



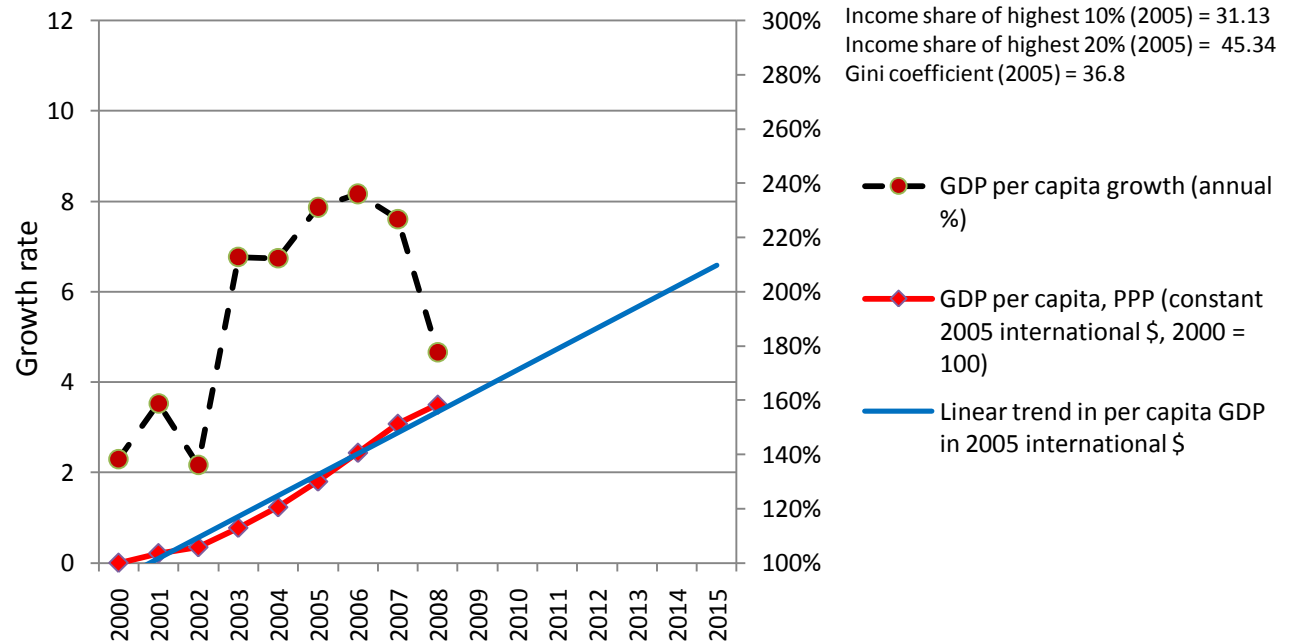
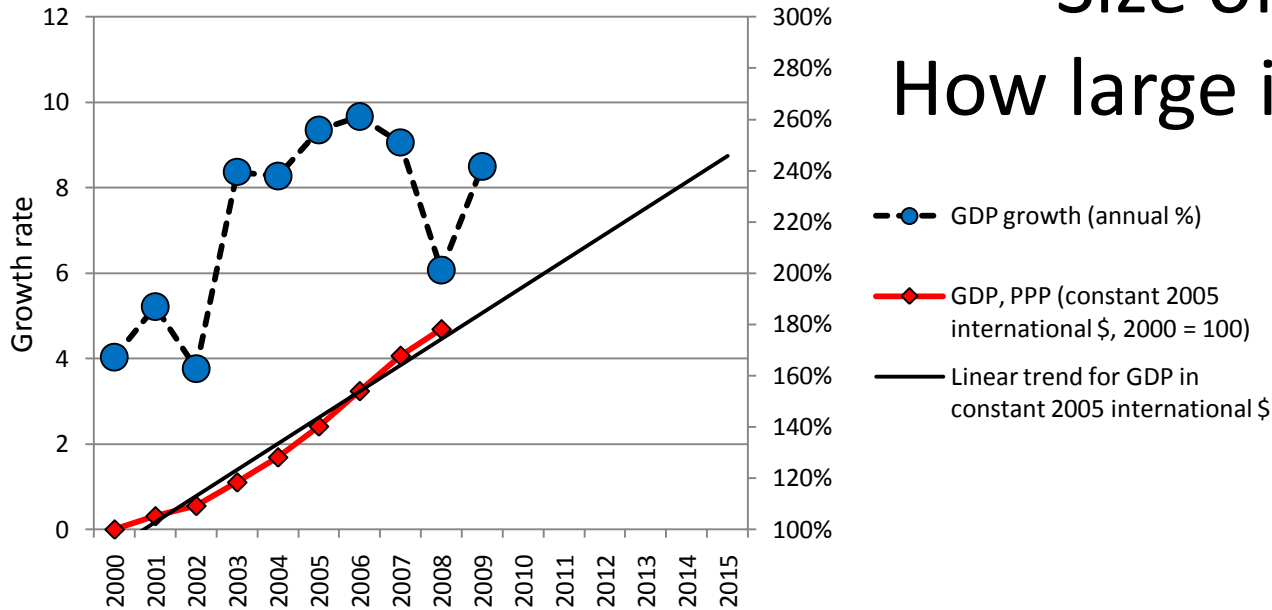
China & India: Trading with Asia's Giants

