Czech University of Life Sciences Prague

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Diploma Thesis

Economic Comparison of China and India

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Department of Economics

Faculty of Economics and Management

DIPLOMA THESIS ASSIGNMENT

Yuliya Yaroshenko

Economics and Management

Thesis title

Economic Comparison of China and India

Objectives of thesis

To make a quality description of current situation in economics of India and China;
Make a comparison of key macroeconomics indicators of two countries and based on this information to predict future development and determine strengths and weaknesses of examined countries;
Make a quality PEST analysis of both countries and compare investment climate for foreign businessmen;
Determine and analyze of local specifics that could be crucial for doing business and deal with people in China and India.

Methodology

Methodology is based on analysis of available surveys and statistics of international organizations such as World Bank, WTO, IMF and WEF. It will be used basic statistical methods and comparison method.

The proposed extent of the thesis

70 pages

Keywords

China, India, comparison, analysis, macroeconomic indicators, foreign trade, business environment, PEST analysis

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Recommended information sources

Cambridge University Press; 1 edition (March 23, 2009)
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1) The India-China Relationship: What the United States Needs to Know
2) Factions and Finance in China: Elite Conflict and Inflation , Victor C. Shih
3) India: The Emerging Giant , Arvind Panagariya, ISBN-10: 0199751560
4) Red Capitalism: The Fragile Financial Foundation of China's Extraordinary Rise , Carl Walter and Fraser Howie

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The Diploma Thesis Supervisor

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Prague on 31. 03. 2015

Declaration

I declare that I have worked on my diploma thesis titled "Economic Comparison of China and India" by myself and I have used only the sources mentioned at the end of the thesis. As the author of the diploma thesis, I declare that the thesis does not break copyrights of any third person.

In Prague on 31.03.15 ____________________________

Yuliya Yaroshenko

Acknowledgement

I would like to thank Mr. Ing. Tomáš Maier, Ph.D. and to my parents,for their advice and support during my work on the thesis.

Ekonomické porovnáni Číny a Indie

Economic Comparison of China and India

Souhrn

Tato diplomová práce je věnovaná srovnání ekonomik Číny a Indie. Práce obsahuje obecnou analýzu klíčových makroekonomických ukazatelů, stručný přehled podnikatelského klima včetně analýzy jeho hlavních faktorů a také srovnání konkurenceschopností ekonomik ve světě. Metodologický je práce záložena na porovnání výsledků výzkumů a ratingů přepravovaných Světovou Bankou a organizaci World Economic Forum. Práce se skládá z krátkého představení Číny a Indie, klíčových definicí, analýzy podnikatelské klimy a hodnocení konkurenceschopností ekonomik.

Summary

This diploma thesis is devoted to comparison of economies of China and India. Thesis includes general analysis of key macroeconomic indicators, brief overview of doing business factors. An important part of the thesis is analysis of countries global competitiveness. Methodology of the thesis is based on surveys and rankings performed by World Bank and World Economic Forum. Thesis consists of brief introduction of China and India, key definitions, analysis of doing business factors, analysis of countries competitiveness.

Klíčová slova: Čína, Indie, analýza, srovnání, podnikatelské klima, globální, konkurenceschopnost, makroekonomické indikatory, zahraniční investice, podmínky pro podnikání, Asie.

Keywords: China, India, comparison, analysis, business climate, global, competitiveness, macroeconomic indicators, foreign investments, doing business, Asia.

Content

Introduction

For the centuries, financial and economical domination of western countries in global economy was an axiom. Since capitalism occurred and developed in Western Europe, it is clear that first capitals were earned there and then consequently distributed all over the world in forms of investments, assets acquisitions and production facilities placement. In early 80's first western multinational corporations started to move their production capacities to Asia. From that time Asia became an important economic center of our planet. At that time a lot of western scientists and experts claimed that Asia will shift the West and become a financial leader in global economy. In 1997 Asian financial crisis broke dynamic development of Asia-Pacific region. However after couple of years Asian economy revitalized and started to grow rapidly again. At the end of 90th economy of China significantly rose up due to relocation of electronic manufacturers.

World financial crisis 2007-2011 significantly impacted global economy and changed people's vision and perception of future financial prosperity and prospective. It became completely clear that western financial institutions and banks are exposed to changes in global investments climate more than they have ever been. From the other side, financial crisis determined trend of the global economy shift towards Asia.

My choice of above mentioned countries was not occasional. Currently China and India are two the most rapidly expanding markets in the world. And since all people know about economic power of the China, we can expect positive trends of growth of China's economy in the nearest future. There is a bit different situation with India. Population of this country grows exponentially nevertheless it does not have so many economical successes as China has. However India now represents a very attractive, unsaturated market with good potential of growth. Moreover a lot of multinational companies started to outsource important parts of their internal business processes activities to India. Dynamic and pace of economic growth of China and India are crucial for today's global economy because both countries have huge consumer market and significant private capital (especially China). It is able to see global expansion of Chinese and also Indian companies. China makes huge investments all over the world especially in Africa and Europe. Indian companies actively invest to automobile and IT industries. Future prosperity and growth of China and India will have a big impact on global financial and investment climate.

First part of the diploma thesis is devoted to brief characteristics of both countries with emphasized attention towards current economical situation. In second part I will try to achieve objectives set below and perform useful and transparent comparison of selected countries.

Objectives and methodology

Before I will start with the short introduction of examined countries it will be necessary to understand core objectives and tasks of the thesis. It is also important to describe the theoretical basis and methodology of analysis.

Topic of my diploma thesis is “Comparison of economics of China and India”. In this thesis I would like to set following objectives:

- To make a quality description of current situation in economics of India and China;
- Make a comparison of key macroeconomic indicators of two countries and based on this information try to create possible scenarios of development;
- Make a quality analysis of factors that are crucial for doing business;
- Based on surveys of WTO and WEF evaluate economies competitiveness, determine main drivers for business developing and identify weakness spots;
- Methodology of this diploma thesis is based mostly on surveys of plenty multinational organizations such as IMF (International Monetary Fund), WTO (World Trade Organization), WEF (World Economic Forum), World Bank etc. Since both countries have a big influence on global economy, there are a lot of available materials and surveys devoted to economical development of examined countries. However correct selection and analyzing of them is a quite sophisticated issue and takes a long time, skills and patience.

1. Country profiles and definitions

1.1. China. Short overview.

People's Republic of China is located in East Asia and is the most populated state on our planet. China has a rich history and a lot of things such as paper, powder, banknotes and other were invented there.

History

Chinese civilization is one of the oldest in the world history. First settlements occurred along the Yellow river and Yangtze River. China always was an agriculture civilization. Soft climate and abundance of rivers and land had determinate early development of agriculture economic.

In general Chinese history is divided for a 3 periods:

1) Pre-empire history (till 221 BC);
2) Empire period (221 BC – 1911 AD);
3) New China (from 1911 AD).

Chinese recorded history counts more than 8.000 years.[1] Ancient history starts from slave society began around the 21st century B.C. Over the next 1,700 years, agriculture and animal husbandry developed greatly together with silk raising and production. At that time silk was an improtant commodity for the empire's economy. Well-known "silk road" occurred in order to sell Chinese silk in ancient Europe. Bronze smelting and casting skills reached a relatively high level, and iron smelting became increasingly sophisticated. The Chinese culture flourished, as a great number of thinkers and philosophers emerged. Ancient chinese philosophy remains popular even today, especially well-known Confucius philosophy.

In 221 B.C., Qin Shi Huang, the first emperor of the Qin Dynasty, established a centralized, unified, multi-national feudal state.[2] During his rule the building of Great Chinese Wall had started. He also reformed chinese army, unified tax system, created and empowered state insitutions. After death of Qin Shi Huang process of destabilisation had started. During the next few centuries dynasties changed each other. There were periods when China was divided between few kingdoms.

The blossoming of Chinese Empire started from accession of Tang dynasty which ruled China in 618-907 AD. At that period of time whole country was divided on 10 provinces and all administrative processes and state institutions were enhanced. That allowed to create strong, centralised state and had positive impacts on economics, international trade and development of main cities. During the rule of Tang dynasty tea and cotton became important part of Chinese agriculture.

On XIII century Chinese Empire was conquered by Mongols who settled at Beijing and created Yuan dynasty with Kublai Khan as an emperor. China had lost its independence and became a part of Great Mongol Empire. Rule of Mongol Khans had negative impact on China's infrastructure, agriculture and trade. Since Mongols were nomads, they did not fully understand meaning and importance of irrigation systems, water channels and etc., so they were not able to ensure its proper maintaining. Such attitude leaded to decrease and recession of country's economy and international trade. As a consequence strong freedom movement

[1] BUCKLEY EBREY, Patricia. *The Cambridge Illustrated History of China*. New York: Cambridge University Press, 2010. ISBN 978-0-521-12433-1.
[2] BUCKLEY EBREY, Patricia. *The Cambridge Illustrated History of China*. New York: Cambridge University Press, 2010. ISBN 978-0-521-12433-1.

occured and leaded to people's uprising and overthrow of Yuan dynasty inherited by Ming dynasty (1368). During the Ming dynasty Chinese Empire significantly expanded its territory. At XIV centuries contacts with European countries intensified. Portugal rented Makao region . First Catolic missioners reached China and brought European inventions such as brought, astronomic devices and etc. At the end of XVI century Manchu state (China's north neighbour) united by Nurhachu stopped to pay tribute and proclaimed its own state and dynasty. Right after that Nurchachu and his succesors enhance its military pressure and brought to power Quing dynasty.

The rule of Quing dynasty was characterized by territorial expansion and country's isolation towards Europe, Japan and Russia. China selled its own commodities to European companies, but did not buy european ones. As a result country became an „apple of discord" for Britain, Japan, Russia and France and lost its economical independence.

In 1911 The Xinhai revolution started, as a result Qing dynasty was overfalled and Provisional Goverment of the Republic of China was established. China was not involved in World War I and tried to keep neutrality. Nevetheless Japan occupied part of its territory. Right after WWI so called Warlord Era started. Whole country was divided among militarised clans and groups.

In 1912 in Guangzhou was established Kumintang party (capitalists political party). With the support of Russia and Germany Kumintang leader Chiang Kai-shek created a strong, well-organized army. At the same time communist ideas were spreaded among local population with active support of Soviet Russia. In general in 1920's there was a confrontation between Kumindan, Communist party and local militarised groups. In 1931 Japan occupied Manchuria. At that circumstances Kumindan and Communist party agreed in 1936 on common actions against Japan. Common actions with active military support of USSR led to strong resistance against Japanese occupants. After fall of the Gitler's Germany, US and USSR forces concentrated on Japan and in short period of time defeated Japanese army and forces Japan to capitulate.

Right after defeating of Japan, war between CPC (Communist Party of China) and Kumindan had resumed. Due to weakness of the nationalists after the war against Japan, communists quickly seized the north part of the country. That period was named as Chinese

Civil War. As a result of war, CPC defeated Kumindan and seized the country. Kumindan leaders and members had left the mainland China and moved to Taiwan where Republic of China was established. On 1 October 1949 chinese communists leader Mao Zedong proclaimed People's Republic of China in mainland part of the country.[3] That fact plays a significant role in modern history of China and determinates its development process.

PRC (People's Republic of China) was created as a communist state. At that time economics and social environment of the country were very poor. Japanese occupation, civil war and recent decades of various conflicts devastated the country. Mao Zedong proclaimed so called "Great Leap Forward" and through five-year plans and programs started to develop country intensively. The whole process was accompanied by awful actions such as land expropriation, forced collectivization, creating of labor camps and mass repressions. In 1966 Mao Zedong and his allies proclaimed "Cultural revolution" due to this tragic event thousands of people suspected in unloyalty of the regime were killed and repressed. Regime of Mao Zedong had a strong hostility in the rest of the world. In 1972 Sino-Soviet split took place and China had lost support of USSR. After the death of Mao Zedong "period of turbulence" in Chinese history had finished. Deng Xiaoping become the leader of CPC and rules the country from 1978 to 1992. In early 80-s China fell in economical recession which was caused by ineffective economical policy. As a result Deng Xiaoping started the process of economical transformations which continues also today. In 90-s CPC started to transform its economical system and created unique model which includes elements of communism with active modernization and privatization. Plenty of multinational corporations started to move its production to China because of cheap labor force.

Current situation and political background

Currently People's Republic of China is a single's party people's republic governed by the Communist Party. Today China is a world most populated state and second largest state in the world (by land area).[45]

[3] CURTIS WRIGHT, David. *The History of China*. 2nd ed. USA: ABC-Clio, 2011. ISBN 978-0-313-37748-8.
[4] Population, total. *World Bank Data* [online]. 2014 [cit. 2015-03-05]. Available on:http://data.worldbank.org/indicator/SP.POP.TOTL

For more comfortable introduction with the country, I decided to put main facts and information into following table:

Table 1. Key informations about PRC

Capital	Beijing
Population	1.350.695.000[6]
Area	9.596.961 sq. km
Official language	Standard Chinese (mandarin)
Other recognized languages	Mongolian, Tibetan, Uyghur, Zhuang etc.
Leader of CPC and the state	Xi Jinping (from 2012)
Main cities	Guangzhou, Shanghai, Beijing, Hong Kong, Macao, Shenzhen
GDP (nominal)	9.182 trillion (2nd in the world)
Currency	Yuan (CNY)

Source: various sources

1.2. India. Short overview.

[5] Land area (sq. km). *World Bank Data* [online]. 2014 [cit. 2015-03-05]. Available on: http://data.worldbank.org/indicator/AG.LND.TOTL.K2
[6] Population, total. *World Bank Data* [online]. 2014 [cit. 2015-03-05]. Available on:http://data.worldbank.org/indicator/SP.POP.TOTL

After closest introduction with Chinese history I would like to pay attention on India's profile since it is the second object of the comparison in this diploma thesis. India and China have a lot of common; both are most populated states in the world and have huge territory. India is one of the oldest cultures in the world and has a rich history which is difficult to describe in this thesis, however I will try to provide a brief overview of it.

History of India

Indian civilization occurred and developed along the Indus valley since 2500 BC. Valley was inhabited by Dravidians who later moved to South part of the land. At that time main centers of the Indus valley civilizations were Mohenjo-Daro, Harappa and Lothal. Culture was developed mainly by agricultural and trade. It is still not known what the reason of its deterioration was. Most probably collapse of the Indus valley civilization was caused by ecological reasons. As a result Aryan tribes started to migrate and settle along Ganga and Yamuna rivers. Aryans created a unique civilization. These periods were named as Vedic and pre-Vedic. During the Age Vedic Civilization in Indo-Gancetic plain few powerful kingdoms raised named "Mahajanapadas". In one of this kingdom was born Gauthama Buddha who created and promoted ideas of Buddhism's. During the 4th and 3rd centuries BCE most of the subcontinent was conquered by Maurya Empire. After that India was ruled by numerous kingdoms for the following 1500 years. That time was proclaimed as a Golden Age of India. Indian culture, traditions, religion (Hinduism and Buddhism) and administrative policy were spread among other Asian regions. However that period was characterized also by number of war conflicts between those kingdoms.

In 1206 CE Delhi Sultanate was established and Islam becomes the main religion of the whole region. After century of Islam rule, few Hindu kingdoms merged and destroyed Delhi Sultanate in early XIV century. But in XVI century Mughals led by Khan Babur came from Central Asia and conquered northern part of the country. Mughals created rich and powerful state. Their rule was time of the blossom of architecture, astronomy and alchemy. Well-known Taj-Mahal Mausoleum was built in Agra during Mughals rule. Due to decentralized administrative system and irrational politic some provinces of Mughal Empire empowered and proclaimed independence. Dissensions and invasions of Persians and later Afghan tribes destroyed Mughal Empire.

