



The economic expansion of these two neighbouring giants is frequently tracked, analysed and compared. Last month, the *ChIndia* conference gave the relationship a closer look.

By Anthony Lin

China and India. India versus China. China or India. The relationship between the two ancient civilisations and behemoth countries has been viewed and versed in various contexts, on numerous levels and under different lights. Particularly in recent years, as these two neighbours – home to nearly two-fifths of the world’s population – seemingly chase each other around the global economic circuit.

Yet, as government and business leaders on both sides of the Himalayas insist, it is not a race, nor is there a definitive finish line. They prefer to raise and realise mutual benefits in an era of simultaneous and parallel development.

In September, a group of professionals and entrepreneurs from China and India gathered in Shanghai to advance that objective at the business level. The occasion was the *ChIndia Forum 2006*, organised by the China Supply Chain Council (CSCC) – and the mantra was cooperation.

“When it comes to India-China ties, I believe it’s only limited by our imagination,” says Vishnu Prakash, Consul General of

India in Shanghai, during the opening remarks. Common depictions that pit the two countries against each other are inaccurate, Prakash believes, suggesting instead, “What about India *plus* China?”

Twin Engines

Bilateral economic ties are strengthening, as Prakash pointed out. Trade between China and India grew to USD18.7bn last year. “That will easily surpass USD20bn this year,” he says, foreseeing the figure to reach USD50bn by 2010.

For the second time this year, the Asian Development Bank (ADB) raised its 2006 growth forecast for Asia, excluding Japan, and attributed the adjustment to “strong performance” in both China and India. The Manila-based lender says, in its *Asian Development Outlook 2006 Update* – released on 6 September, the same day that *ChIndia* was taking place – that the region’s developing economies will expand 7.7 per cent this year, up from April’s forecast of 7.2 per cent.

China is outpacing the other economies in the region. “Acceleration in growth in

China, due to booming investment and exports, has significantly influenced this regional upward revision,” the ADB says. It adjusted China’s growth projection from 9.5 per cent to 10.4 per cent, and India’s from 7.6 per cent to 7.8 per cent. Together, however, the countries are the twin engines of Asia’s growth, accounting for half of the region’s economy.

Divergent Developments

Participants of *ChIndia* were keen to highlight the distinctions between China and India, as they analysed various business sectors. The two countries are most intimately bound by their immense economic potential and, in business terms, their seemingly boundless markets. Otherwise, they are distinct nations on divergent paths of development and with dissimilar business structures.

Basic contrasts in political systems help explain some of the differences for doing business in the two countries, says Laurentius Metaal, Managing Director of Lehman & Co., a Beijing-based business advisory firm. The Chinese government is

“capable of making fast yet unpopular decisions,” says Jim Ridgwick of Deloitte Consulting, and its strong economic involvement means that the “industrial sector is based on a subsidised model,” says Metaal. By comparison, India’s federal system makes it “hard to push through reforms,” but its economy may be “far more efficient.”

Thanks to the state-directed opening to external trade and investment, China has achieved a “much more integrated” economy, contributing to six per cent of global exports of goods and services in 2004, according to Heiko Bugs, Principal Consultant at Fiducia Management Consultants. India’s share was one per cent during that year. Comparing labour costs between the two markets reveals minimal differences, according to Bugs, but China’s significantly higher literacy rate among factory workers “can have a big impact” on production.

When it comes to sourcing, finding a proper supplier is an “easier task” in India, given the availability of information, says Ridgwick. In China, there’s more need to check cross-references and much of suppliers’ information is often outdated. “You need to be really creative in terms of where you find suppliers from,” he says.

In the retail sector, the distinctions between China and India are stark. China’s savings rate is more than four times that of India’s: 94 per cent to 22 per cent, respectively. Despite a larger middle class, says Paul French, Director of Access Asia, India has “virtually no foreign retailer penetration,” while 97 per cent of its sales are via ‘Mom ‘n Pop’ stores. “In India, brands have the power,” he says. “In China, retailers have the power. In that sense, it’s a complete reversal.”

Cooperative Convergence

As it laid out the distinctions, *ChIndia* also marked several points of convergence. Trade of goods and services, after all, has always been based on comparative advantages. In a sector where one country lacks know-how, the other can fill it with skills and investment. That is perhaps most evident in China’s IT industry, where Indian powerhouses, such as Tata, Wipro and Infosys, are investing in R&D centres.

“What’s happening today is it’s not about having R&D in one place. It’s having R&D centres across different time zones,” says Anand Rangachary, Director, South Asia and the Middle East, at Chennai-based Frost & Sullivan. “The advantage is that you’re not completely dependent on one person.”

U.S.-based IT firm Cognizant, which has 23,000 workers in Kolkata, employs 200 people in Shanghai’s Zhangjiang Semiconductor Park. China’s skills base is as immense as its market access, one that can be extended to Japan and Korea. “That, we believe we can leverage best with a development centre in China,” says Atanu Mukherjee, the firm’s Chief Architect.

Chinese companies also have an opportunity to invest in various sectors in India, particularly its under-developed infrastructure. Whereas Indian companies have been “aggressive” in pursuing manufacturing opportunities in China, “I don’t see many Chinese companies looking to India,” says Bugs of Fiducia. “I think this is an oversight.”

“Both China and India will continue to grow in manufacturing,” says Ridgwick of Deloitte. “We cannot think of global manufacturing without a China and India

strategy. There are benefits for both countries to collaborate.” An ideal scenario would be to leverage the “unique advantages” of both nations, says Bugs. Motorola has set up an R&D centre in Bangalore and a manufacturing facility in Tianjin. “Together, you can reap the benefits of both countries.”

Why Now and How?

China and India share a complex diversity, in addition to vastness of size. “In a sense, India is not one country; it’s many countries in one,” says Devangshu Dutta, CEO of Third Eyesight, a company based near New Delhi that assists retail and manufacturing clients with sourcing, market research and supply chain. “You’ve got to deal with India as the pieces come.”

Even so, China and India have been, at best, distant neighbours throughout history. “It’s always been strange that these two nations had little trade with each other,” says Lehman & Co.’s Metaal. For now, he sees the balance tipping in China’s favour. “There are some rich pickings to be had for Chinese companies in India.”

When it comes to India’s ability to develop and attract investment from China or elsewhere, its business leaders are optimistic about “turning current challenges into opportunity,” says lawyer Zarir Bharucha, of Bharucha & Associates. For business communities on both sides, China and India may still be looking over their respective shoulders, but the race is becoming more of a relay than an all-out sprint.

This first *ChIndia*’s event will be replicated in India – and, when it comes to China *plus* India, there are certainly myriad issues to be discussed. □

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