians are illiterate; not able to read and write. This can pose a challenging concern in marketing and also hiring and training new employees for a local operation for a foreign company.

Religion: There are significant differences in religions between two countries. While over 50% of Chinese are listed as unaffiliated (officially regarded as atheists’ country), almost all Indians are affiliated (0% unaffiliated) with a religion, especially Hinduism (80.5%) and Muslim (13.4%). Religious practices and beliefs need to be properly understood and accommodated in order to conduct business effectively in India.

Language: It is interesting to note the number of official languages in India compared to China. While India has one official language, Mandarin, for the country, there are 22 official languages and 2,000 dialects in India. It clearly shows the diversity of cultures, society, and living environments in India. This presents an enormous business challenge to foreign firms due to the difficulty in communicating with locals and developing an effective marketing strategy in India.

Life expectancy and sanitary conditions: Life expectancy and sanitation data (Table 4) help to understand the overall quality of life and living conditions of each country as these are important inputs to decisions related to operating a business and/or living in a foreign country. Life expectancy at birth data shows the mortality at all ages. It is noteworthy that China’s and India’s average life span is 4.3 years and almost 12 years shorter than that of the US respectively. China is rated 99th and India rated 163th out of 224 countries (TWF-CIA, 2003, 2010, 2011, 2013, 2014, & 2015). The gap, about 7.5 years, between China and India is significant. Although further investigation is needed, sanitary conditions, medical infrastructure, and environmental conditions are known to be the major contributing factors for a shorter life span.

It is troubling to note the sanitary conditions (65% and 36% respectively) of these two countries are far behind that of US (100%). This sanitation data refers to the percentage of the population using improved sanitation facilities. The improved sanitation facilities include flush/pour flush (to piped sewer system, septic tank, and pit latrine), ventilated improved pit (VIP) latrine, pit latrine with slab, and composting toilet. There are two sides of a coin with these social concerns. The problem areas in these countries present enormous business opportunities especially to those industries such as anti-pollution, medicine, construction, etc. and at the same time this can be a serious challenge for the companies that send expatriates to operate a local business and live in these countries.

Happiness Index: Ironically, the HPI (Happy Planet Index) data shows very interesting results; Indians seem to be the happiest people among three countries; happier than Chinese and Americans and Chinese are happier than Americans. Based on its global rankings, India ranked 30th, China 62nd, and the US 105th.

3. The Road Ahead

The planet’s largest countries (by population) have a long list of issues to resolve in order to achieve their aspirations. Even though India’s population is almost as large as China’s and is expected to overtake it in the near future, its economy is only half of China’s size, meaning its people are much poorer on average, having a lower standard of living. India’s GDP PC in 2015 at purchasing power parity was just $6,300, compared to China’s $14,300 (TWF-CIA, 2003, 2010, 2011, 2013, 2014, & 2015). India’s literacy rate, mortality rate and other measures of quality of life are also inferior to China’s. The Chinese yuan has just been admitted to the International Monetary Fund’s global currency basket, i.e. the status of a reserve currency, an indication of the status of the Chinese economy. However, India’s economy is currently growing at about 7.5%, whereas China’s growth has slowed to what many Western observers think is lower than 5%, despite China’s claim of a 6.9% rate. They base their conclusion on commodity consumption in China, shipping tonnage, and the like. If these rates continue for several years (which is certainly implausible), then India’s economy will gradually catch up with China’s in size. India’s major advantage over China is in demographics, because its population is much younger and the work force is growing, not contracting, whereas China’s labor supply is dwindling. About half of its 1.25 billion population is under the age of 25 (Indexmundi, 2014). China has just done away with its one-child per family policy to combat its problem, but it is not clear what impact this will have because of the desires of Chinese parents may not be consistent with larger families.

The Chinese economy is currently undergoing major restructuring, because the previous growth model can no longer succeed. The Chinese economy was built on exports, mostly of manufactured goods, made possible by cheap labor and an efficient manufacturing infrastructure. However, success has increased Chinese labor costs to the point that the cost difference between Chinese goods and Western goods has narrowed to the point where many are either being made in customers’ home countries, or in other cheaper countries. China is now therefore attempting to convert to a consumption economy, which will take a few years to take hold (the consumer accounts for a much smaller share of the economy than in developed countries). Related issues such as mass urbanization (500 million people have moved to urban areas since the late 1970s), pollution, social tensions and a restive middle class, have all popped up. Along with these problems, there is corruption on a massive scale, which the Chinese leadership is attempting to stamp out.

India too has many of the same problems—massive urbanization, pollution, and pervasive corruption. Infrastructure is woeful across the board. There is a serious shortage of electric power, causing prolonged power cuts almost everywhere, again making manufacturing and commerce very difficult. Huge amounts of food rot because of the lack of suitable storage facilities, refrigerated trucks and suitable roads. Being a democracy, India also finds it difficult to make needed reforms/changes to laws affecting land ownership, taxes and other needed reforms. India also has a large number of archaic labor laws, both at the state and federal levels, which make it very difficult to
manage labor forces efficiently. The prime minister was elected in a landslide and controls the lower house of Parliament, but the upper house is controlled by the opposition parties, who have blocked much of his significant legislative agenda. This situation is expected to improve with time, in favor of the ruling party.

In addition, there are thus major challenges facing both China and India, some similar and some quite different. How they are addressed will greatly affect the future of the planet.

4. Conclusion

The two Asian giants, China and India, present unique problems for international companies seeking to do business there. They do possess the same characteristics of huge populations, vast numbers of very poor people, many of them working in agriculture and living in rural areas; corruption; poor infrastructure; environmental pollution; and poor living conditions. Of course, there are considerable differences between them—in culture, religion, languages, political structure, diversity, demographics, and education. Companies doing business in these countries find they need to modify their marketing techniques to be successful. Doing business is far more difficult owing to government red tape and the absence of logistical and financial support systems common in developed countries. Although it is easier to focus on the rapidly burgeoning middle class in both countries that lives in mostly urban areas, the real challenge is in reaching the vast hinterland, where the poorest people live. These people are not reachable by traditional marketing methods, nor are their villages easily reached by modern transportation. Furthermore, they are too poor to afford western quantities of goods, so companies need to downsize their products to sell very small portions of goods like soap, toothpaste, food, lotion, etc. There is almost no refrigeration, so goods have to be redesigned to survive without it. Payment is usually in cash, and not through credit cards. It is true, however, that large sections of both countries have leapfrogged a whole generation of communications technology, i.e. wired telecommunications. Poor people in huge numbers are using mobile computing via cell phones to communicate and conduct business. Phones have begun to replace credit cards and cash as a payment mechanism in many areas. One of the world’s greatest business stories is unfolding right now.

References