Rapid development of European countries in XVI-XVII centuries led to their active expansion worldwide. Capitalism which occurred in Europe required new markets and sources. As a result, European states started to search for sea routes to Asia and needed sea ports and colonies. From XVI century Portugal, Netherlands, France and British Empire actively interfered and took under control divided and weakened Indian kingdoms. In Indian history most principal value had rule of British Empire. In XVII century British Ost-Indian Company after series of successful military campaigns acquired Bengal. British also actively interfered in relations between local navabs and maharadjas and played on their contradictions. In short period of time British established their own custom points and monopolized local trade. Right after that they subordinated and forced local producers and craftsmen to supply their products and commodities under fixed and low prices. British also raised taxes. Politic of Ost-Indian Company led to mass starvation. Approximately 15-26 millions people had dead from starvation.

Policy and methods of British Empire met strong resistance of local population. Well-known is a sepoys riot.[7] After suppression of the riots, India came under direct control of British Queen. Despite of this national independence movement was strengthened. More and more Indians supported rebels and national leaders. A strong role played Indian National Congress established in 1885.[8] In 1920-30's Mahatman Ghandi become a national leader. He bet on policy of non-violence and in short period of time gained huge popularity in and out of India.[9] As a result, in 15th of August 1947 India gained its independence from British Empire. A huge role in this process played a trend of decolonization started after WWII. Nevertheless India was divided on two dominions – India and Pakistan. Separation was based on religious principle. As we will see later, that decision had a very important effect on the future development of the country.

The process of formation of a new state was accompanied by series of territorial and religious conflicts. From 1947 to 1971 India had military conflicts with Pakistan, China and Bangladesh. In 1961 India invades Goa (former Portugal colony). Tensions with Pakistan led to active militarization of the country. As a result, in 1974 India made first

[7] Sepoys were soldiers of British Empire recruted from Indians
[8] ROBB, Peter. *A History of India*. 2nd ed. United Kingdom: Palgrave Macmillan, 2011. ISBN 978-0-230-27982-7.
[9] Same source

nuclear tests. Due to huge population and presence of plenty of different ethnic groups India suffered from serious territorial, ethnic and religious conflicts. There is a huge tension between Hindu and Muslim population. Local Muslims strive to Pakistan or to greater autonomy. Cultural and religious diversity was a main reason for federalization of the country. That's why India is a federal state and composed by 28 states and 6 union territories. Delhi has a special status as a capital.

For better understanding I put some important information about India into the following table:

Table 2. Key information about India

Capital	New Delhi
Population	1.210.193.422[10]
Area	3.287.590 sq. km[11]
Official languages	Hindi, English + 22 regional languages[12]
Major cities	Mumbai (16,4 mil.), Calcutta (13,2 mil.), Madras (6,4 mil.), Bangalore (5,7 mil.) and others
Government	Federal parliamentary constitutional republic
Administrative divisions	28 states, 6 union territories, New Delhi as a national capital territory
GDP (nominal)	1.842 trillion USD[13]
Currency	Indian rupee (INR)

Source: various sources

If we will compare information from table 2 with key information about China (see table 1) it is visible that India has much more official languages and agglomerations with a higher population. The reason is that India disposes less area then China, so it has higher population density. Also India is more decentralized since it has plenty of different ethnic groups and cultures and is more diverse. Moreover some particular parts of the country had

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[10] „Provisional Population Census Results 2011", Ministry of Home Affairs, Government of India. http://www.censusindia.gov.in/2011-prov-results/indiaatglance.html

[11] „Country profile: India", Library of Congress, Federal Research Division. http://lcweb2.loc.gov/frd/cs/profiles/India.pdf

[12] Same source

[13] "Report for Selected Countries and Subjects". World Economic Outlook Database, International Monetary Fund, 2013.

been developing in different ways. For example Goa was a Portugal colony while Kashmir was influenced by Muslim culture.

From 1990-s Indian government had started economical reforms and at the end of XX century Indian economy become one of the most fast growing in the world. Nevertheless country still suffers from huge poverty and strong segregation in terms of incomes. There is also instability in social sphere. Ethnic and religious diversity leads to tensions within some ethnic groups. Instable relation maintain between Muslims and Hindus. Jammu and Kashmir remain disputed territories with big influence of Muslim Pakistan. In next part of the thesis I will pay more attention on current political situation in both countries.

1.3. Definitions

For the following analysis I will use some specific macroeconomic indicators and also apply data from international organizations. That's why I decided to include in this part brief overview of key definitions.

GDP or Gross Domestic Product is the monetary value of all the finished goods and services produced within a country's borders in a specific period of time. Usually GDP is calculated on annual basis. Indicator includes private and public consumption, government outlays, investments and net export (calculated as difference between import and export). GDP is the most wide-spread indicator that allows evaluating economy health and volume. In my thesis I will use also GDP per capita indicator calculated as a gross domestic product on one resident (person permanently living in country).

While calculating GDP we have to recognize nominal GDP and GDP in PPP meaning. PPP is purchasing power parity – one price law. In other words, using of PPP helps to avoid differences in exchange rate and count the real meanings. That's the reason why in many countries GDP in nominal prices differs from GDP in PPP. In my thesis I will use mostly GDP in PPP per capita since it indicates real performance and provides volume of domestic product cleaned from exchange rate.

Gross national income is the next macroeconomic indicator which will be used in this thesis. Gross national income or **GNI** is GDP less net taxes on production and imports, less compensation of employees and property income payable to the rest of the world plus the corresponding items receivable from the rest of the world (in other words, GDP less primary incomes payable to non- resident units plus primary incomes receivable from non-resident units).[14] The advantage of GNI is that it allows to measure household's income in more real meanings.

For comparison of both countries is necessary to count with inflation rate.
In economics, **inflation** is a sustained increase in the general price level of goods and services in an economy over a period of time. [15] A chief measure of price inflation is the inflation rate, the annualized percentage change in a general price index (normally the consumer price index) over time.[16] Usually for developing countries is typical high inflation rate (up to 10-14 %).

Since both analyzed countries are developing ones, it is important to know how distribution of wealth runs in society. For those purposes macroeconomics has so called **Gini index**. Gini index or Gini coefficient is a measure of statistical dispersionintended to represent the income distribution of a nation's residents.[17] It was developed by the Italian statistician and sociologist Corrado Gini and published in his 1912 paper "Variability and Mutability". Zero values of Gini index means that everyone in society has equal income. Meaning of 100% means maximal inequality (e.g. only one person has all society's income). As it becoming clear from the previous text, Gini index is used mostly for measure of inequality of income or wealth in society. Nowadays Gini index is commonly used by number of international organizations such as OECD or World Bank. The big advantage of this indicator is ability to show that high GDP or GNI per capita not always contribute to society's wealth.

After introduction with some macroeconomics indicators I would like to pay more attention on methodology of this thesis. As it was mentioned in the beginning of the work, comparison of both countries is based on PEST analysis. A **PEST analysis** looks at how those external factors can affect a business's activities and performance, and it can be used in combination with other tools. PEST is an acronym for political, economic, social and

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[14] Glossary of statistical terms of OECD organization. Available on: http://stats.oecd.org/glossary/detail.asp?ID=1176
[15] Blanchard Olivier „Macroeconomics (2nd edition)." Englewood Cliffs N.J: Prentice Hall. ISBN 0-13-013306-X.
[16] N. Gregory Mankiw „Macroeconomics" (5th edition) by Worth Publishers, 2002. ISBN: 978-1429240024
[17] Gini, C. „Concentration and dependency ratios", translated from Italian in "Rivista di Politica Economica", 1997.

technological and as it follows, method concentrates on analysis of those factors and their impact on countries economics and business environment. PEST analysis was developed and earned popularity mainly in UK, however now it is one of the most spreaded evaluational methods of external factors and their influence on particular industry or company. Very often PEST analysis is used together with SWOT analysis.

At the end of theoretical part of the thesis I would like to put brief characteristics of some international organizations that perform plenty of surveys and rankings devoted to current economical situation of China and India.

WTO (World Trade Organization) – an international organization that intends to supervise, liberalize and coordinate international trade processes. Organization was established in 1 January 1995, its headquarters are located in Geneve, Switzerland. Nowadays WTO has 159 members countries.[18] Main functions of WTO are:[19]

- Administering WTO trade agreements
- Forum for trade negotiations
- Handling trade disputes
- Monitoring national trade policies
- Technical assistance and training for developing countries
- Cooperation with other international organizations

WTO present is a key international organization that regulates international trade in the world. The important role of WTO consists in existence and experience of managing disputes. For this particular thesis I will use some statistics and surveys prepared by WTO.

World bank - is a United Nations international financial institution that provides loans to developing countries for capital programs. World Bank consists of two organizations: International Bank for Reconstruction and Development (IBRD) and International Development Organization. Key mission of World Bank is to end extreme poverty within a

[18] http://wto.org/english/thewto_e/whatis_e/who_we_are_e.htm
[19] Same source

generation and boost shared prosperity. Realisation of that mission requires to reach two „ambitious goals“:[20]

- Push extreme poverty to no more than 3 % by 2030;
- Promote shared prosperity and greater equity in the developing world.

Organization was established in July 1944 and counts 188 countries (members of IBRD). Headquarters are located in Washington, US.[21]

World Economic Forum (WEF) is an International Institution committed to improving the state of the world through public-private cooperation. WEF is a Swiss nonprofit foundation and has status of independent international organization. WEF was established in January 1971 by the group of European leaders. Up to 1987 organization had name „European Management Forum“.[22]

Nowadays WEF has following functions:[23]

- engage political, business, academic and other leaders of society in collaborative efforts to shape global, regional and industry agendas;
- serve and build sustained communities through an integrated concept of high-level meetings, research networks, task forces and digital collaboration;
- deliver unique value to its partners, members and constituents through its annual and regional meetings.

WEF prepares plenty of useful studies and surveys related to global competiveness and business climate in the world. It has modern methodology and analyzes topic through entrepreneurs point of view.

[20]http://www.worldbank.org/en/news/feature/2013/04/17/ending_extreme_poverty_and_promoting_shared_prosperity
[21] http://www.worldbank.org/en/about/history
[22] http://www.weforum.org/history
[23] http://www.weforum.org/world-economic-forum

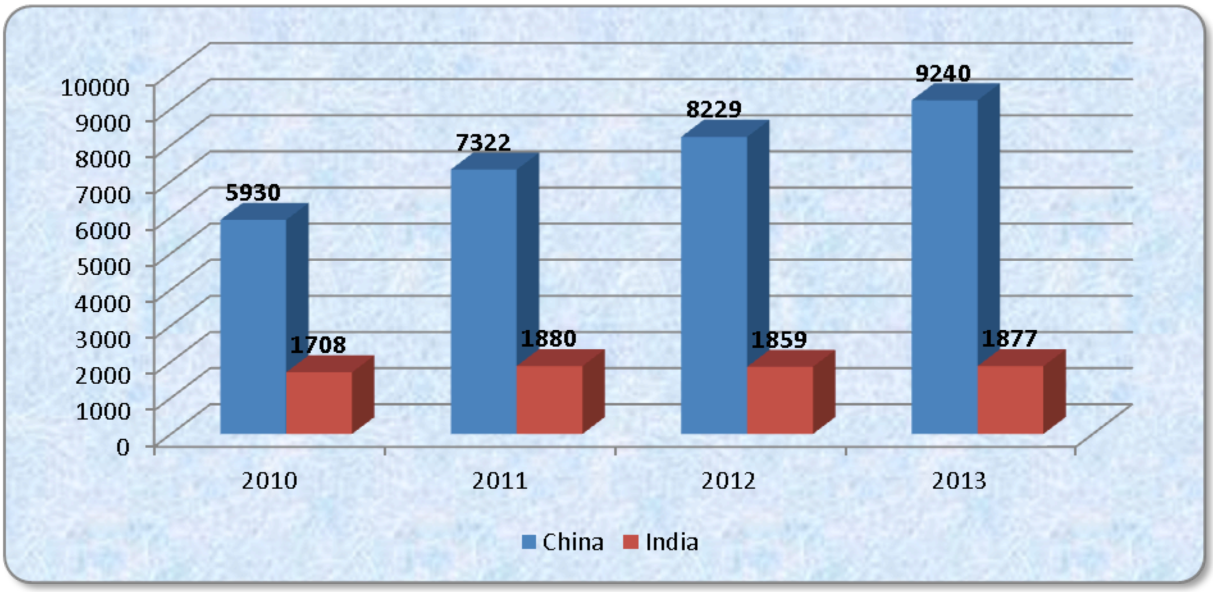
2. Key macroeconomic indicators and macroeconomic sustainability

This part of thesis is devoted to analysis and comparison of key macroeconomic indicators. It allows to make a first conclusions about overall condition of examined economies. Besides the fact, that China is more economically powerful it will be also crucial to know, what is the structure of both economies and how look the last trends of it.

2.1. Domestic product and national income

At the beginning I would like to show trend of real GDP for both countries:

Chart 1. Real GDP of China and India in years 2010-2013 in billions USD

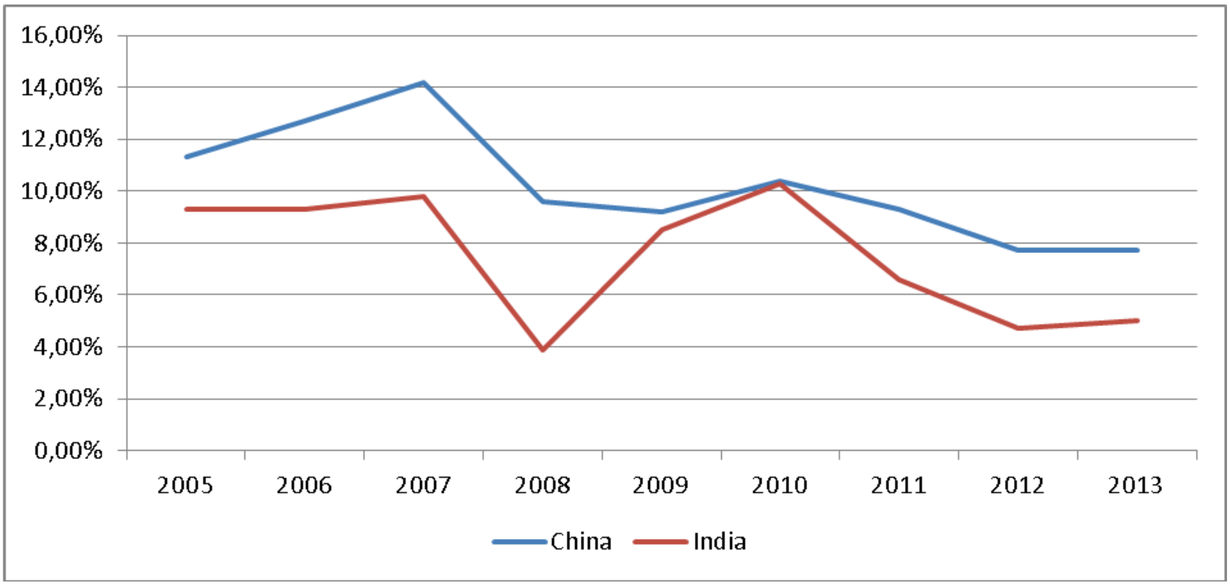


Source: World Bank data

Real GDP of China has significantly positive trend and is much more higher than Indian one. In context of this diploma thesis it is important to track overall temp of GDP growing. Below I projected annual GDP growth for the both countries. The chart shows high rate of growth for examined countries. China and India belong to pool of the fast-growing economies and merge markets and fully correspond with this inclusion. For a long time growing pace exceeded two-digits meanings. For China significant growth was indicated even during the world financial crisis: years 2008-2010. For India impact of financial crisis was more tangible. However in year 2009 country had already recovered.

Taking into account volumes of the markets, pace of the economic growth and population both countries could be percepted as economic superpowers. For China this statement has being valid for the recent years. For India this statement become more and more real. According to Goldman Sachs, by year 2035 India will overtake Russia, UK, Germany and Japan and will be placed as the third largest economy in the world, right after USA and China.[24] Nevertheless, from chart #2 is visible that trend of Indian GDP growth is unstable. After recovering in 2009-2011 pace of the growth decreased again. But the point is that even in crisis time Indian economy is still growing and developing. That fact is very important for the potential private and insitutional investors.

