

India vs. China



Discussion Document – Abridged Version

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Importance of India & China

India & China – Key Comparisons

India & China – Global Competitiveness Rankings

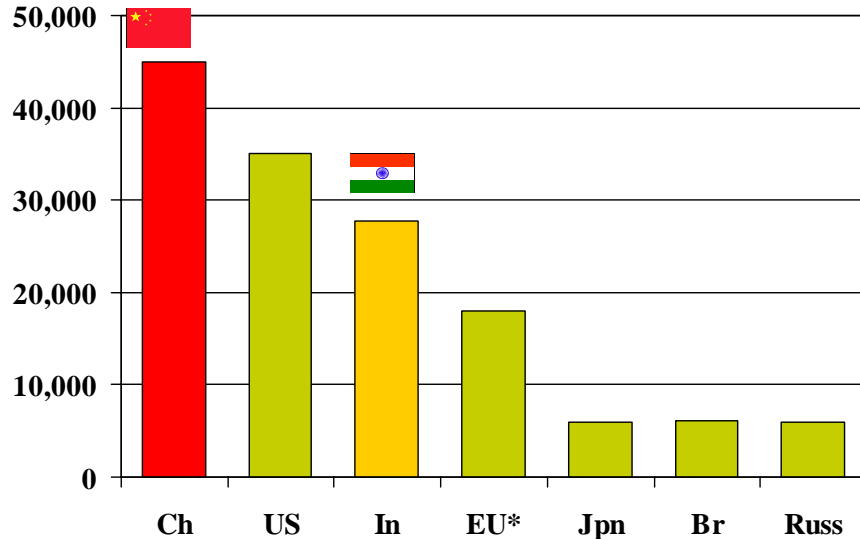
Summary & Conclusions

India and China represent 37% of the global population and consumer base

- Asia-Pacific energy demand is expected to be **31.4 percent** of world demand by end of 2005
- Gross Domestic Product (GDP) growth rate of China and India is **in excess of 6%** - developed economies not growing as fast
- China and India graduate a combined half a million engineers and scientists a year, vs. 60,000 in the U.S
- The average Indian company posted a **16.7% return on capital** in 2004, vs. 12.8% in China.
- China and India together constitute **close to half the world population** however only 6% of its total GDP.
- Potential exists for the countries to hence **grow at 7-8% levels** well into the next two decade.

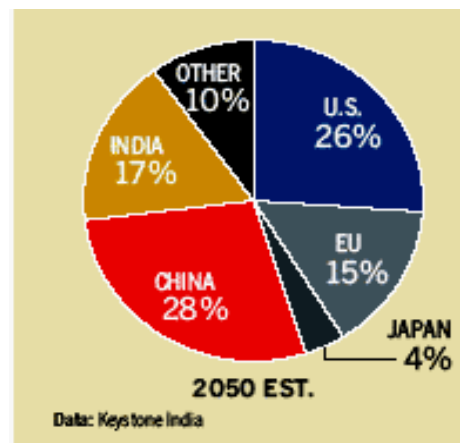
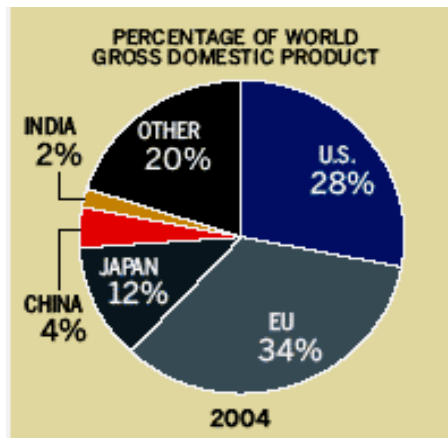
New World Economic Order by 2050 - India & China to transform from already important emerging economies to global economic leaders

