

# An Analysis of the Political-Economic Environments of China and India

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*This paper critically analyses two major Asian markets, China and India, in the context of entrepreneurial investment. A generic approach is taken for the 'general' entrepreneur looking to enter either of the two markets. In making the conclusion, this paper assesses such aspects of the external environment as the dominant political system, legal coherence, culture, changing demographic trends, economic prominence and technological penetration. It concludes that China is an entrepreneurial preference due to the political stability of a one party state, superior per capita GDP and contract adherence within civil law. The paper recognises the challenges of conducting business in China, such as the unique cultural elements and the concept of guanxi. India's macro environment does however provide promise, such as the unique opportunity with m-commerce and the rapidly growing middle class.*

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*Keywords:* politics, economics, entrepreneurship, *guanxi*, India, China

India's population, currently at 1.3 billion, will surpass China's by 2025 (Haub & Sharma, 2015). Whilst these two civilisations share the common characteristic of a large population, other societal characteristics could not be further apart. This article explores how selected contrasting elements differentiate the way business is done between the two most populous nations on earth. A general perspective will be taken with an aim of informing the preferences of a foreign entrepreneur looking to do business in either of the two countries. The article is divided into two parts: the first assesses the strengths and weaknesses of Chinese communism; the second compares those attributes with India, the world's largest democracy.

When assessing the one-party state of modern China and its potential for business relations a few characteristics stand out. Due to the influence of Marxism, China has been dominated by the Communist Party of China (CPC) for over six decades (William, 2014). This has brought to the middle kingdom the prominence of public ownership and social influence on its political and economic policy. However, within its position on the far-left ideological wing of the political spectrum, China has seen a slight move towards a market economy (Yanhua, 2013). This shift has been linked to the modernisation of China and its

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transformation from a nation of poverty to a rising global economic influence (William, 2014). This outcome, signified by a turnaround in economic welfare and the relaxation of far-left economic policies to restrict an inflow of private foreign business, could translate into opportunities for a cunning entrepreneur. Before a decision is made, however, other elements of Chinese politics such as culture must be considered, especially in relation to pursuing successful business interests.

Culture is a significant influence toward decision making within different political landscapes. A relevant example underpinning the business model within Chinese society is *guanxi*: the formation and fostering of informal personal networks to further business or political interests. Xin and Pearce (1996) state that private companies operating in China must depend more upon *guanxi* than their state-owned enterprise (SOE) competitors. This suggests that a factor towards success a foreigner must contemplate when considering business in China is to assess the native members of their professional and personal networks. Feng, Johansson and Zhang (2015) also cite that public companies receive preferential treatment over their private counterparts. A necessary path to negate this prejudice is through the fostering of *guanxi* and political participation. Benefits derived by this behaviour for foreign entrepreneurs operating private businesses in China include tax breaks and government subsidies (Feng et al., 2015). The mention of cash flows triggers the problem of financing for possible investment decisions. Banking, being a state-owned industry that oversees most of the capital movements in China, is also a political barrier to foreign investment. Research indicates that political connections play an important role in debt financing, and a lack of said connections often acts as a constraint when considering opportunities for further investment (Cull et al., 2015).

Further to the existence of intimate public-private sector relationships within the Chinese political economy is the presence of global macroeconomic forces. Often described as China opening up to the world, the policy and administrative restructuring that has occurred over the last few decades has contributed towards China's emergence as a GDP front-runner (Zhang, 2015). This presents opportunities to potential foreign business partners seeking to enter the Chinese market. However, as remarkable as the Chinese growth has been over the past decades, it is important to note the current slowdown in real GDP growth (DFAT, 2015). As Pei (2015) notes, one contributor to this economic deceleration has been said to be the presence of 'zombie' firms. Pei (2015) describes zombie firms as state-owned enterprises with a negative cash flow and currently operating well below productive potential. The abundance of these economic inefficiencies is a characteristic of a far left political regime unable to achieve market efficiency through private suppliers and perfect competition. Whilst this may present itself as an opportunity for an established firm specialising in least-cost production to succeed, other requirements as mentioned in this essay must be considered. This paper now moves to a contrasting analysis of India's political regime.