Chart 2. Economic growth rates for China and India for years 2005-2013



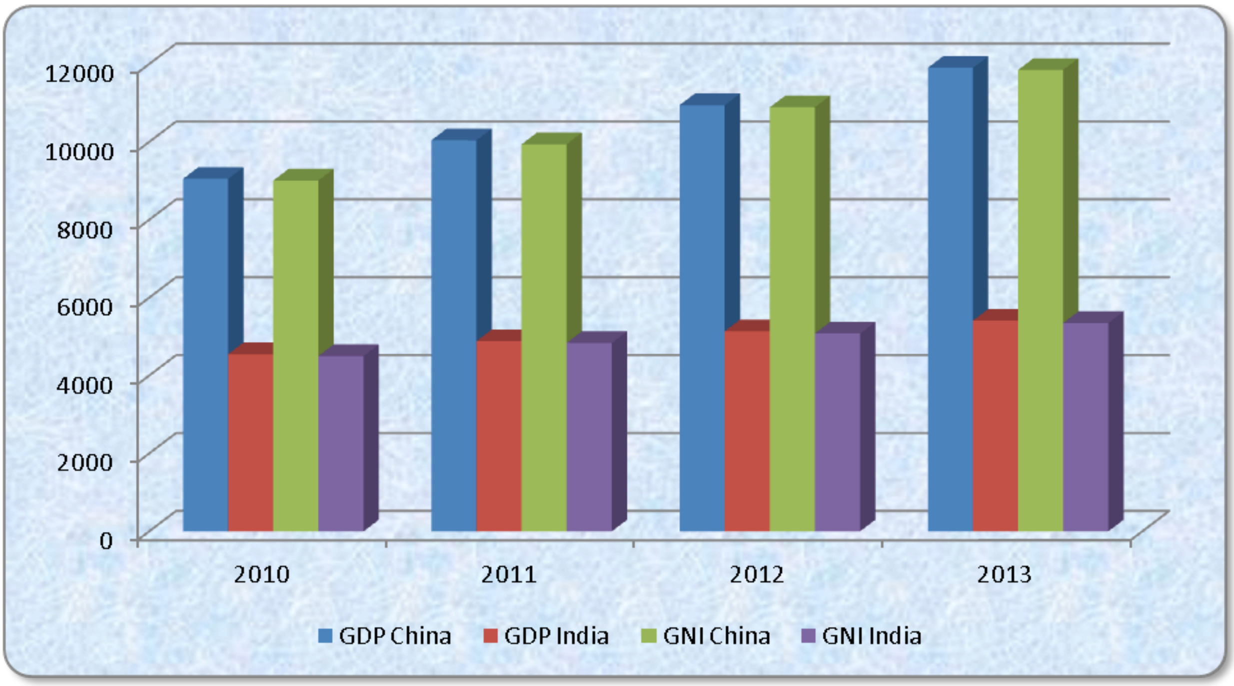
Source: World Bank data

Chart 1 indicates the growing and differences between overall GDP of both countries, despite of this fact it is important to know real purchase power and consumption potential of examined economies. We all know that China and India are the most populated countries in the world. Improving of incomes and domestic product open new opportunities for number of industries (e.g. FMCG, retail, automobile industry and etc.). Chart below illustrates GDP under PPP (Purchase Power Parity) and gross national income per capita. According to chart GDP and GNI of China grows with high tempo. In year

[24] WILSON, Dominic and Purushothaman ROOPA. Dreaming with BRICs: the path to 2050. *Global economics paper*. 2007, N99

2013 GNI and GDP of China almost approached twelve thousands USD what is relatively high meaning for third world country. Just for instance, real GDP per capita of China in year 2013 was 6.807 USD.[25] High difference between meanings of GDP by PPP and real GDP is caused by low price level in the country. GDP and GNI per capita for India are more stable and do not exceed 6.000 USD.

Chart 3. GDP and GNI, PPP per capita of China and India in years 2010-2014 in USD



Source: World Bank data

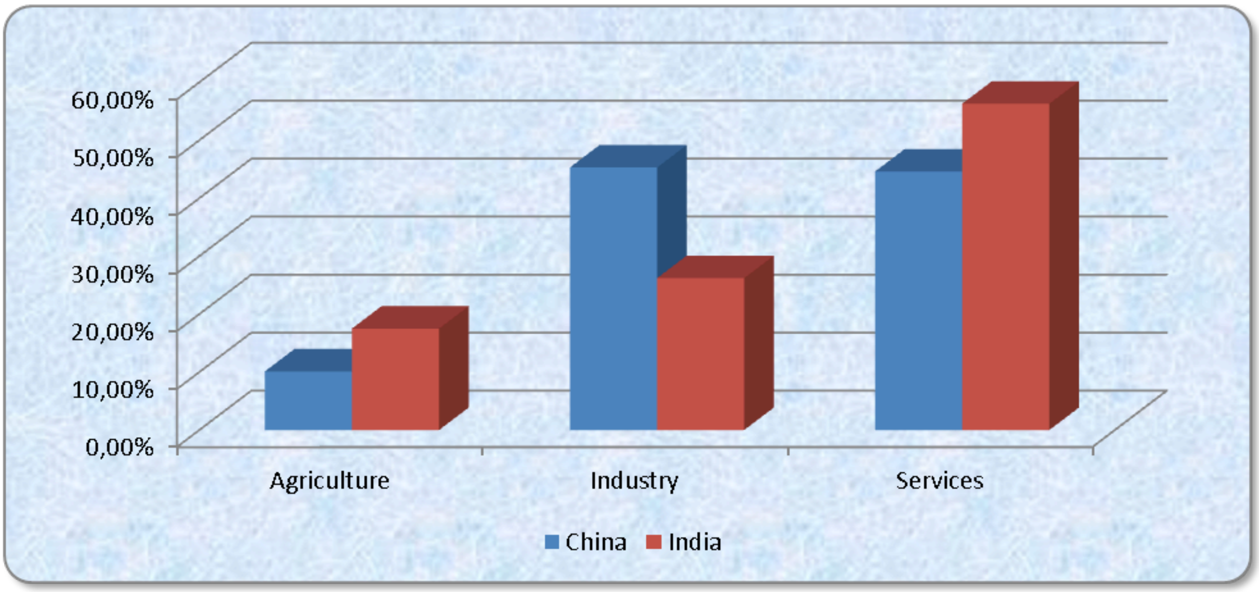
While comparing this indicator, it is necessary to emphasize that China and India developed along each other up to the 90s and in middle 80's incomes in India exceeded the Chinese ones. The turning point was caused by Deng Xiaoping reforms and then inherited by his successor Jiang Zemin. At the same time India suffered from its insufficient central planned, inward-looking economy oriented on internal demand instead of expanding outside and deeper international trade involvement. Low incomes did not allow to ensure high internal demand. Territorial disputes, wars and corruption penetrated to all levels of state bureacracy lead to economical crisis and overall decrease of economic growth. The aftermath is still visible as its shown on chart 3.

[25] GDP per capita (current US$). WORLD BANK. *Databank* [online]. 2013 [cit. 2014-11-13]. Available on: http://data.worldbank.org/indicator/NY.GDP.PCAP.CD

Despite of the fact that Indian GDP and GNI per capita are much lower than Chinese, for this thesis it is important to clarify what is the potential of Indian economy. We all know that China accelerated its economic growth exponentially from late 90's. For India, developing was more stable and smooth. Indian GDP indicated average 6% growth from 1992-2002 decade, then 8% average annual growth in 2002-2012.[26] The whole trend was accompanied by significant growth of country's exports and declining of its debt to GDP rate.

It is important to emphasize the GDP composition of researched countries and to visualize their core differences. Below I put structure of GDP of China and India allocated within three core sectors: agriculture, industry and services.

Chart 4. Composition of GDP of China and India in 2012



Source: World Bank data

Chart shows that Chine generally reflects its status of „world factory" - 45,3 % of its huge economy is based on industry production mostly composed by manufacturing of finished goods. Taking into account high level of modern production sites automatization, mentioned value is relatively high. It became especially visible while counting number of population occupied in industry. Further we will consider it more carefuly. As for India – country still depends a lot on agricultural sector. Inspite of gradual reduction of agriculture role in GDP (fall from 28,7% in 1992 to 17,5% in 2012) its share is still too high to rank

[26] WORLD BANK. *India at a glance* [online]. 15.3.2014 [cit. 2014-11-18]. Available on:http://devdata.worldbank.org/AAG/ind_aag.pdf

country as an industrial one. There are a number of reasons to be mentioned for explanation of this fact, among them:

- low productivity of labour force in agricultural sector. Partially it is caused by overall level of appropriate education, but also it is influenced by structure of land holding – 80% of agricultural lands are in hads of small farmers, too small to get access to adequate loans and investments.[27] As a result, small farmers are not able to invest sufficient amount in modernisation of technologies and work applying old and ineffective approaches. That fact leads to slow pace of modernisation of agricultural sector and less effective productivity compare to other countries;
- ineffective water management – only 35% of total agriculture land were irrigated.[28] Except of natural reasons such as global climate change , there is also a lack of water management skills and infrastructure, so big volumes of water just run off without making it cycling. That fact leads to expansive character of agriculture which in conditions of poor technologies means higher representation of physical labour instead of automatisation;
- most of the population is concentrated in rural areas. According to World Bank data from year 2011 – 68,70 % of population lived in rural areas of the country.[29] Overall urbanization index is low comparing not only to developed countries, but even to neighbours and third-world countries. From 2001 to 2011 average annual growth of urbanisation was only 2,76 %.[30] The nature of the problem lies in different aspects such are powerty and inability to get higher education or find a job in large cities, willingness to live close to relatives and national traditions. As a result – almost 1/5 of labour force of the country is occupied in agricultural sector.

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[27] DEV, S. Mahendra. *Small Farmers in India: Challenges and Opportunities*. Indira Gandhi Institute of Development Research, Mumbai, 2012. Available on: http://www.igidr.ac.in/pdf/publication/WP-2012-014.pdf. Paper. Indira Gandhi Institute of Development Research (IGIDR).

[28] WORLD BANK. *Agricultural irrigated land (% of total agricultural land) in India* [online]. 2009 [cit. 2014-11-24]. Available on:http://www.tradingeconomics.com/india/agricultural-irrigated-land-percent-of-total-agricultural-land-wb-data.html

[29] WORLD BANK. *Rural population (% of total population) in India* [online]. 2011 [cit. 2014-11-24]. Available on:http://www.tradingeconomics.com/india/rural-population-percent-of-total-population-wb-data.html

[30] TRIPATHI, Sabyasachi. *An overview of India's Urbanization, Urban Economic Growth and Urban Equity*. Munich, Germany 2013. Synopsis. Institute for Social and Economic Change.

Chart 4 shows high share of services on GDP of both countries. It is important to look what it means in terms of specific industries. For China share of services on GDP is less than share of industries. Nevertheless pace of developing services is very high due to overall country's economics growth. Among the most fastgrowing kinds of services are mentioned retail, telecommunications and tourism. In recent years luxury market grows significantly due to growing number of millionaires.

As for India, services have the highest share on GDP, and what is more interesting its value growing from year to year. The essense if this trend could be found while looking on country exports. According to WTO statistics, export of services account almost 1/3 of India's total exports (150.926 mil. USD in 2013).[31] India become world outsourcing center. International companies otsource here IT and business processes. The reason lies in cheap, english-speaking workforce with relatively high level of education for IT sector and applied science. Besides IT outsource India also accounts high turnovers in energy sector, retail, banking, transport and infrastructure.

2.2. *Inflation and employment*

Next very important point had to be considered in this thesis is employment and inflation rate and structure. Since the purpose of the thesis is to analyze attractiveness of China and India for foreign investors, it is crucial to know the situation with employment and inflation, because these two factors have direct influence on common investment and business climate.

2.2.1.Employment

We all know that China and India are the most populated countries in the world. Global trend shows shifting of production capacities and outsourcing of services toward South-East Asia where China and India are two superpowers. China counts with 798 mil. labour force while India has 487 millions. Both countries seemed to be very attractive for global manufacters. China is considered primary as a production site with relatively affordable workforce and quite developed infrastructure. As for India, country is known as a global outsourcing center for IT and business processes. Nevertheless, it is expected that more

[31] WORLD TRADE ORGANISATION. *Trade Profiles: India* [online]. 2013 [cit. 2014-11-24]. Available on:http://stat.wto.org/CountryProfile/WSDBCountryPFView.aspx?Language=E&Country=IN

and more production sites will be created in the region. India's labour market condition partially confirms that.

Positions of India are more stronger because of two reasons:

- Country has positive demographic trend and it is expected that up to 2030 economically active population will grow by 2 percent annually;
- Country has relative low price level with average salary measured as 295 USD/monthly. Moreover, the real growth of average wage goes slowly and not corresponds with productivity (productivity grows in higher pace).[32]

Since China become more and more saturated with factories and production plants, foreign investor are looking for further suitable countries to move production in. This statement is especially valid for apparel manufacturing, agriculture, pharmacy. Today, India, Indonesia, Philippines, Bangladesh, Pakistan and Vietnam involve interest of foreign investors. Nonetheless up to now it does not deprive the status of China as global manufacturer, especially in electronics, apparels, FMCG and non-food items.

While comparing labor markets of two countries it would be useful to bring some figures.

Table 3. Basic indicators of labor market in China and India

	China	India
Total workforce (mil. people)	798	487
Unemployment rate (in % of total labor force)	4,5 (in 2012)	3,4 (in 2012)
Average salary (USD/monthly)	206 (2013)	57,4 (in 2012)
Hourly direct pay (USD/hour)	0,92 (in 2013)	2,02 (in 2012)
Women participation (from all economically active females)	64 %	29 %
Secondary school enrollment (% from total population)	89 % (in 2012)	69 % (in 2011)

Source: International Labor Organisation data, World Bank data, OECD data

[32] INTERNATIONAL LABOUR ORGANIZATION. *Global Wage Report 2012/13: Wages and equitable growth*. Geneva, Switzerland, 2013.

Table above indicates relatively saturated labor market in both countries with low level of unemployment rate and low costs of labor force. Difference in payment conditions is visible from minimum wage and direct hourly pay, so price of labour force in China is significantly higher. India suffers from low women participation rate and lower level of secondary scholl enrollment. Basicaly we can conclude that China's labor market is much larger and labor force there is more qualified. The reason most probably lies in Chinese reforms and transition from planned model to market economy with strong state influence. Chinese goverment created more advantages for business and opened new career possibilities for local people. Overall economy improvement reflected in higher wages and growing intension of young Chinese to get education and build career. Indian researcher R. Nagaraj from Jawaharlal Neru University made a number of researches devoted to labor markets of both countries. Basically he identified, that gap occured from 80's to year 2000.[33] At this period of time China made a visible and exponential progress, its results are notable in table above.

While analyzing labor markets of both countries it is necessary to take into account specifics of both countries that may significalntly cause the whole analysis. Below I grouped the most important of them:

1) High level of informal economy in both countries. That statement is especially actual for India. All values regarding employment/unemployment, structure of employment and occupation should to be considered with certain rate of scepticism. A lot of people in India are involved in so called „informal economy“[34]. This fact creates a lot of complications for performing qualified statistic researches. It also has direct influence on key macroeconomic indicators. According to Credit Suisse performed in 2013, 50% of Indian GDP and 90% of employment are informal. Country's GDP is likely underestimated by

[33] NAGARAJ, R. INDIRA GANDHI INSTITUTE OF DEVELOPMENT RESEARCH. *Labour Market in India: Current Concerns and Policy Responses*. Seminar on Labour Markets in Brazil, China and India: Princeton University, 2007. Available on: http://www.oecd.org/employment/emp/38355655.pdf

[34] Note: the informal sector or informal economy is the part of an economy that is nottaxed, monitored by any form of government or included in any gross national product (GNP), unlike the formal economy. Examples are barter and gift economy.

approx. 15%.[35] The positive thing is that productivit might to be higher than officail, especially in informal sector. The reason lies in small landowners and landlenders. Everyone who has his garden or some cattle is considered as an employed. Taking into account the share of rural population, value of 90% people employed in informal economy mentioned above seemed to be realistic.