GDP 2050 - US\$ Bn



➤ China to emerge as the world's largest economy by 2050

➤ India to emerge as 3rd largest world economy by 2030



➤ Together, India & China to account for 45% of world GDP by 2050

➤ China and India account for close to half to world population at present

Sources : Goldman Sachs Global Economics Paper No. 99 ; Business Week – Asian Edition/ August 22-29, 2005

Notes: * EU GDP = 25 Countries Approximation

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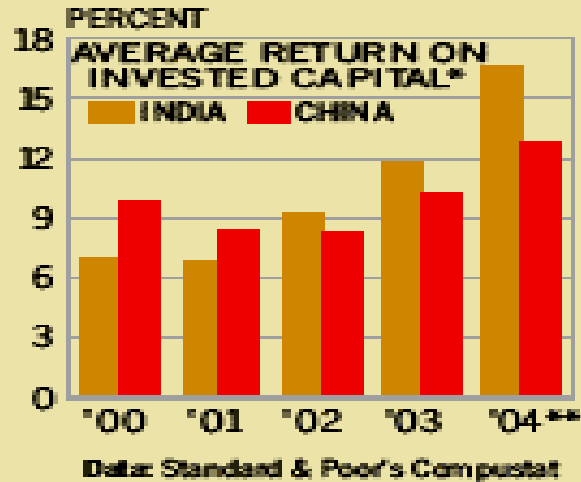
China ahead of India on performance of key economic indicators

Indicator	China	India
GDP per capita US\$ (2004)	1269	608
GDP Growth Rate (2004)	8.5	6.8
Investments as % of GDP (1997 -2004)	40	23
National Gross Savings Rate % (1997 - 2004)	43.4	22.6
FDI Inflow US\$ Bn (2003)	53	4.7
FDI as % of GDP (1997 - 2004)	4.2	0.7
Labour Productivity CAGR% (1990 -2003)	7.3	3.3

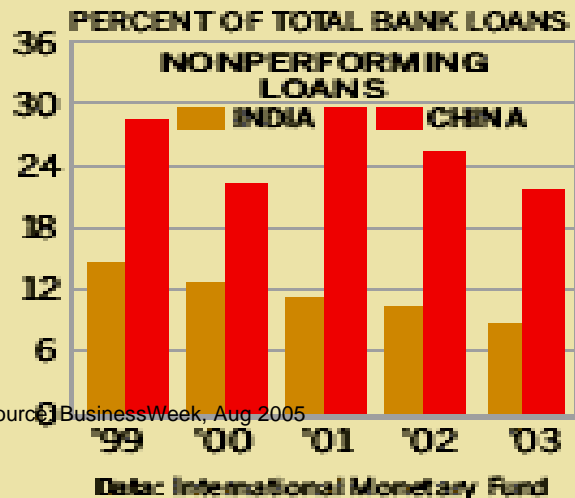
- China has proved better than India in garnering investment – both domestic and international
- Also leads India in infrastructure development & manufacturing
- However, China had a 10 year head start on India in its reform programs

Though China lures more investment – India is better at managing it through efficiency and innovation

India's companies are more profitable...



...and its banks are in better shape...



