# Global Competitiveness: Why China is ahead of India

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In this era of cut throat competition, the global competitiveness of a nation is increasingly coming under the microscope. In general, the competitiveness of a nation is dependent on two factors – the ability to export and the ability to attract Foreign Direct Investment (FDI). In this article, we attempt to explain why China is ahead of India both in its ability to attract FDIs and to export.

On paper, India seems to be well ahead of China. With a population of more than 1 billion, we have a fairly big domestic market. We also have cheap skilled labour, which can also be used to churn out low priced products for the global market. And lastly, the examples of MNCs such as GE and the Texas instruments suggest that India can also be an attractive offshore R&D centre. So, potentially, India can export value added products. While China also has a huge domestic market and is an attractive export base, its relatively low skilled labour and lack of familiarity with English, are major handicaps. The country till recently did not have even rudimentary financial markets and its legal system was also virtually non existent. Quite clearly, India should logically be more competitive than China.

Yet, the reality is quite different. In 2000, China attracted a foreign direct investment of $40 billion. China's stock of FDI, which today stands at $350 billion is only behind that of USA ($1.1 trillion) and Britain ($394 billion) and well ahead of other emerging markets like Brazil and India. India's aggregate FDI for the period 1991 to March 2000 stood at only $20.19 billion. Today, China has become a market of tremendous strategic significance for MNCs like McDonald's, Procter & Gamble, Ericsson, Motorola and Nokia.

In foreign trade, the Chinese make us look like pygmies. Chinese exports for the past twelve months were around $240 billion as against India's $ 41.9 billion. The country's foreign trade, which was virtually non existent in the 1970s has today grown into $460 billion. The recent flood of Chinese imports into India has shaken up the Indian industry. Not only that, China is actually threatening India in an industry considered to be its home turf – computer software.

Why is it that China is attracting so much FDI? There are probably two important reasons. Since China is the largest untapped market in the world, the potential rewards are higher and mouth watering for the long term investor. Also, the Chinese, inspite of their outmoded political system and occasional rhetoric have shown a tremendous determination to change with the times. We personally feel, it is the second reason, which is more important. China's political leaders led by Prime Minister, Zhu Rhongji have shown a much greater degree of commitment to reforms, than any of ours.

China has been working quietly to deal with many of its structural weaknesses. Take for example infrastructure. Till the late 1980s, China did not even have a highway system linking its provinces. Today, it has over 12,000 km of such highways. In the telecom sector, fixed line penetration has grown an estimated 30 times in the 1990s. The mobile phone infrastructure is also fast developing. There were some 42 million new mobile phone subscribers in 2000. Internet connectivity is also rapidly improving.

China's development strategy is also pragmatic. Instead of spreading resources thin, the Chinese have been concentrating development efforts in a few coastal cities and encouraging the formation of clusters. These regions have achieved a fairly high degree of affluence, and are emerging as attractive investment destinations. Shanghai's per capita GDP is now estimated to be about $3400. In a city like Guizhen, where an intensely competitive lighting industry has developed, specialist designers earn upto $72,000 a year. Successful entrepreneurs are encouraging others to enter, leading to intense rivalry, which as we all know is the basis for innovation.

The Chinese may not be exporting very sophisticated goods today. The export basket is still skewed towards items like toys, textiles and shoes. Here their ability to produce goods of an acceptable quality at extremely low costs is really awesome. The Chinese have however, understood the importance of diversifying their export basket. Also, China's manufacturing is gradually becoming more sophisticated and capital intensive. The country is already the third largest producer of computer hardware in the world. Contrast this with India where we do not have a computer hardware industry to talk about.

While India has a long tradition of well developed stock markets, the Chinese have been handicapped on this count till recently. Now they are working quietly having realised that a vibrant capital market is necessary for privatising state enterprises. China has also realised the importance of overseas listing not only to attract capital, but also to expose the State Owned Enterprises (SOE) to the best governance practices. In the past 10 years, more than 1000 SOEs have been listed on the stock exchanges. Last year, Chinese companies raised $20 billion from foreign equity investors, compared to $5 billion by all the countries in the region put together. According to rough estimates, a third of Hong Kong's market capitalisation is accounted for by mainland companies.

The Chinese legal system is still undeveloped and the judiciary is far from being independent. It is unlikely that the government will make the judiciary more independent, atleast in the short run, for obvious reasons. The Chinese, however, are introducing easier bankruptcy procedures, far more professionally than us. When required, the Chinese act really fast. Recently, the country's securities regulators launched a fierce crackdown on brokers suspected of manipulating the market. While India has a very well developed legal system on paper, things move very slowly in practice. It seems to be the reverse in case of China

The Chinese have one major advantage which India is unlikely to have for several years – a global network. Overseas Chinese have established themselves in countries ranging from Malaysia and Indonesia to the US. Indeed, Silicon Valley is so full of them, that a first time visitor would find it difficult to believe that he has landed in an American city. Overseas Chinese have supported each other well and maintained strong ties with their motherland.

Hong Kong (before its reunification with China) and Taiwanese companies are among the most committed foreign investors in China. Compared to the Chinese, overseas Indians are still playing a relatively marginal role in our country's development. And the Indian network is too weak to take on the Chinese.

The lesson for India is that intention to reform has to be backed by actions on the ground. Loud talk and intellectual debates cannot substitute hard nosed concrete plans of action. Like in the corporate sector, it is implementation and not formulation of strategies which holds the key to success.

*References:*

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