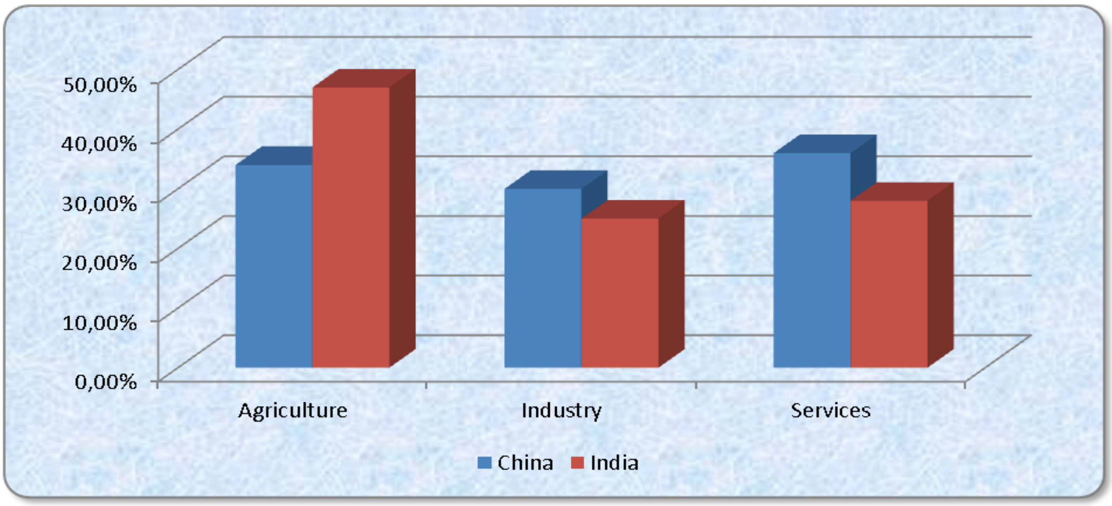
2) Aging of population in China. According to United Nation Organisation, ageing country is a country in which people aged 60 or more make up 10 % of total population. Predictions made by local institutions indicate that in year 2017 share of 60+ age people will reach 10,6 % from total population. Moreover, percentage of children (0-15 y.o.) will consequentially fell to 17 %.[36] In other words, process of ageing of population is progressing and it will have direct influence on labor market of the country.

3) Low qualification of labor force of China and India and growing gap between highly-qualified and low-qualified workers. Despite of the fact, that China invest a lot of money to education, number of engineers and high-qualified professionals will not be enough to fully supply country's industry sector. As a result, productivity and overall growth will be slower than today. In India situation is even worse, the gap between medium-skill and low-skill workers is growing.[37] This trend will have two effects, on one hand country's overall quality of labor force will be deteriorated, but on the other hand such sectors as agriculture and manufacturing will be supply enough with low-cost employees.

At the end of this chapter it will be very crucial to look on the structure of the employment.

[35] MISHRA, Neelkanth a Ravi SHANKAR. CREDIT SUISSE. *India Market Strategy: India's better half: The informal economy*. Asia Pacific/India, 2013. Available on: https://www.credit-suisse.com/newsletter/doc/apac/aic2013/20130712_indiamkt.pdf
[36] YANG, D.U. a Wang MEIYAN. INSTITUTE OF POPULATION AND LABOUR ECONOMICS CHINESE ACADEMY OF SOCIAL SCIENCES. *Employment Sector Employment Working Paper No. 57: Demographic ageing and employment in China*. Geneve: International Labor Office, 2010.
[37] DOBBS, Richard, Anu MADGAVKAR, Dominic BARTON and others. *The World at Work: Jobs, pays and skills for 3,5 billion people*. McKinsey Global Institute, 2012.

Chart 5. Structure of the employment of China and India[38]



Zdroj: World Bank data and International Labor Office data

As its shown on the chart, India has much more laborforce involved in agriculture. Reasonsof it were analyzed earlier and are linked with specifics of population density, traditions and level of education. China has large shares in industry and services what allows to determine country as a region in transition stage. Share of services is growing while number of workers occupied in manufacturing and agriculture is decreasing year-to-year.

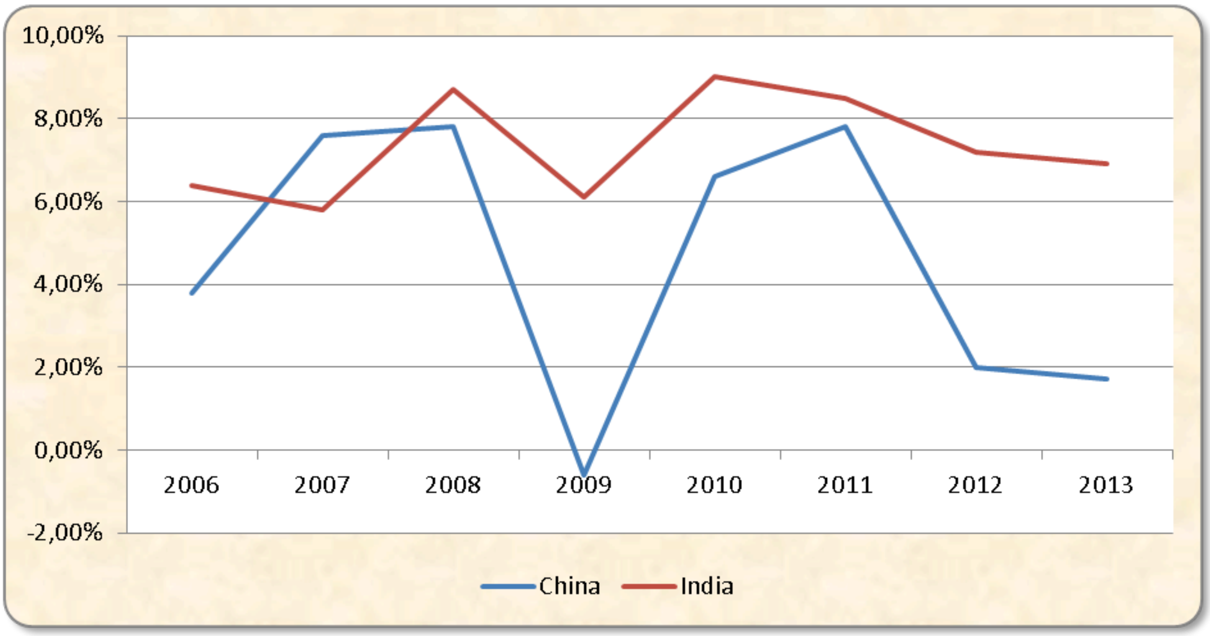
2.2.2. Inflation

Inflation is the most contradiction macroeconomic factor. On one hand inflation is a sign of unstable macroeconomic situation, on other hand, for export inflations is able to bring positive effect.

Chart below illustrates the dynamic of inflation rate in China and India measured with GDP deflator method.

[38] NOTE: data for India are relevant for 2012, for China – year 2011.

Chart 6. Inflation rate in China and India in years 2006-2013.



Source: World Bank data

It is noticeable that China has much more unstable trend of inflation rate. Inflation in China is characterised by its high fluctuation, from almost 8 % in 2007 it was significantly decreased and finally reached deflation in 2009. This was the period of world financial crisis and Chinese monetary institutions were not well-prepared for that.[39] For foreing investors such high rate of fluctuation creates certain obstacles especially in situations with exchange rate and profit transfers. But there is a positive dynamic in last 2 years, so inflation in China becomes more predictable and modest. The main tool in this process is strong internal market. China with its population and income level is able to maintain high domestic demand and enhance local production. That is actually the main straight point of Chinese economy as a whole.

As for India, country has relatively acceptable inflation rate. Dynamic of inflation in India is typical for developing countries and flows between 6-9 % and is relatively predictable. For Reserved Bank of India, acceptable are 5% inflation rate.[40] The main accelerators of inflation are fuel prices and import goods and commodities. As it was

[39] YAO, Shujie a Pan WANG. THE NOTTINGHAM CHINA POLICY INSTITUTE SERIES. *China's Outward Foreign Direct Investments and Impact on the World Economy*. UK: Palgrave Macmillan, 2014. ISBN 1137321105.

[40] DWIVEDI, D N. *Macroeconomics: Theory and Policy*. New Delhi: Tata McGraw Hill Education, 2010. ISBN 978-0-07-009145-0.

mentioned previously, inflation rate and currency depreciacion have positive effect because of cheaper exports. Nevertheless, India has to import a lot of essential commodities and technologies, so country depends on import more than China.

2.3. International trade

Ath the end of general macroeconomic analysis I would like to compare structure of foreign trade of both countries and determinate some trends and vectors. China is already known as the world largest exporter, as for India – country is on the beginning of this process and has various opportuinities for manufacturing and services outsourcing.

Table 4. Basic information about international trade of China and India, relevant for year 2013.

	China	India
Value of merchandise exports (mil. USD)	2 209 007	313 235
Share in world total exports (in %)	11,74 %	1,66 %
Value of merchandise imports (mil. USD)	1 949 992	466 042
Share in world total imports (in %)	10,32 %	2,47 %
Value of services exports (mil. USD)	204 718	150 926
Key export markets (in % from total exports)	Hong Kong (17,4%), US (16,7%), EU (15,4%), Japan (6,8%), South Korea (4,1%)	EU (16,7%), US (12,5%), UAE (10,1%), China (4,9%), Singapore (4,2 %)
Key import destinations (in % from total imports)	EU (11,3%), South Korea (9,4%), Japan (8,3%), Hong Kong (8,1%), Taiwan (8,0%)	China (11,1%), EU (10,6%), Saudi Arabia (7,9%), UAE (7,1%), Switzerland (5,3%)

Source: World Trade Organisation

In table 4 I composed basic available information about international trade of both countries. From data above we can make a number of very important conclusions:

- China plays siginificant role in world trade, while India's share on global exports and imports remains minor. Taking into account coutry's resources, potential and population its impugns claims about India's meaning for modern global economy. Nevertheless, it is important how India will be developing next 3-5 years;

- China is also leading in exports of commercial services, however gap between China and India is not so signifact as for merchandise trade. Most probably it is caused by mentioned India's capacities for outsourcing of IT and business processes and manual work;
- For India China plays very important role as an importer and export market. China now is the largest Indian importer, and also almost 5% of Indian export goes there.[41] Most probably European Union will soon overtake China, but still role of China for Indian economy will remain very crucial;
- For both countries EU and United states are the most important markets. This fact makes both countries sensitive and dependent on macroeconomic situation in Western world. At the same time, China's local market develops exponentially. As it mentioned in table, key export market for China is Hong Kong (actually part of China with different economic system). It emphasizes value of local merchandise and production flows. China has two opportunities for dynamic growth: local market saturation and increasing of exports. Since Indian local market is weak yet, the priority for the next 3-5 years will be growth of production and exports;
- Arab countries have a big share for Indian international trade, while China concentrates on Asian markets: Japan, Korea, Taiwan. India exports to Arab countries agriculture products, apparels, chemical products, engineering tools, gems and jewellery.[42]

Basically dependence on EU and US markets is clearly visible. On my opinion, countries should concentrate more on mutual trade expanding and enhancing economical relations in South-East Asia region. Both countries should also expand on Russian and CIS markets. China actually is already doing it while India lags.

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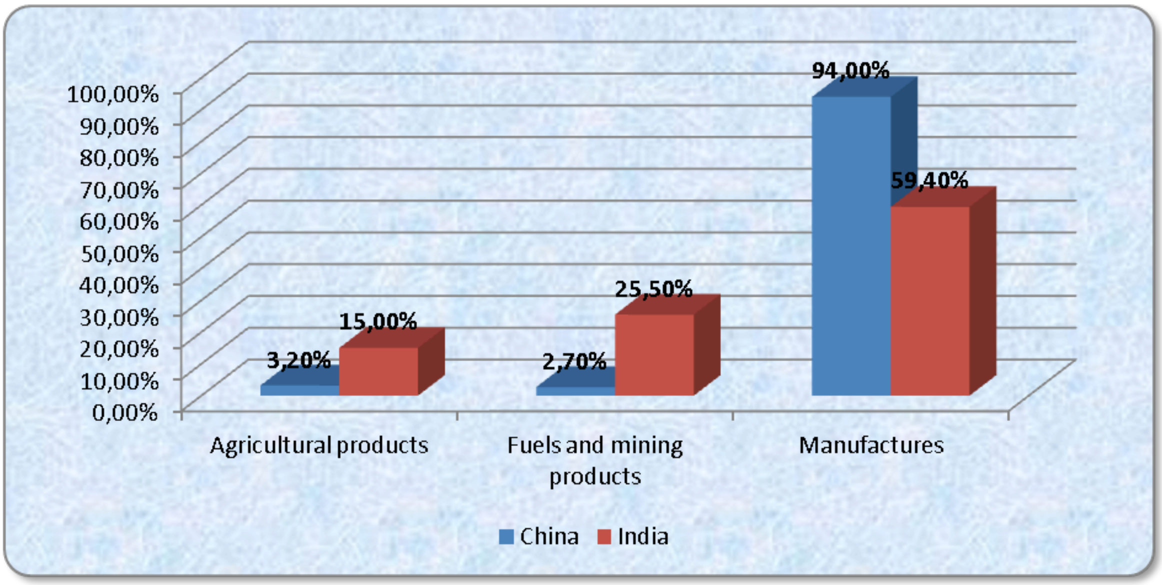
[41] Trade profiles: India. WORLD TRADE ORGANISATION. *WTO statistics database* [online]. 2014 [cit. 2014-12-06]. Available on: http://stat.wto.org/CountryProfile/WSDBCountryPFView.aspx?Language=E&Country=CN%2cIN

[42] NAGACHAMPA, JAIN. *INDIA'S TRADE RELATIONSHIP WITH UNITED ARAB EMIRATES (UAE) AFTER LIBERALIZATION*. Karnataka, India, 2013. Doctor of Philosophy thesis. Karnatak University. Vedoucí práce Dr. H.H.

For defining potentially interesting industries for foreing investors in will be useful to study countries structure of foreign trade. Earlier we determined key export markets and values of it, but what export consist of?

Chart 7. Structure of exports of China and India in 2013.



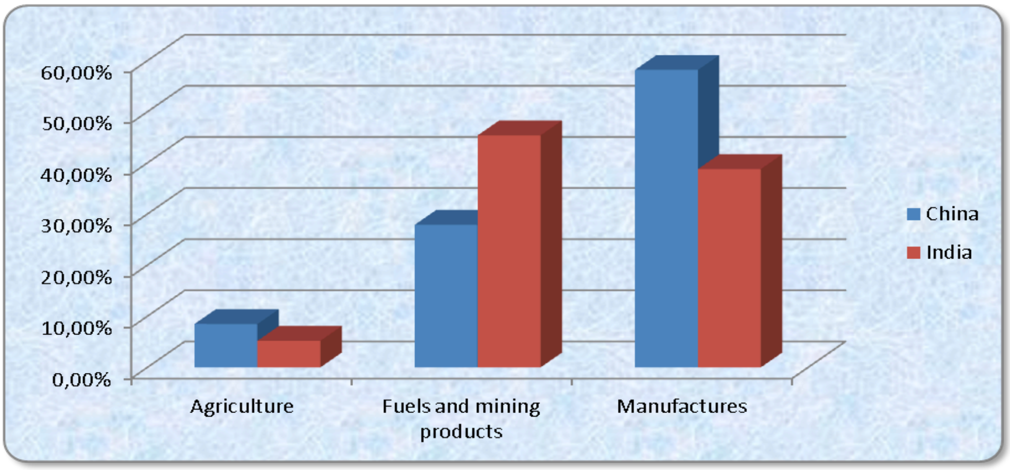
Source: World Trade Organisation

Chart reflects structure of exports relevant to year 2013. As it is seen from the chart, stucture of Indian exports is more diverse. Volume of agricultural exports is five times higher then in China. As it was mentioned previously, India has relatively strong positions and potential in agriculture. On other hand it show Indian economy inefficiency – country cannot produce manufactures for final consumption since it has lack of technologies and infrastructure. Instead of it, India exports agriculture products and raw mineral sources. In China, all agriculture output and all mined sources are intended for domestic consumption and stimulating local production and manufacturing. That's is the reason, why 94% of Chinese exports consists from final goods and manufactures.