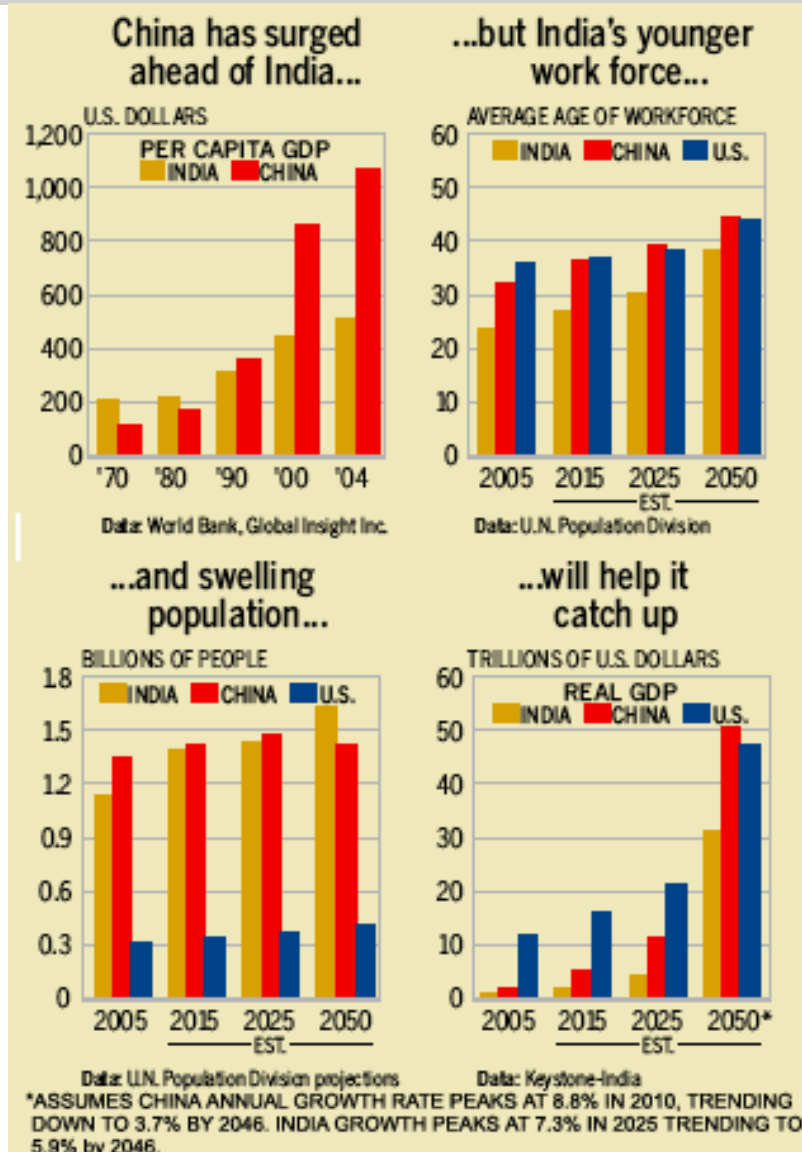
Source: BusinessWeek, Aug 2005

- China less efficient in resource utilization – e.g. one of world's most wasteful users of oil
- More than 20% of all bank loans are bad
- Two-thirds of 13000 listed companies do not earn back true cost of capital
- India by contrast is more capital efficient
- Average Indian company posted 16.7% ROC vs 12.8% in China

As a result, India attracts significantly more venture capital than China

- India was the top destination for venture capital, or private equity, in the Asia-Pacific last year, with \$841 Mn, 24% of the \$3.5 bn invested in the region
- Indian VC investment had 70% increase over 2000, though overall venture capital investment was down 60% in the region.
- Venture capital investors have limited exit options in China due to underdeveloped capital markets
- Both The Carlyle Group (U.S.) and Warburg Pincus (U.S.), two of the largest private equity houses investing in Asia, are focusing on India with its more Western styled market.
- Warburg Pincus has \$1 billion in accumulated investment in India, but just \$250 million in China.

Human resource pool to be better in India with younger workforce emerging in future



- Globally China & India producing large no. of professionals
- China leads India in per capita GDP but its ageing workforce will allow India to catch up
- By 2020, India will enjoy stronger competitive advantage with 25% of its workforce in the 20 -35 age group vs 21% for China
- Indian fluency in English is a strategic advantage

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Business environments in China and India are equally attractive; India scores higher on the Economic Freedom Index.