Unlike China, India is considered to be a federal democratic republic. It employs a multi-party representative system with the current dominant political group being the Bharatiya Janata Party (BJP). The Indian democracy is considered

to have the largest polling elections in the world, a testament to its large population and democratic orientation. BJP is considered to be a right wing political party, favouring a market-based system of allocation and policies aimed to free up trade and connect the country with the outside world (Mitra, 2012). This looms as a potential opportunity for foreign enterprise looking to enter the Indian market. BJP has pursued a range of neoliberal policies including the privatisation of state-owned business and infrastructure and an emphasis on the deregulation of domestic markets (Mitra, 2012). Prime Minister Modi has a strong track record for promoting economic growth amongst his policy initiatives (Mahr & Miller, 2014). The deregulation of indigenous industry could create an environment for foreign entrepreneurs to successfully serve the Indian sub-continent in a range of innovative ways.

Like China, India has seen rapid economic growth over the past few years. However, the contrasting point is that India's real economic growth seems to be accelerating (CIA, 2016). This is possibly due to the implementation of more neoliberal policies, and an increasing household consumption rate in line with rising per capita income levels (CIA, 2016). India is widely being acknowledged as a fast emerging market economy, however elements of a third world nation persist in the form of poverty and high income inequality (Mitra, 2012). This disparity of local income is not necessarily a deterrent, with a wide range of affordable products hitting the market to serve the lower end of consumer incomes. In 2015 Prime Minister Modi (Modi, 2015) gave a speech citing India's vast youth population of 800 million under 35 and a mobile penetration of 1 billion mobile phones. This presents a monumental opportunity for foreign entrepreneurs to enter the Indian youth market and use technology such as m-commerce to deliver, communicate or pay for goods and services. Prime Minister Modi (Modi, 2015) highlighted the enormous impact technological advancement is having on the Indian people citing examples of this transformation for urban and rural dwellers alike. In another sector, Boro (2015) describes the impact technological innovation is having on the finance industry, and how consumers are now accessing their monies in a more agile and mobile way. This national emphasis on technological innovation comes back to Prime Minister Modi's effort to increase global political ties and free up India's market economy.

Rapid economic growth and technological innovation seems like a promising statistic. However, the realities of doing business in India may trouble some western entrepreneurs. The World Bank (2016), in its annual data release, ranks countries by the ease with which it is to do business. Criteria include regulatory and legal frameworks, among other things, with India being ranked the 130<sup>th</sup> easiest country with which to do business. Agarwal (2015) cites that a reason contributing to this unflattering statistic is the business culture of poor contract adherence. He later goes on to describe the extreme length of time civil litigation may take when a plaintiff seeks damages for contract breach. If the litigation would ever be resolved, the financial awards are also considered to be less than adequate when assessing the full scope of compensatory liability (Agarwal, 2015). Consequently, the judicial arm of the Indian government, whilst employing common law, may not provide the trust necessary for a foreign entrepreneur to engage in commercial activity.

Given this brief comparison of the Indian and Chinese political-economic environments, it is this paper's conclusion that an entrepreneurial investment decision would favour China. The long-term political stability granted by a one-party state is an incentive. And whilst the economic growth of China may be falling, it is still extremely high by world standards. What is more, although the population of India is quite large, providing a significant potential consumer base, per capita income is well behind that of China (and will be for some decades), essentially limiting aggregate consumer spending. A further drawback of the Indian political environment is the ambiguity relating to civil law with respect to contract agreements. In general, a commitment to China would require hard work and patience as a western entrepreneur looks to build *guanxi* with the local community. However, once these relationships are made, the growing middle class presents a vibrant market for retailing opportunities.

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