For the mid-term prospective, India will most probably grow its manufacture production and modernise its efficiency in agriculture sector. As a result, we can expect significant increasing of overall export volume, this growth will be ensured mainly by agricultural sector and manufaturing. On May 2014 Indian general elections took place, the winner became Bharatiya Janata Party, party with strong focus on liberalisation, economic growth and social welfare.[43] That's why plenty of foreing investors are waiting for general business climate liberalisation and economic growth.

From table 4 is visible, that China and India are very important importers. Both countries have share of almost 13% from global import. Chart 8 reflects structure of those imports.

Chart 8. Structure of imports of China and India in year 2013



Source: WTO statistics

Chart shows minor share of agriculture products on total imports. In spite of large productions capacities, both countries mostly import manufactures. For China – large producer in the world exist a lot of items, which country cannot produce and is forced to import. This scale includes technologies, equipment, cars, luxury products and etc. Expanding Chinese economy and incomes growth brought the effect in form of dynamic consumption. Chinese households want to buy good cars, apparels, interiors, cosmetics and etc. Chinese production plants require modern equipment, tools and commodities. Despite of fact that India produces less items than China, share of country's imports of manufactures is less. Partially it is caused by huge volume of import fuel and mininigs, but also the reason is lower household's income level compare to China.

Both countries import a huge volume of fuel and minings. China needs mineral sources for supporting the production and diversification of its economy. For India main imported item is oil. India today is the forth larger importer of crude oil in the world. Moreover, it is

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[43] BASU, Nayanima. BJP may make retail FDI more investor-friendly. *Business Standard*. 2014, 15.5.2014.

expected that consumption of liquid fuels will grow 3% annually. The process is running despite the fact of country's low level of consumptuion per capita, comparing to US, China, Russia or Japan.[44]

After overall describing and analysis of international trade participation we can make a following conclusions:

- Both countries are depend on import of fuel and minerals even if they are saturated enough, stucture of consumption and specifics of mining do not allow to use mostly domestic mineral sources;
- Both countries are actively involved in trade with western countries (United States and EU). South-East Asian market also plays an important role;
- Both countries have positive dynamic of international trade. Exports are growing, while domestic consumption and production require more fuels and mining products;
- China is a huge exporter compare to India and shares 1/10 of world export. Both countries are important importers.

[44] India's economic growth is driving its energy consumption. U.S. ENERGY INFORMATION ADMINISTRATION.*International Energy Statistics* [online]. 2012 [cit. 2014-12-07]. Available on: http://www.eia.gov/todayinenergy/detail.cfm?id=10611

3. Business climate analysis

In this part of thesis attention will be paid to general analysis of China's and India's business climate. Easiness of doing business often become a main criteria for foreign investors. For the purposes of analysis I will use survey „Doing Business“ performed by World Bank on annual basis. Survey is good for comparing because of its complexity, transparency and user-friendly approach. Also World Bank is the well-known organisation with solid renome, rich experience and strong know-how.

Rating doing business compares 10 different indicators: from establishing enterprise to getting the permits and solving insolvency.

Before starting the analysis it will be necessary to emphasize some specifics of examined countries. China has autonomy – Hong Kong. Special Administrative Region Hong Kong is a part of China, however in country exists parity „one country – two systems“. Hong Kong has a plenty of priveleges and high degree of autonomy, especially in political and legislation which operate independently from mainland China. This principle was declared in Sino-British Joint Declaration.[45] That's why business environment in mainland China and Hong Kong differ a lot, in further text we will have opportunity to compare it.

As for India, country has sophisticated federative system. Republic consists of 29 states and 7 union territories (incl. New Delhi).[46] All states and union territories New Delhi and Puducherry have elected goverment and legislatures. Other union territories are ruled via central governement which appoint administrators and key authorities. As a result, business climate might significant differ from state to state. For instance, Narendra Modi – leader of Bharatiya Janata Party and ex-governor of Gujarat state put strong efforts to attract foreign investors. That was the reason why Gujarat received a lot of FDI's.

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[45] Hong Kong. JOINT DECLARATION OF THE GOVERNMENT OF THE UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND AND THE GOVERNMENT OF THE PEOPLE'S REPUBLIC OF CHINA ON THE QUESTION OF HONG KONG. In: *Sino-British Joint Declaration*. 1997. Available on: http://www.legislation.gov.hk/blis_ind.nsf/CurAllEngDoc/034B10AF5D3058DB482575EE000EDB9F?OpenDocument

[46] PANAGARIYA, Arvind, Pinaki CHAKRABORTY a M. Govinda RAO. *State Level Reforms, Growth, and Development in Indian States*. New York: Oxford University Press, 2014. ISBN 978-0-19-936786-3.

3.1. Starting business, getting permits, registering property

In table 5, I put indicators from „Doing Business 2015“ ranking, prepared by World Bank in October 2014.[47] Since rating is very complex, for purposes of better understanding, I divided selected indicators in two tables (tables 5 and 6). I also decided to include in comparison SAR Hong Kong, because this part of China is especially attractive for foreing investor. Very important and useful is that World Bank counts results for PRC and Hong Kong separately.

Table 5. Selected topics for China and India from „Doing Business 2015“ ranking.

Criterium	Value		
	China	**India**	**SAR Hong Kong**
Overall position in ranking	***90***	**142**	**3**
Starting a business (position in ranking)	***128***	158	8
Number of procedures	11	11,9	3
Time	314 days	28,4 days	2,5
Costs of starting (% from average income)	0,9 %	12,2 %	1,4
Paid-in minimum capital (% from average income)	0,0 %	111,2 %	0,0 %
Dealing with construction permits (position in ranking)	***179***	184	1
Number of procedures	22	25,4	5
Lenght	244,3	185,9	66
Getting electricity (position in ranking)	***124***	137	***13***
Number of procedures	5,5	7	4
Time	143,2 days	105,7	38
Registering property	***37***	121	96

47 Whole publication is available on: http://www.doingbusiness.org/reports/global-reports/doing-business-2015

(position in ranking)			
Number of procedures	4	7	5
Time	19,5 days	47 days	35,5
Cost (% of property value)	3,6 %	7,0 %	7,7 %
Getting credit (position in ranking)	***71***	36	***23***

Source: World Bank

India is far behind China in overall ranking position. Despite the fact that establishing enterprise is easier than in China from points of procedures and time, costs of establishing are high for average citizen. For country, where average income was 5.729 INR[48], establishing of private liability company costs 23.200 INR (approx. 300 Euro).[49] Moreover, India has obligatory paid-in minimum capital. The paid-in minimum capital requirement reflects the amount that the entrepreneur needs to deposit in a bank or with a notary before registration and up to 3 months following incorporation.[50] As it is clear from Table 5, PRC and Hong Kong do not have this requirement in local legal system, what allows to local entrepreneurs to register companies with lower costs. Nevertheless, China has another disadvantage in form of huge bureaucracy, process of enterprise registration lasts there 314 days. This complication could significantly demotivate local people to open new businesses. It is interesting, that China has less number of procedures, but process of coordinating registration lasts much more longer than in India.

The next important topic is dealing with construction permits. By this criterium, both countries have very unattractive position in ranking. Actually, getting construction permits is big problem for all developing countries. Low level of transparency, absence of clear and published rules, lack of rational decision-making together with legislation imperfections creates strong bureacratic barriers and stimulates corruption. China and India are facing those problems. Number of procedures and overall lenght of application

[48] India's per capita income rises to Rs 5,729 per month. *The Economic Times* [online]. 2013, Feb 7, 2013 [cit. 2014-12-11]. Dostupné z: http://articles.economictimes.indiatimes.com/2013-02-07/news/36972679_1_constant-prices-income-in-real-terms-capita-income

[49] For example, average costs are calculated there http://www.company-formationindia.com/company-formation-in-india.html

[50] DJANKOV, S., R. LA PORTA, F. LOPEZ-DE-SILANES a A. SHLEIFER. THE REGULATION OF ENTRY. *The QUARTERLY JOURNAL OF ECONOMICS*. Feb. 2002, CXVII. Prepared by Harvard University, Yale School of Management, World Bank.

considering are extremely high. Just for instance, we can easy compare it with Hong Kong – number one of dealing with construction permits.

There are number of reasons to explain overall process sofistication, but most of them were mentioned above. China is a former communistic state and inherited complex bureaucratic system with leading role of communist party and strong level of centralisation. As for India, country is divided on states where local government has plenty of tools to push on business and create corruption schemes. Also, number of issues must to be coordinated with center (New Delhi), that even more complicates the whole process. While comparing getting the construction permits in both countries, we also have to take into account that most of the enterprises are established in big cities, a lot of them still have luck of infrastructure. China and India are overinhabite. Population density in cities is very high, so entrepreneurs also have to count with bringin all necessary communications and infrastructure units. If we will take a look on getting electricity ranking, then it became clear that China and India are above top 100 of ranking. Problems with getting construction permits and access to electricity have the same nature and are caused more by local bureaucracy than lack of essential sources or infrastructure.

Registering property is the next important for foreign investors topic. Since massive investments require purchasing of assets such as land or buildings, it is important to understand in advance what difficulties potential entreprenenur can face to. Table shows big differences between China and India. Curiosly that formally communistic state has very comfortable conditions in terms of property registering. For India main complications are made by overall lenght of the process and costs of it. Coordinating the purchasing process by state authorities is run on two levels: local administration and central organs in New Delhi. That's why the whole process requires more procedures and application to be aplied. The next important moment is overall price or acquisition property and rights on it. According to ranking, for India it counts two times higher value than in China. Overall costs for registering are 7% from property value in India. That amount is extremely high especially for developing country where government should create friendly business environment. Costs of registering are especially important for local small and medium enterprises. For those subjects paying such high amounts might have significant influence on overall ROI (return on investments) and reduce rentability of big projects. Nevertheless, SAR Hong Kong - #3 region in terms of conditions for business also have problems with property registration. Time for coordinating and registering property right last almost 36 days. Fees and costs related with rights acquisition are even higher compare to Indian ones. Fos SAR Hong Kong this situation is probably related with high interest of foreign investors and big demand on tangible assets. Moreover region is very limited with lands and real estates available, so each transaction has to receive confirmation on top levels of administration. Integrating Hong Kong in China's administrative system complicated processes related with assets acquisition. Even if Hong Kong remains very autonomic, it has to coordinate some processes in terms of maintaining security for PRC. That's why decision who and where will own some properties have to be at least reported to central government.

3.2. Access to finance

Getting financing is another important topic included in Doing Business ranking. Availability of loans and financial instruments has direct influence on pace of business processes in country. Somehow it is a fuel, especially for small and medium enterprises. Easy access to financing is also a competitive advantage, because foreign investors might apply for loans not in domestic country, but in country of expanding so local banking system might have additional benefits. Before starting to compare it is important to understand which components determinate final position of the country in ranking.

In ranking World Bank uses following criterias for measuring credit availability:[51]

- Strenght of legal rights index. The strength of legal rights index measures the degree to which collateral and bankruptcy laws protect the rights of borrowers and lenders and thus facilitate lending. More clear and transparent system serves as an attractant for investors.
- Depth of credit information index. The depth of credit information index measures rules and practices affecting the coverage, scope and accessibility of credit information available through either a credit bureau or a credit registry. Other words, depth of credit information index measures the complexity and completiveness of information available. Modern principles of credit bureaus and registers functioning

[51] DJANKOV, Simeon, Caralee MCLIESH a Andrei SHLEIFER. WORLD BANK. *Private Credit in 129 Countries*. March 2006. Dostupné z: http://www.doingbusiness.org/methodology/~/media/GIAWB/Doing%20Business/Documents/Methodology/Supporting-Papers/DB-Methodology-Private-Credit-in-129-Counties.pdf

are oriented on integrity of data provided by and for both sides of market – lenders and borrowers. Role also plays the limit, when loans start to be recorded. Depth of recording means that even small loans are registered, recorded and information about them is available for lenders.

- Credit bureau coverage. A credit bureau is defined as a private firm or nonprofit organization that maintains a database on the creditworthiness of borrowers (individuals or firms) in the financial system and facilitates the exchange of credit information among creditors. Coverage then measures number of individual and companies listed in database.
- Credit registry coverage. A credit registry is defined as a database managed by the public sector, usually by the central bank or the superintendent of banks, that primarily assists banking supervision while at the same time facilitating the exchange of credit information among banks and other regulated financial institutions. Coverage reports number of individual and companies listed in register.

Table on the next page includes all mentioned components measured for China, India and SAR Hong Kong.

Table 6. How easy is to get credit in China, India and SAR Hong Kong.

Getting Finance in China and India			
Criterium	**Value**		
	China	**India**	**SAR Hong Kong**
Getting credit	***71***	**36**	**23**
Strenght of legal rights index (0-12)	4	6	7
Depth of credit information index (0-8)	6	7	7
Credit bureau coverage (% of adults)	0 %	22,4 %	96,1 %
Credit registry coverage (% of adults)	33,2 %	0 %	0,0 %

Source: Doing Business 2015 prepared by World Bank.

Getting finance in China is related with low level of legal rights. Since China declares itself as a communistic state, private economy sector is highly influenced by the state in terms of legal rights. Problematic of this issue is very deep and might extend size of the thesis. In simply words, legal rights in China are not completely clear and strong enough in terms of collateral laws and bankruptcy procedures. Problems are caused again by existing political system. Active state involvement in business processes complicates collaterall issues for banking sector and individual borrowers. The reason lies in ownership structure – key Chinese banks are still holded by the government: Bank of China, Agricultural Bank, China Construction Bank and Industrial and Commercial Bank of China.[52] Since key lenders are holded by state, issues of collateral and lender-borrowers relations become bit complicated. State bureacracy cannot be so flexible as private governance is. From table 6 is also visible that China does not have sufficient system of loans recording. All transactions are recorded only by credit registry, so only public sector has access to this information. For private investor it means that information could be received only via official request what complicates pace of information sharing. Credit bureaus simply do not exist in the country.

As for India, country has a very good position in terms of depth of information, credit bureau covers 22,4 % adult borrowers. At the first glance this value seems not to be high, but we shall take into account size of population and its density. For India – developing country with extremely high population covering records for almost quarter of borrowers is a very good progress. The main point is that information from credit bureau is available for private lenders, so risks of overindebtedness or cross-borrowing reduces. In general India has few advantages compare to China:

Wide envolving of private banks in local economy. India has less state-owned banks than China. In early 90's country executed liberalisation of banking sector – number of licences were distributed. Measure immediately stimulated banking sector. Currently foreign investors might invest in Indian banks. Developing of banking sector ensured access to finance to various groups of population;

[52] PING, He Wei. *Banking Regulation in China: The Role of Public and Private Sectors*. New York: Palgrave MacMillan, 2014. ISBN 978-1-137-36932-1.

Credit bureau existing. The advantage of it was already mentioned in text above. Technologies of credit bureaus allows to join to the system more and more lenders. Finally all financial market improved, probability of insolvency or frauds significantly decrease;

Less state control of economy compare to China. India is democratic federative republic. Current prime-minister Narendra Modi takes course on easier access of households to financial services. The goal is to provide bank accounts to 75 mil. Households up to 2018. [53] Country proceeds with its course on liberalisation. For insitutional and private investors finacial market of country becoming more attractive;

Developing of microfinance sector. This industry was booming in India in 2009-2011 before crisis in Andhra Pradesh state had started. After 2 years of disbalance, Indian microfinance market is reviving againg and attracts institutional investors. People in India are familiar with microlending and currently are more protected by state than previously. Easy access to microloans allows small farmers to expand their business and improving social and business climate in whole country.