World Economic Freedom Index 2003		
	India	China
Trade Policy	5.0	5.0
Government Intervention	3.0	4.0
Foreign Investment	3.0	4.0
Wages And Prices	3.0	3.0
Regulation	4.0	4.0
Fiscal Burden	4.0	3.0
Monetary Policy	2.0	1.0
Banking and Financing	4.0	4.0
Property Rights	3.0	4.0
Black Market	4.0	3.5
Overall	3.5	3.55

Hong Kong = 1.45 Singapore = 1.5

Source: The Heritage Foundation November 2002

World Business Environment Survey 2000		
	India	China
Taxes and Regulation	2.3	2.1
Financing	2.6	3.4
Infrastructure	2.7	2.0
Policy Instability	2.8	2.3
Inflation	2.9	2.3
Exchange Rate	2.5	1.8
Street Crime	2.0	1.8
Organized Crime	1.9	1.7
Anti-Competitive Polices		2.2
Corruption	2.8	2.0
Overall	2.49	2.15

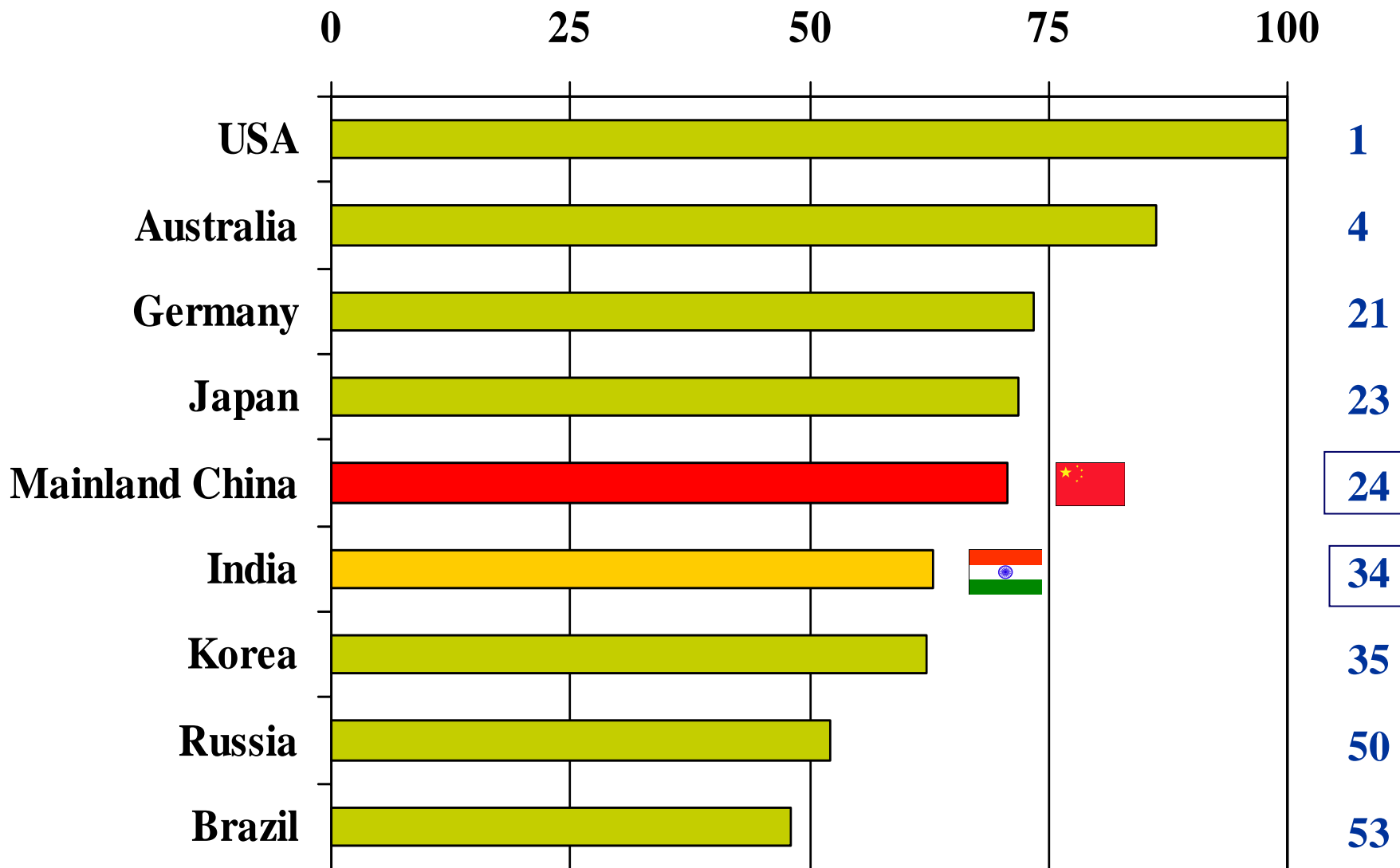
Singapore = 1.48 Malaysia = 1.91 (Hong Kong included in China)

Source: The World Bank 2002

- India scores better than China in degree of government intervention, treatment of foreign investment, and respect for property rights.
- China fares better on infrastructure and bureaucracy (taxes and regulations, policy instability, corruption). China scores better than India in macro-management and low taxes

Note : The lower the score the better (on both indexes)

Both China & India have improved rankings on the World Competitive Scoreboard



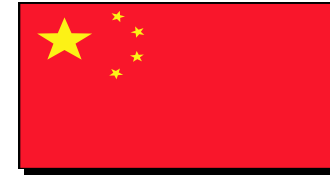
Source: IMD Ranking 2004

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Economic Size

Trailing

Leading

Competitiveness

Trailing

Leading

Infrastructure

Trailing

Leading

Innovation

Leading

Trailing

IT Exports / Skills

Leading

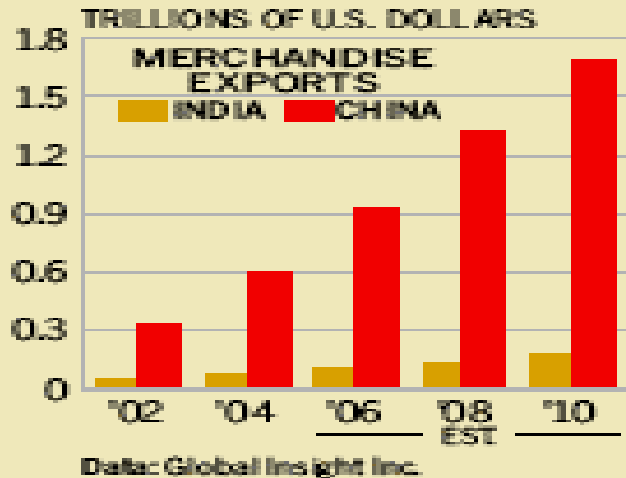
Trailing

Credit & Information

Leading

Trailing

China will remain the manufacturing giant...