3.3. Taxes, trade, investor's rights

Except above mentioned criterias and indicators, ranking contains some other indicators allowing to compare processes of export/import, paying taxes, solving indebtedness and also legal protection. Table 7 concludes the rest of criterias for India, China and SAR Hong Kong.

Table 7. Selected topics for China and India from „Doing Business 2015" ranking.

Criterium	Value		
	China	India	SAR Hong Kong
Protecting Minority Investors (position in ranking)	***132***	7	***2***
Extent of conflict of interest regulation index (0-10)	5,0	6,7	9,0

[53] India's Narendra Modi launches bank accounts for all. *BBC News* [online]. 2014, August 2014 [cit. 2014-12-14]. Dostupné z:http://www.bbc.com/news/world-asia-india-28962762

Extent of shareholders governance index (from 0 to 10)	4,0	7,8	7,2
Strenght of minority investor protection index (from 0 to 10)	4,5	7,3	8,1
Paying taxes (position in ranking)	***120***	***156***	***4***
Number of payments per year	7	33	3
time (hours/year)	261	243	78
Total tax rate (% of profit)	64,6 %	61,7 %	22,8 %
Trading across borders (position in ranking)	***98***	126	***2***
Documents to export/import	8/5	7/10	3/3
Cost to export/import (price in US$ per container)	823/800	1.332 / 1.462	590/565
Enforcing contracts (position in ranking)	***35***	186	***6***
Time	452,8 days	1420 days	360 days
Number of procedures	37	46	26
Resolving insolvency (position in ranking)	***53***	137	***25***
Time (years)	1,7	4,3	0,8
Overall position in rating	90	142	3

Source: Doing Business 2015 report prepared by World Bank.

Protecting minority investors is the first compared indicator constructed by 6 indexes. In table are recorded only 3 of them. As it's visible from the table, China has very „unfriendly"position towards minor investors. Shareholders governance index is low. This fact shows weakness untransparency of existing corporate governance systems in China. Shareholder has limited access to decision-making and fully delegates this process to management. And here other important index plays its role – director's liability index with meaning 1 for China (from 0 to 10). Director rights are protected much more stronger than investors ones. It is very difficult to prove director's own interest in contracts signed. At the same time extent of conflict of interest regulation index is low, so accurate and transparent non-court solving of problems between stakeholders is difficult process.

As for India, country shows perfect progress in protecting minority investors. During the year country improved its position for 14 steps and holds today 7th place in ranking what is very high result for developing country and big advantage on global investment market. India has especially high meaning for shareholders rights index (9 from 10 maximum) and corporate transparency index (8,5 from 9 maximum).

Paying taxes. The big advantage of Doing Business ranking 2015 is complex analysis of various criterias. For example, ranking compares not only overall rate of tax leverage on business, but the process of paying taxes itself from point of time and number of procedures. Both examined countries are placed in bottom part of the rating. This fact emphasizes lack of efforts to reform the existing outdated and highly bureaucratized fiscal system. Table shows, that India has almost five times higher number of procedures. But despite of this, overall time for taxes declaration and paying takes almost the same time in both countries. Difference is also visible in tax structure: profit tax in India is 25,3% and labor tax and contributions are 20,7%. In China profit tax is only 7,8 % but social leverage is extremely high – labor tax and contributions are 49,1 %. As a result, overall tax leverage are similar for both markets.

In text above was mentioned, that China is world key exporter and India is going to be a competitor for number of commodities. Ranking also pays attention to international trade issues. Topic is very crucial for potential investor. In China trade and transport infrastructure is well-developed. Government put efforts for liberation of export/import operations, as we can see from the ranking; those efforts have visible results. Costs of export and import are much lower in China, since sea lines market is very competitive and ports infrastructure is well-equipped. For example let's compare expedition costs per one container in China and India:

- Custom clearance and inspection – 130 USD in India and 80 USD in China;
- Ports and terminal handling – 225 USD in India and 140 USD in China;
- Inland transportation and handling – 400 USD in India and only 95 USD in China.

A difference in expedition costs is the main reason of gap in ranking between countries. During the year, position of India had worsened and country moved from 122 to 126th place. China's position remained unchanged.

Enforcing contracts is a complex indicator which includes issues related with trade disputes and judicial system efficiency. For foreign investor it is important to know costs and length of judicial disputes. As we can see from the table, India and China have significant gap. Despite the fact that China is still under rule of communist party, judicial system towards business works there much faster and cheaper. Average costs of disputes claim in China do not exceed 15,1 % while in India it counts almost 40% from claim amount. Moreover, length of claim consideration in India is extremely high (1420 days!). The main conclusion is that trade courts do now work efficient enough to protect investors and make their life easier. Rules of the game in China are much more clear for entrepreneurs. This is the situation, when strong centralized state governance becomes effective and creates basis for long-term investments and business climate sustainability. India, which suffers from decentralization, corruption and low efficiency of state institutions is only at the beginning of its way to transformation.

The last indicator of the ranking considers resolving insolvency and is also closely related with previous indicator. The only difference is that for business is important to have an opportunity for out-of-court regulation with creditors. As we can see from the table, the length of insolvency process in India is also high, so country placed in bottom part of the ranking.

4. Economies competitiveness

In this part of the thesis I would like to analyze overall competitiveness of both countries from prospective of its business climate and ability of China and India create prosperity for their citizens. In this analysis I will actively use results of Global Competitiveness Report 2014-15 presented by World Economic Forum. In theoretical part, description of the ranking was described already; however it will be useful to briefly resume it. GCR works with 12 pillars with characterize various aspects of country developing. Those pillars are divided in 3 pools: basic requirements, efficiency enhancers and innovation and sophistication factors. Based on values of particular pillar, country's position is place between 3 stages: factor driven economy, efficiency driven economy or innovation driven economy. Moreover, ranking methodology actively works with business establishment and carefully researches its mood and opinion.

4.1. Basic requirements

Below I grouped the first pillars named as basic requirements for country's developing.

Table 8. Basic requirements pillars for China and India

	China		India	
Pillar	Rank (out of 144)	Score (1-7)	Rank (out of 144)	Score (1-7)
Basic requirements				
Institutions	47	4,2	70	3,8
Infrastructure	46	4,7	87	3,6
Macroeconomic environment	10	6,4	101	4,2
Health and primary education	46	6,1	98	5,4

Source: Global Competitiveness Report 2014-15

4.1.1. Institutions

Institutions pillar measures overall performance of state institutions and includes pool of indicators, from property rights to costs of terrorism for business. India has visible gap from China due to following reasons:[54]

- Corruption (in ranking named as bribes and irregular payments). Actually is a weak place for China also. Internation NGO Transparency International makes a survey „Corruption Perception Index“ on annual basis. According to the last survey performed in 2014, China placed on 100th and India on 85th place out of 175 countries.[55] Corruption is characteristic for all developing countries in transition period. As we can see, strongly centralised state governance in China leads to larger corruption compare to decentralized India.
- Business costs of terrorism, business costs of organized crime and violence; Country still suffers from high risk of terrorism, we all remember attack on Mumbai in 2008. Risk of terrorims still remains on high level even today. Especially with establishing an Islamic state and growing tensions between hindu and muslim population.[56] This creates additional obstacles for country attractiveness for global investors. Also an important role plays organized crime. There is a lack of special surveys and researches devoted to this topic, but as we can see from the ranking, mafia has significant influence on business environment in India. Dutch researcher Jan Van Dijk in his papers shows an organized crime index statistics. According to it India counts between 30 and 40 and its position is higher than e.g. position of Italy with its tradition and influence.[57]
- Strength of auditing and reporting standarts. Very weak place of Indian economy and insitution performance. The value is counted based on executive opinion survey. The only question there is „In your country, how strong are financial

[54] All report is available as follows WORLD ECONOMIC FORUM. *Global Competitiveness Report 2014-15* [online]. Switzerland, 2014 [cit. 2015-02-10]. Link: http://reports.weforum.org/global-competitiveness-report-2014-2015/

[55] TRANSPARENCY INTERNATIONAL. *CORRUPTION PERCEPTIONS INDEX 2014: RESULTS* [online]. 2014 [cit. 2015-02-10]. Available on:http://www.transparency.org/cpi2014/results

[56] BURKE, Jason. Terror threat to India rising again six years after Mumbai attacks. *The Guardian* [online]. 2014, 26.11.2014 [cit. 2015-02-10]. Available on: http://www.theguardian.com/cities/2014/nov/26/india-terror-threat-mumbai-attacks

[57] VAN DIJK, Jan. Mafia markers: assessing organized crime and its impact upon societies. *Trends in Organized Crime*. 2007-12-01, Volume 10, Issue 4 , pp 39-56. DOI: 10.1007/s12117-007-9013-x.

auditing and reporting standards?“ where 7 means extremely strong. India has 4,2 index and is placed on 102nd place out of 144. Based on this numbers we can claim that bureaucracy burden on business in terms of reporting and auditing is high and makes complication for enterprises. But it is also necessary to emphasize that India made a significant progress towards liberation its reporting and auditing standards. In 2005/06 index had value 5,9 and improved to today's 4,2.[58]

As for China, state institutions there work more effectively, but still there exist some problems. Above I mentioned high corruption. Country also has relatively strict reporting standarts and medium level of investors protection (5 from 10, 83rd place out of 144). As we can see, there are some factors when India may overtake or already overtakes China and may improve overall performance. Among them we can mention stronger investors proctection, efficiency of legal framework in challengin regulations, less favoritism in decisions of government officials.

4.1.2. Infrastructure

Infrastructure is second pillar where India falls behind China. Pillar consists of pool of indicators, measuring country's infrastructure from ports and roads to electricity and IT. Results show that India suffers from poor quality of electricity supply, low number of fixed telephone lines and mobile subscriptions, poor quality of roads. Overall quality of infrastructure was measure as low and country placed on 90th place according to this indicator.[59] For China all mentioned criterias are higher, country placed on 64th place with good railway and airport infrastructure, good level of port infrastructure. The only disadvantage is number of mobile phone subscriptions, which is also low. For two most inhabited countries in the world with wide rural areas this situation is understandable.

4.1.3. Macroeconomic environment

The most significant gap between two countries is in macroeconomic environment. This pillar consists of 5 indicators related budget balance, gross national savings, inflation, general governement debt and country credit rating. China has amazing results by most of

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[58] IFO INSTITUTE, Center for Economic Studies. *Strength of auditing and reporting standards (according to the World Economic Forum), 2005 - 2014*. Munich, Germany: CES Ifo Group Munich, 2015. Available on: http://www.cesifo-group.de/ifoHome/facts/DICE/Business-and-Financial-Markets/Enterprise-Environment/Identity-and-Accounting-Information/strenght-auditing-reporting-standards.html

[59] Page 213 in report. Link: http://reports.weforum.org/global-competitiveness-report-2014-2015/

the mentioned indicators. In year 2014 was measured only 2,6 % inflation change (#1 out of 144 countries), gross national savings counts 50% of country's GDP while government general debt is only 22,4% from GDP. Credit rating is high – 77,5 out of 100.

As for India, country suffers from inflation changes (shift is 9,5 %), inbalanced budget (-7,3%) and high government debt (66,7 % of GDP). Due to size of the economy and its positive developing in last decade, credir rating remains acceptable – 57,8 out of 100 points.

From above mentioned numbers we can conclude, that China today represents itself as a sustainable economy with predictable inflation fluctuations and high credit rating. Country has well-balanced budget (-1,9 %) and high level of savings. For big institutional investors these statistics are very important in terms of long-term investments of big amounts. Macroeconomic sustainability is a huge advantage of Chinese economy. India remains a developing country with instable macroeconomic environment. A lot of hopes today are directed to Narendra Modi government and it reforms.

4.1.4. Health and primary education

Health and primary education is the last basic requirement for sustainable growth. Most of the indicators of this pillar are related with impacts of serious diseases as malaria, HIV, tuberculosis. For this thesis, I would like to pay attention on 3 factors: life expectancy, quality of primary education and its enrollment. India stays behind China by all mentioned factors. Its life expectancy is only 66,2 years, quality of primary education is under medium value with 99,3% enrollment rate. China is on 4th place in terms of primary education enrollment with almost 100% rate. Life expectancy is 75,2 years which is good value. Discussing life expectancy in China it is necessary to emphasize factors, that are lying beyond the Global Competitiveness ranking. In previous part of the thesis it was already mentioned about negative demographic trend in China. For a long time Chinese government adhered the „one child“ policy. From 1970's demographic trend of country has been decreasing. The aftermath of this policy is about to feel today. According to World Bank surveys, negative trend might lead to critical shortfall of labor force by 2050.

By 2050 more than quarter of population will be over 65 years.[60] Trend is at the beginning stage, nevertheless it may bring few challenges for PRC economy and first of all - stagnation of dynamic economic growth. China needs more and more workforce, with aging population country loses itc capacity to maintain the current level of economic growth. Migration could not be a decision because of Chinese strict policy towards working migrants and also because of specifics of local culture and language. Second, aging population brings additional burden for Chinese social system and infrastructure. Growth of budget social expenditures may disbalance macroeconomic stability. Of course mentioned complications are lying in long-term horizon, nevertheless its better to act today to mitigate future risks.

4.2. Efficiency enhancers

The next pool of pillars to study is efficiency enhancers which determinates future growth and prosperity. Below I grouped them in table 9.

Table 9. Efficiency enhancers pillars for China and India

	China		**India**	
Pillar	Rank (out of 144)	Score (1-7)	Rank (out of 144)	Score (1-7)
Efficiency enhancers				
Higher education and training	47	4,2	93	3,9
Goods market efficiency	46	4,7	95	4,1
Labor market efficiency	10	6,4	112	3,8
Financial market development	54	4,3	51	4,3
Technological readiness	46	6,1	121	2,7
Market size	2	6,9	3	6,3

Source: Global Competitiveness Report 2014-15

[60] ZHUANG, Juzhong, Paul VANDENBERG a Yiping HUANG. *Managing the Middle-Income Transition: Challenges Facing the People's Republic of China*. UK: Edward Elgar Publishing, 2015. ISBN 9781783477708.

4.2.1. Higher education pillar

Higher education pillar is fully devoted to issues if secondary and tertiary education enrollment, quality of it and analyses country's capacity for scientific research. According to data presented in ranking, India suffers from low rate of secondary education enrollment (68,5 % only), but have good quality of secondary and tertiary education. We slightly analyzed this topic in previous parts of thesis, where was mentioned existence of highly qualified IT and engineering specialists in India. In overall, country has rich potential of growth in terms of secondary and tertiary education, but suffers from low rater of enrollment. As for China, country significantly wins in terms of secondary education enrollment (89 % vs. 68,5% in India), internet access in schools, availability of research and training services. It is interesting that PRC has problems with executive suit preparation and education. Nevertheless, PRC invests hudred of millions US$ in education projects. The goal is to create educated middle class suit. This policy leads to fantastic numbers of college graduates (6,99 mil. in year 2013).[61] The main aftermath of this trend is growing unemployment of college graduates since they are all concentrated in same places and all have limited opportunities to make a career in foreign companies where traditionally use expats from US or Europe.[62] Issue of „growing" local executive suit remains very actual. There are opinions, that western companies do not trust enough to local managers. Also exists stereotype, that mentality of Chinese managers interfers them to adapt to western business standarts, that leads to limitations in career promotion.

4.2.2. Goods market efficiency pillar

Goods market efficiency pillar combines 16 factors related with local market, anti-monopoly policy, taxation, starting business issues, trade barierrs, procedures of foreign trade activities, FDI issues. This pillar is very capacious and complex and requires more attention in context of this diploma thesis.

As we can see from the table, India stays behind China. The biggest difference lies in intensity of local competition. Index is calculated according to executive survey, when

[61] CHANG, Gordon G. College Grads Are Jobless In China's "High-Growth" Economy. *Forbes* [online]. 26.5.2013, č. 2013 [cit. 2015-02-12]. Available on: http://www.forbes.com/sites/gordonchang/2013/05/26/college-grads-are-jobless-in-chinas-high-growth-economy/

[62] ZHU, Rong. The impact of major–job mismatch on college graduates' early career earnings: evidence from China.*Education Economics*. 2012, Volume 22, Issue 5, 2014. DOI: 10.1080/09645292.2012.659009.

managers have to reply o question „How would You assess the intensity of competition in the local markets in your country?" with meanings from 1 – limited in most industries to 7 – intense in most industries. By this factor, China leads with 5,4 index (44th place out of 144), while India has only 4,8 (91st place). The difference is caused by many factors, number of them were also mentioned in this paper. Both countries are similar in terms of market size and population, so gap mainly caused by following factors:

- China has more saturated market
- China has more production facilities, plants and factories and produce plenty of goods for final consumption
- China is more attractive for foreign investors which leads to their active penetration to local market and generally to higher competition

The next considered factor in goods market efficiency pillar is extent of market dominance – index measures corporate activity in country with values from 1 to 7, where 1 understands that market is dominated by few business groups and 7 – market dominance is spread among many firms. Due to sized of the markets and extremely large population in both countries, it is difficult to create conditions, when market will be dominated by few players. This situation is usually typical for smaller countries with dictatorship or autocratic regimes or countries like South Korea, where few extremely diversified holdings hold the market. China and India have high extent of market dominance (4,3 for China and 4,2 for India), which means that both markets are represented by many players. Also, one of the reason is effective anti-monopoly policy. According to this factor, which is part of the pillar too, China and India have strong anti-monopoly policy and fair competition is protected enough. Nevertheless, we have to take into account Chinese political system, where state institutions have big influence on business environment.

In context of this diploma thesis, I would like to pay attention to two factors of „Goods market efficiency" pillar related with taxation – effect of taxation on incentives to invest and total tax rate as percentage of profits. Effect of taxation on investment incentives index has medium value for both countries (3,9 for India and 4,0 for China). Countries are in top part of the ranking by this criteria. The interesting thing is that tax burden is high for local enterprises. Total tax rate, which represents combination of profit tax, labor taxes, contribution and other taxes, is high in both countries – 63,7 % in China and 62,8 % in

India. Generally it means that even extremely large tax burden does not scare off investors and entrepreneurs. Size of the markets, its potential and opportunity to acquire market share fully compensates existing disadvantages in terms of taxation.

Goods market efficiency pillar also deals with factors of foreign trade such as: prevalence of trade barriers, trade tarrifs (as percentage of duty), burden of customs procedures. Report indicates, that India has significant gap from China in terms of trade barriers, which limit the ability of imported goods to compete in the domestic market. This situation is caused by existing specifics and behvaiour of concrete authorities in concrete states and overall shortcoming of coutry’s legislation. Current situation leads to growing bureacracy and create space for corruption.

Both countries are supporting local market protection policy and have high tariff rates. Trade-weighted average tariff rate in China is 11,1%, in India even more – 12,4 %.

Prevalence of foreing ownership index monitoring presence of foreign capital in local enterprises and is based on executive survey and open source data. As it was mentioned many times, China and India are involving in global economy more and more, but how far they are ready to stimulate foreing FDI? Report shows moderate presence of foreing ownership in Chinese and Indian companies – 71th vs. 98 place out of 144. China has huge savings and capital and is fully capable to invest in own market. Local entrepreneurs, in generally, are limited only by legislation and burden in terms of taxes and corruption. As for India, country does not have such soft business climate, previous part of thesis revealed number of factors, creating obstacles for foreing and local investors. Responsibility today is completely on Indiad officials and their incentives to transform the country and attract foreing investors. In further text, I will pay more attention on existing problems affecting business environment in India. Also, moderate level of foreing ownership may evidence unsaturation of examined markets and existing number of industries to invest in.

Last two indexes of Goods market efficiency pillar are related with consumer behaviour and customer orientation degree. Consumer behaviour in both countries is similar, most of the buyers prefer mainly low price, what remains the main criteria for them. This fact is understandable, since China and India are developing counries, so average income per citizen is not so high and price is main factor in customer „black box“.

As for customer orientation, India stays behind China (110th place vs. 70th for China). This index is measured from 1 to 7, where 7 means highly responsive attitute towards customers. So, for China this index is 4,5 and for India is 4,0. Difference is absolute meanings is not so difficult, nevertheless it creates big gap between countries in ranking.

Generally we can claim that market climate in China is more favorable. There is moderate competition with local and foreign companies, effective anti-monopoly policy. Market is not concentrated in only few hands and state regulations is not so high, taking into account political system of the country. Consumer behaviour here is easy and understandable, market remains the biggest in the world with potential of intensive growth due to increasing incomes. Even starting a business is a bit complicated, that is fully compensated by huge market size and acceptable trade inftrastructure.

As for India, country has few significant barriers such as high tax burden, high bureaucracy in terms of starting a business and complciations in import activities. Huge market size is negatively affected by low incomes and high tax burden. India is only at its beginning of transformation.

4.2.3. Labor market efficiency

Labor market efficiency is a 7th pillar of the ranking and represents pool of 10 criterias dealing with different issues – from cooperation, productivity and taxation to gender inequality in employment structure. In further text I will compare selected criterias relevant to topic of this diploma thesis.

Both countries are in weak position in terms of wage determination index with values 4,8 for China and 4,4 for India out of 7 points (7 represents individual wage setting in each company). We all know that China and India cannot be considered as countries with strong employees rights protection. Regularly we see in press and media revealing of poor working conditions for local employees. From this point of view, wage determination flexibility looks acceptable. But we shall also take into account the methodology of the ranking, based on executive suit. As for workers in the bottom pf the pyramid, situation is most probably worst.

Hiring and firing practices in both countries are very favorable for employers (e.g. potential investor). In China and India these practices are not much impede by regulations, so employer is free in decision-making and HR policy. This advantage is given by excess of workforce with low qualification and by willingness of local officials to attract foreing investors. Liberalization of regulations related with hiring and firing processes is the first step toward setting favorable climate for local and foreing entrepreneurs. That's why plenty of companies moved its production capacities to South-East Asia.

The next advantage of China and India for potential employer is moderate level of pay and productivity relation. According to executive survey, both countries are in top part of ranking – 15th place for China and 69th place for India. This fact significantly stimulates incentives to invest, give a space for operational management to set and gain goals appropriately and provides companies with additional flexibility factor.

Reliance on professional management index measures qualification of senior management positions in companies in terms of career promotion. In other words this index considers whether individual is promoted because of merit or because of his relative or friend relations. China stays relatively high in ranking and holds 43th place vs. 77th place of India. India with its sophisticated social system, specifics of mentality and ingrained patron-client relationship creates certain complications for employers. The question is whether this criteria is really has a big meaning for foreign investor? The advantage of foreign company is its smaller integration in local system of social relations, so somehow it provides for foreing companies more freedom in its HR policy. The problem may occure when significant number of senior managers hired from locals will apply patron-client relationship inside the company and promote people based only their loyalty. This kind of attitude often occurs in developing countries with high corruption.

Labor market efficiency pillar also deals with country capabilities to retain and attract talents. China and India show good performance in both directions and are placed in top part of ranking. In previous part of the thesis, I described the current situation with young professionals and education. Due to market size and lack of professionals, all young specialists have opprotunities to find a job, build a career and develop themselves professionally. Also countries have relatively liberate legislation in terms of attractig expats and foreign specialists. A lot of foreign companies, presented on markets of China and India are moving here own specialists and bring diversity to local labor markets. For foreing specialists, developing economies and the biggest market sizes determines opportnities for career growth and professional development. That is why China and India have good position in retaining and attracting talents. The only difference is that in China this process goes more dynamic due to booming economy and growing numbers of college graduates.

The difference between Chinese and Indian labor market efficiency is in higher extent caused by presence women in labor force. According to Global Competitivness Report, India remains at the end of ranking by women in labor force criteria with only 0,36 women to man ratio. Country holds 133th place by this index. According to World Bank and ILO statistics, only 27% of economically active women are represented in local labor force.[63] Women's rights remains a weakspot of India for the decades. India is a strongly patriarchal culture. For centuries, key aspects of political, social and economical life were dominated by men. In XX century, India made a significant progress on the way of women's rights improvement, nevertheless, country still suffers from regular violations of those rights. As it was mentioned in previous text, Indian population mostly lives in rural areas with traditional, partiarchal way of life. This fact has a big influence on people's mentality, young people from rural areas moving to big cities and bring there its culture. So women discrimination is still present in Indian daily life. Situation with women's right brakes country's developing and affects local labor market in negative way. In China, women presence is significantly higher – ratio is 0,84. For India, supporting and protection of women's rights might to be a priority in internal policy.

4.2.4. Financial market development

Besides issues of financing this pillar also deals with legal rights index. The first two indexes measure financial services availability and affordability for potential borrower. China leads compares to India with higher diversity of financial products and its affordable for potential customers, but the difference between countries is not so large.

Ease of access to loans considers affordability of loans with only a good business plan and without any collateral. Chinese market provides to potential borrower plenty of opportunities, so country was higly ranked by this criterium. India also has diversity of

[63] World Bank "Labor force participation, female (percentage of female population 15+ - modeled ILO estimate), World Bank data from 2010-2014. Available on: http://data.worldbank.org/indicator/SL.TLF.CACT.FE.ZS
Note: ILO – International Labor Organisation

credit products present on financial market. Moreover, microfinancing is wide-spreaded in a country, so small enterprises and farmers are active user of local financial market.

Venture capital availability become a very importan criterium for businessmen. Venture capital is a fuel for startups projects and any small or medium enterprise on its beginning stage. China and India are well-equipped with venture capital sources. Investing in interesting projects on such a huge markets attract a lot of private and institutional investors. Both countries are currently in TOP20 by venture capital availability.

Global Competitiveness Report also deals with soundness of banks – second most important element (right after macroeconomic environment) affecting finacial sustainability. Here the lag oocurs between China and India. According to executive survey, Chinese banks were evaluated with 5 points (7 is a maximum and means extremely high soundness). High ranking is determined by big state influence on economy and huge gold and monetary reserves. Chinese goverment still owns four biggest banks (so called „big 4“): Bank of China, China Construction Bank, Agricultural Bank of China, Industrial and Commercial Bank of China. Moreover, there are 12 joint-stock commercial banks owned by state and number of smaller banks with state ownership.[64] This factor determines high financial sustainability of Chinese banking sector. On other hand, state ownership sometimes is not flexible in terms of effective market-oriented management. But this approach allows China to invest huge local infrastructure projects with quick and flexible manner. As for India, soundness of banks is weakspot of Indian financial system and country is ranked as 101st out of 144 profiles.

The last index of financial market development pillar examines degree of rights protection of lenders and borrowers as an indicator of developed financial market. Degree is measured from 1 to 10 (maximum protection) with values 5 for China and 8 for India. As we can see, investors and lenders rights are well protected in country what makes it more attractive for investors.

[64] KPMG, Paul Brough "China's city commercial banks: opportunity knocks?", SAR Hong Kong, 2007. Available on: http://www.kpmg.com.cn/en/virtual_library/Financial_advisory_services/Chin_comm_bank/Opportunity_knocks.pdf

4.2.5. Technological readiness

In previous text was mentioned active import of IT techologies and capacities. Nevertheless, this trend goes only in terms of production or service providing. World Economic Forum carefully monitors ICT aspects in its Technological readiness pillar. By this pillar, India lags far behind China with 121st place vs. 46th rank of China. India had worsened in all aspects: availability of latest technologies, firm-level technology absorption, FDI and technology transfer, internet and mobile communications usage. Taking into account living conditions in country, population and its density, it is very difficult to provide all groups of population with modern ICT connections. At least it requires corresponding infrastructure in form of cabels, stations, servers, dots etc. Modern technologies are not affordable for people in bottom of social pyramide. Building ICT infrastructure is crucial for country transition to efficiency-driven economy.

In China situation looks much more better, but with some exceptions. Country also suffers from lack of availability of latest technologies, most of FDI's flowing to country do not transfer technology. This fact requires more attention. The main reason why foreign companies are afraid of transfering technologies to China is amazing ability of local people and entrepreneurs to imitate the technologies and produce local goods with extremely low prices. That's why many western companies working in field of aircraft, consumer electronics, innovations are trying t find balance between production relocation and technologies sharing. Usually it works in way, that abroad are producing concepts and creating technologies and only assembling takes place in China.

There are also some limitation related with internet usage. As we all know, number of websites are prohibited in China (e.g. facebook). This fact has another effect in form of stimulating local web projects and sources such as Baidu – main Chinese web-search engine.

4.2.6. Market size

The last pillar of efficiency enhancers pool is market size. This pillar deals with only four factors: local market size, foreign market size, GDP and volume of exports (as percentage of GDP). In report, United States are claimed as market number one in terms of size and purchase power. China goes second and India third. Huge market size and potential of growth give opportunities to all players, from local entrepreneurs to foreign investors.

Moreover, cheaper workforce, acess to sea and transport infrastructure presence stimulates foreing companies to relocate its production sites to China and India. It allows them to be present on two biggest markets. It is necesarry to emphasize the value of Chinese and Indian market for world economy. Taking into account strong export-oriented economies, share of exports to GDP is only 26,3 % for China and 24,9 % for India. In other words, China and India are able to ensure its economical sustainability and prosperity with own market saturation and developing.

4.3. Innovation and sophistication factors

The last two pillars of Global Competitiveness Report are named „Business sophistication" and „Innovation" and represent innovation and sophistication factors. High values of those factors are evidenci of its transition to innovation driven economy.

Table 10. Innovation and sophistication factors

	China		India	
Pillar	Rank (out of 144)	Score (1-7)	Rank (out of 144)	Score (1-7)
Innovation and sophistication factors				
Business sophistication	43	4,4	57	4,2
Innovation	32	3,9	49	3,5
Overall position in ranking 2014-15	28	4,9	71	4,2

Source: Global Competitiveness Report 2014-15

Countries are ranked with indexes from 1 to 7 (maximum value), as we can see from table 10, India lags behind China, but gap is not large. In generally, business sophistication deals with nine factors related with depth of local business processes. First, this pillar consider quantity and quality of local suppliers. China has excess of local suppliers, but quality remains as low or medium. India is not saturated with suppliers, quality of present ones is not at appropriate level. From market point of view, both markets might be interested for companies working in business-to-business fields. That's why number of european machinery tools producers are actively penetrating to those markets. The third factor of business sophistication pillar considers cluster developments – geographic concentration of companies related with the same field (e.g. Silicon Valley in US). Creating and supporting of clusters is a modern tool for stimulating intensive delopment. China and India are well informed with those methods and adopt practices from more developed partners. The next reason of cluster wide-spread in examined countries is their large territory. Geographical concentration allows to optimise procurement, logistics, taxes (often clusters have tax preferences), attract investors and partners, hire professionals. For such large countries geographical concentration seems to be an effective way of innovation development.

Production process sophistication factor measure extent and depth of production processes and provides an opportunity to see general what do countries produce. In other words – it is an opportunity to understand whether country produce labor-intensive (1 or more) or technology-intensive goods (maximum 7 points). Besides the fact that China and India are equipped with low-cost labor force, its production not so primitive or labor-intensive as it seems to be. China produces wide range of consumer electronics items while India has strong positions in chemical industry and in light industry.

The last pillar of ranking deals with innovation aspects. High ranking by innovation pillar shows country's potential of transfromation from efficiency driver economy to innovative one with trend of long-term sustainability. Both countries are in top 50 of the ranking. Chinese companies put a lot of efforts and invest significant sources (time, money, know-how, technology transfer, human resources) into research and development activities (so called R&D). The whole process is stimulating by Chinese governenment with its support and procurement of advanced tech products.