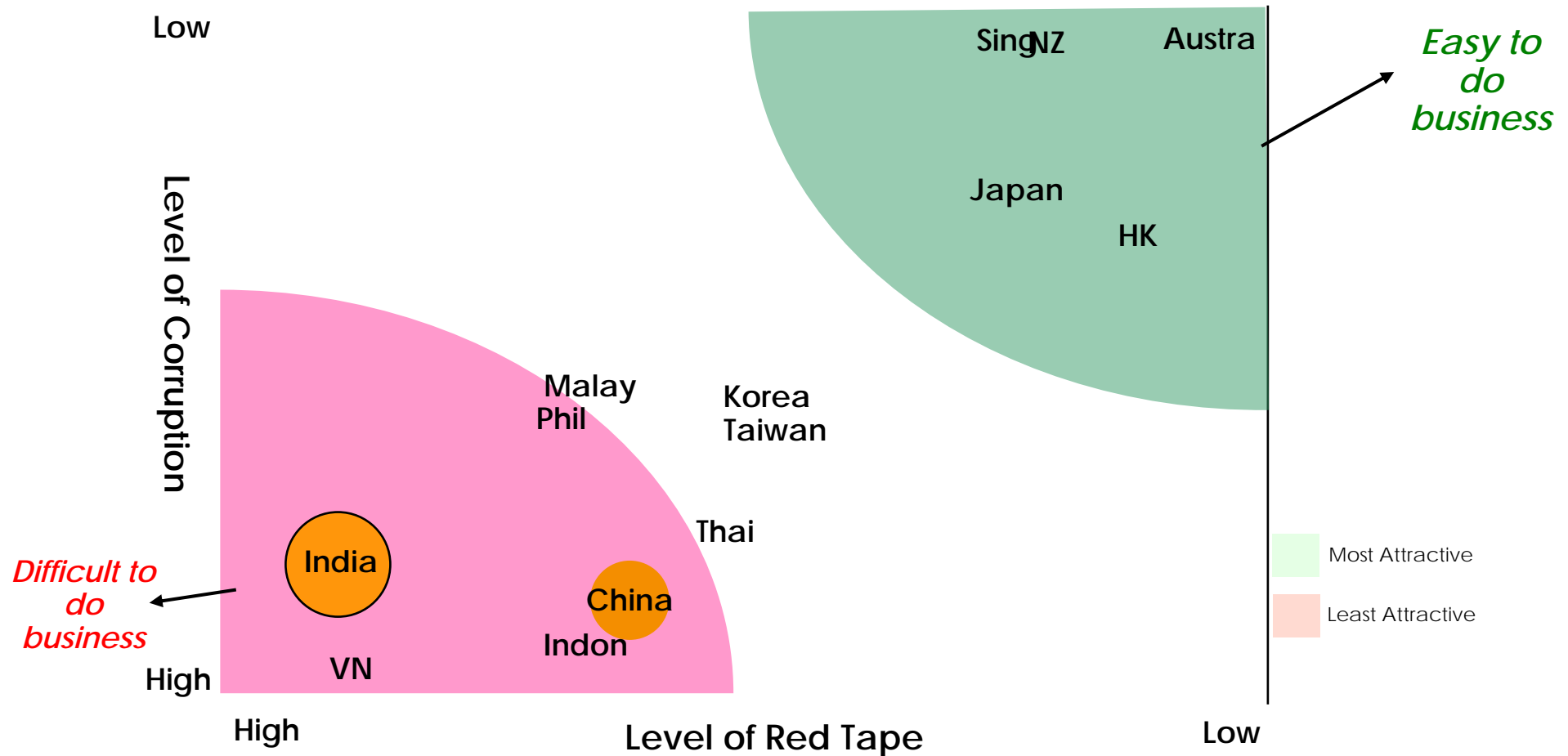


- China and India have radically different economic models
- Given their relative advantages & challenges, both are expected to deliver very high growth for decades
- Also, must exploit bilateral opportunities and synergies – Current trade between the two at only \$14 Bn

Source :
Business Week – Asian Edition/ August 22-29, 2005

Business Complexity is still high in both India & China

China & India still remain relatively difficult environment in terms of business complexity versus most other countries in the region. This condition will only slowly change.





To do business in these highly complex yet attractive Countries, companies and investors must tactically & strategically adapt with the following:



- Both markets are complex and non-homogenous – Companies must avoid one-size-fits-all-mentality
- Recruit & nurture local talent – train locals rather than relying on expatriates
- Invest in R&D & innovation – in the long term low cost advantage will seize to exist- like all other markets differentiation will be key
- Expansion through M&A – not just JVs & greenfield projects
- Adapt global business models to local needs
- Patience & tact are key in dealing with red tape, corruption and rigid systems

- Cedar has a detailed presentation on China and India that can be potential shared in a discussion on how Cedar could help your firm on a China strategy.
- Cedar's partner office has been in China since 1987 and has assisted 100's of international firms in a successful China strategy.
- For further information, please contact Sanjiv.Anand@cedar-consulting.com