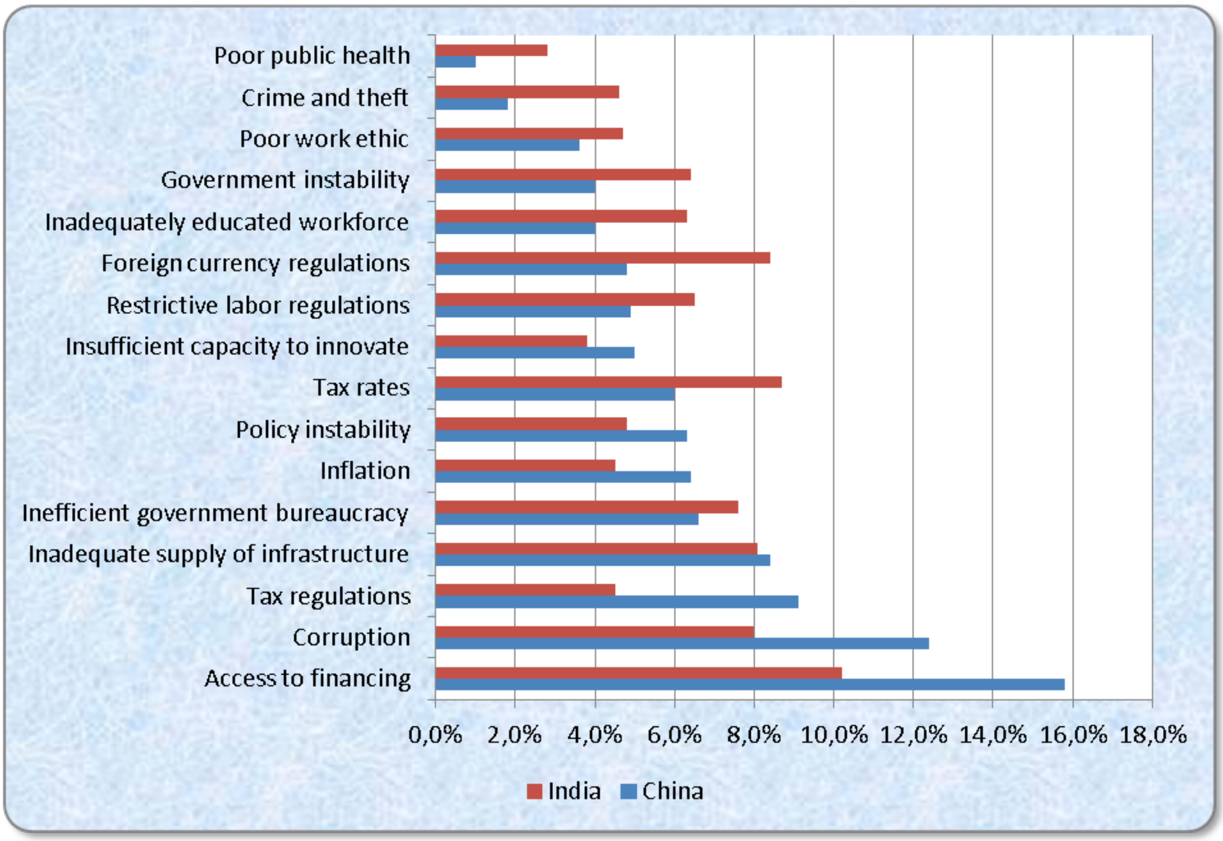
Indian companies also actively investo to R&D activities. The advantage of India is a good collaboratioon between university and private companies. Country is also well-equipped with scientists and engineers. In general, there is a good innovation potential in India, government has to put more efforts to create appropriate environment (facilities, grants and programs, scientific exchange etc.). For China and India on current stage is important to attract know-how and create conditions for technology transfer. As I mentioned earlier, many companies are afraid of sharing technologies with China. Government should provide stronger protection of rights and patents.

Overall China and India have good results by business sophistication and innovation pillars. Because of its huge markets and capacities, countries are becoming production centers for many companies including firms acting on high-technologies fields. Moreover, Chinese and Indian companies actively adopting experience, technologies and know-hows and penetrating on new markets such as chemicals production, consumer electronics, IT etc. Today, Chinese and Indian producers of hardware, software, laptops, automobile accesories sell their products on US and European markets. This factor could be an accelarator of countries sustainable growth in future.

4.4. Barriers for business

At the end of comparison, I would like to present results of executive survey dealing with main barriers for doing business in China. Chart below includes results for both studying countries.

Chart 9. The most problematic factors for doing business in China and India.



Source: Global Competitiveness Report 2014-15

To the surprise, most of the executive suit mentioned access to financing as a main barrier. This results are conflicting with mentioned above ranking of financial development pillar and also with data mentioned in Doing Business ranking (see previous part). While studying the roots of the problem, I've found interesting research paper prepared by Wolrd

Bank. According to survey performed by authors, „...expansion of financing to the private sector of China and India has been much more subdued that what the aggregate numbers suggest“.[65] Authors also claim that capital activity significantly intensified in 2005-2010, but „such expansion has not been associated with a widespread use of capital markets by firms“.[66] Expansion of capital markets goes in more quick pace, then number of enterprises taking part in capital raising activities. As a result, access to finance has limited number of companies. Top 10 companies from China and India captured between 43 % and 62 % of total amount rased in 2005-2010.[67] In general we can conclude, that private and insitutional investor prefer to finance large and well-known companies while SME have limited access. This claim is less valid for India, where small farmers and entrepreneurs have access to microloans. But disadvantage of microloans is its high interest rate.

Corruption also remains an important obstacle for doing business. Even in China where exists death penalty for corruption crimes, volume and extent of venal practices remains high. Partially it is caused by untransparent system of state governance.

Ineadequate supply of infrastructure was considered in text above already. Size of markets and extent of production requires well-developed infrastructure facilities and capacities. As we can see, both countries suffer from lack of quality infrastructure and there is space for actions.

Inefficient government bureaucracy is the next factor where problems of China and India crosses. Chinese political regime requires massive bureacracy apparate and strong state influence. This factor leads to necessity to maintain diversifed state machine. In India root of the problem is in federative system. Decentralisation and autonomy leads, in particular states, to crossing, duplication and sophistication of some functions. State governance ceases to be flexible. This situation creates space for corruption and restricts business activities and initiative. Fight against bureacracy is a difficult task for both states. Existing political regimes there do not stimulate liberalization processes. Also, both counries have

[65] T. Didier, S.L. Schmukler, "The financing and growth of firms in China and India: evidence from capital markets". Policy research working paper prepared by The World Bank Development Research Group, April 2013.
[66] T. Didier, S.L. Schmukler, "The financing and growth of firms in China and India: evidence from capital markets". Policy research working paper prepared by The World Bank Development Research Group, April 2013.
[67] Same source

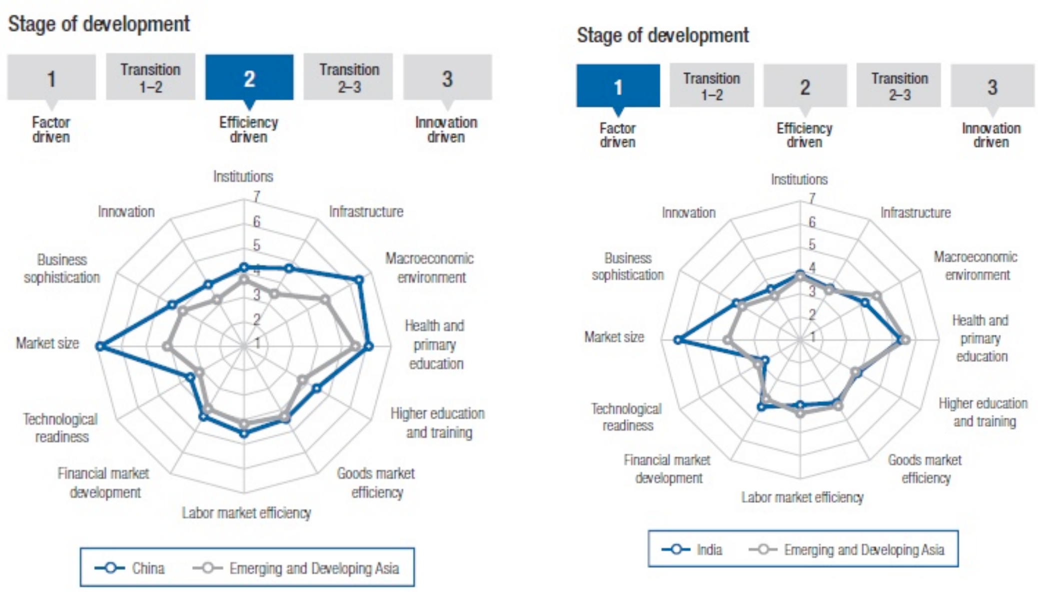
territorial disputes and threat of etnical conflicts. This situation requires „strong hand“ of state and stimulates bureaucracy.

According to executive survey, tax burden is high in both countries. Somehow we can claim, that higher tax rates are price for opportunity to deal on two most populated markets in the world.

In general corruption, tax burden and access to financing are main obstacles for local and foreing entrepreneurs. Besides the trend of rapid development, China and India still have to do more, to create and maintain soft business climate. On other hand, these two countries are already economic superpowers, so even in current situation growth of GDP will continue.

At the end of comparison I would like to present graphical illustration of countries competitiveness assesment and its compliance with other countries in the region.

Picture 2. China and India ranking in GCR illustration



Source: Global Competitiveness Report 2014-15

As we may see from the picture, China runs ahead of the average of emerging and developing Asia mainly by market size and macroeconomic environment. India goes along with most of the countries and wins only due to market size. Nevertheless, macroeconomic environment remains stable compare to emergind and developing Asian countries.

Conclusion

This diploma thesis is devoted to comparison of economies of China and India. This comparison was realized by following aspects:

- Comparison of key macroeconomic indicators
- Comparison of business climate
- Evaluating of economies competitiveness

Each aspect contributed to gain objectives set in introduction of the thesis. China and India are becoming to be an economic superpowers and a lot of foreign private and institutional investors have a big plans for those markets.

First of all, it was necessary to understand countries sustainability and trend of development in terms of macroeconomic indicators. The volume of Chinese economy is larger, GDP is much higher. Both countries are suffering from instable growth of GDP. During the financial crisis 2008-2010, China and India were strongly influenced and decrease of GDP was noticed. It emphasizes that both countries depend on global economic climate and this relation will remain high since China and India are significant world exporters. Structure of economy differs, Chinese economy is represented mostly by industry and services, while in India, industry has less meaning, but agriculture makes almost 15% of GDP. China and India are well provided with workforce, but quality of it still needs to be improved. In India situation is worsened by discrimination of women rights, they have limited access to higher education and career opportunities. Only 29% of economically active females are participating in labor market. It is already visible, that efforts of Chinese government in improving education, gives results.

Instable inflation also remains a weakness spot of China and India. It is especially crucial for China where fluctuation corridor was from 0 up to 8% in 2008-2013. China and India are actively involved in international trade, but India stays far behind China in terms of volumes and share in world total exports and imports. In Indian export agriculture products and natural sources play important role, while China is specialized in export of goods for final consumption.

In part devoted to business climate comparison, results of Doing Business ranking for both countries were compared. China and India suffer from extent rate of bureaucracy. This factor directly affects processes of starting business (registration, getting license and time for consideration by local authorities). Dealing with construction permits and getting electricity remain weaknesses for examined countries. Aside stays processes of getting finance in China and India. In thesis I worked with Doing Business ranking and Global Competitiveness Report. According to both documents countries are in relatively good positions in terms of access to finance and credits availability. But as it was mentioned at the end of the thesis, growth of financing is caused by activities of limited number of enterprises. There is a big gap between numbers of successful, well-known companies who represent the most solvent and reliable clients and the rest – companies with limited access to financing. The gap is partially caused by lack of information or low level of financial knowledge of local entrepreneurs. Especially it is valid for small enterprises in rural areas.

The next weak place of Chinese and Indian economies is paying taxes. This process, important for any kind of business, is complicated in two ways: obligatory procedures following from local laws and norms and overall tax burden. Both surveys (DB and GCR) emphasize paying taxes as a weak place, what brakes countries attractiveness for foreign investors. Somehow, high tax burden represents the price what should be paid for opportunity to be present and work on those markets. Also high level of bureaucracy and legislation insufficiency, play the role and complicate the entire process of paying taxes. There are many steps what should be done by China and India to improve and liberate tax legislative and norms.

Surveys also revealed problems with foreign trade processes and infrastructure in both countries. Even capacities of countries in terms of foreign trade are huge, lack of infrastructure and bureaucracy complicates import-export activities. This claim is especially typical for India, where all mentioned factors are additionally burdened with high costs of exports and imports. The effective solution could be a support of big infrastructure projects. As we know, Chinese government put a lot of efforts and invests solid money in developing, modernization and improving of current and new transport hubs, roads, railways and clusters. The advantage of China is its highly-centralized state governance what allows to keep the line, mobilize and concentrate all sources for gaining the result. India stays behind China, but liberalization course, taken by current government and directed to creation soft business climate will give its results. It gives to India an opportunity to attract foreign investments on its infrastructure projects.

Generally there are few aspects complicating doing business in China and India. Both rankings indicate them as follows: corruption, tax regulations and tax burden, access to finance, lack of infrastructure. These factors are typical for transition economies in developing stage. Nevertheless, China is making amazing progress and its economy is driven today more with efficiency factors. Market size and macroeconomic sustainability will attract here more and more investments. Bureaucracy, corruption and tax regulations are not able to brake this process significantly and do not have so big influence on overall economy condition.

For foreign investors, China and India provides number of opportunities. Many of them are related with developing processes in countries. Economic growth allowed to China and India invest more in energy sector, infrastructure, modernization. It creates good conditions for exporters of technologies and machinery tools. Today, a lot of Czech companies are penetrating Chinese and Indian markets (e.g. Vitkovice, TOS Varnsdorf and many others). Growth of personal incomes determines and stimulates middle class extension. The advantage of China and India is in huge internal purchase power. Besides export opportunities, countries have own markets to develop, so there is a space for all. For foreign companies acting in FMCG sector it provides a perfect opportunity to penetrate and maintain to the most fast growing markets.

It is necessary to take in mind that China and India are still presenting so called developing economies. Even if China significantly improved its living conditions and liberated private sector, state still remains in hand of one political party and strong centralization is a typical for China. As for India, country is exposed to geopolitical risks. India has big tensions with Pakistan and Bangladesh. There is a number of terrorist and extremists groups actively working in India. Tensions and clashes between various ethnic and religious groups contribute to political instability.

While considering China and India as objects for investments it is also necessary to know about gaps in developing. In India big differences exist from state to state. In China growth of coast and onshore territories goes faster than in western and mainland provinces. Somehow it provides opportunities for business, because poorer regions have to overtake developed ones. But at the same time it complicates business activities and corrects geographical localization of business. More developed regions have higher costs of doing business, they are more saturated and customer behavior there is more sophisticated.

In thesis a strong accent was put on problem of aging of Chinese population. One child policy had negative influence on demographic situation. As a result, China is exposed to risk of economy stagnation, social system burden will intensify.

Another problem for foreign investors is stimulating of local companies by Chinese government. This trend logically follows from strategy of the state – become a world superpower economy. Country has all conditions for that – huge market, growing incomes and existing of big transnational companies with Chinese roots (e.g. Sinopec, CNPC, HTC). While realizing state tenders and programs, local authorities give preference to Chinese players.

Despite of all disadvantages, China and India will remain the most attractive markets for foreign investors. Norendra Modi's victory on elections provides opportunity for global business community. To penetrate and be successful at Chinese and Indian market, it is necessary to take into account local specifics. Business and things here are done in another way and approach significantly differs from western style.

Diploma thesis reaches objectives set at introduction. Description of key macroeconomic factors was performed. In business climate analysis part key requirements for doing business were compared and weaknesses and strengths were identified. In part devoted to economies competitiveness general analysis was executed. Currently China is at the end of transition stage, while India is only at the beginning. Nevertheless, both countries go ahead the rest of South-East Asia mainly by market size and macroeconomic stability.

The main benefit of the thesis is comparing of results from various sources and providing general assessment of countries economies.

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Supplements

List of tables

List of charts