(Presentation at a workshop organised by **emita**, 7 October 2010, Nottingham)

Dr. Sumon Bhaumik
Aston Business School

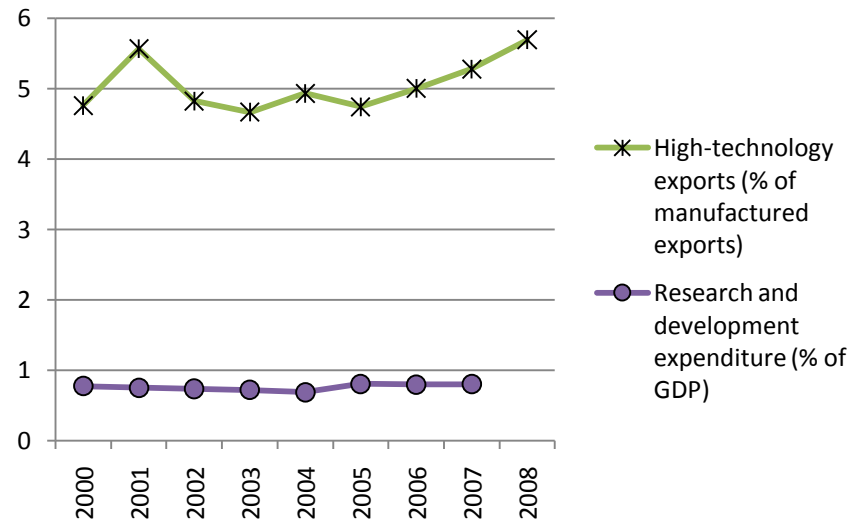
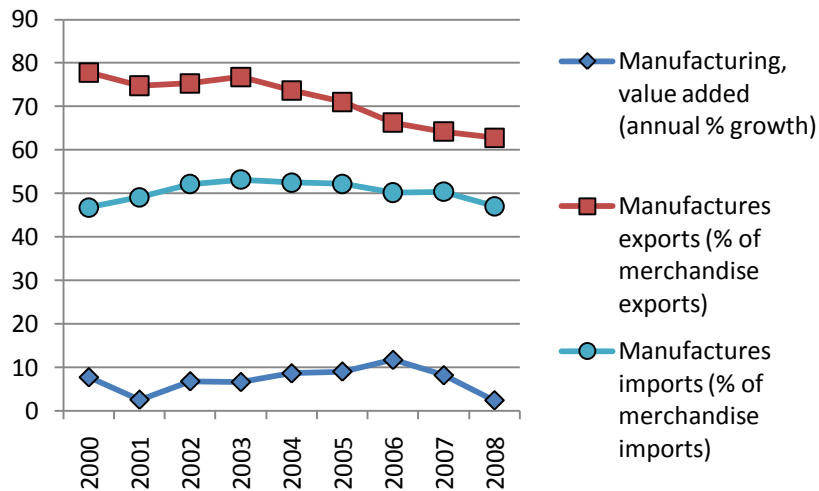
Size of the economy

How large is the market?



Structure of the economy

Is it a services driven economy?



Source: World Development Indicators, The World Bank, Washington, D.C.

Value chain

Is it all about cheap labour?

- “In the **Automotive** sector, current capabilities, mainly of medium complexity, include middleware and application development, sub-assembly design, digital manufacturing and technical and plant simulation. Indian ESPs are expected to move up the value chain to offer services around design automation, integrated system design, hardware and chip design, etc.”
- “Within **Telecom**, over the last few years, Indian ESPs have moved up from CAD, conversion services, embedded software design, etc. to high-end services such as system level capabilities, customised control software and product conceptualisation, etc. Large service providers have been providing design services for telecom products like mobile phones, fixed phones, set top boxes, RFID devices, WiFi devices, switches, routers, cables, etc.”
- “In **Consumer Electronics**, Indian ESPs have significant coverage of the entire product development value chain from low, mid to high-end services. ESPs have moved up from services like user interface design and testing, design evaluation, etc. to complete development of embedded components, product conceptualisation, chip design, etc. Some ESPs are mature enough to provide end-to-end services including low volume production.”

Changing capabilities

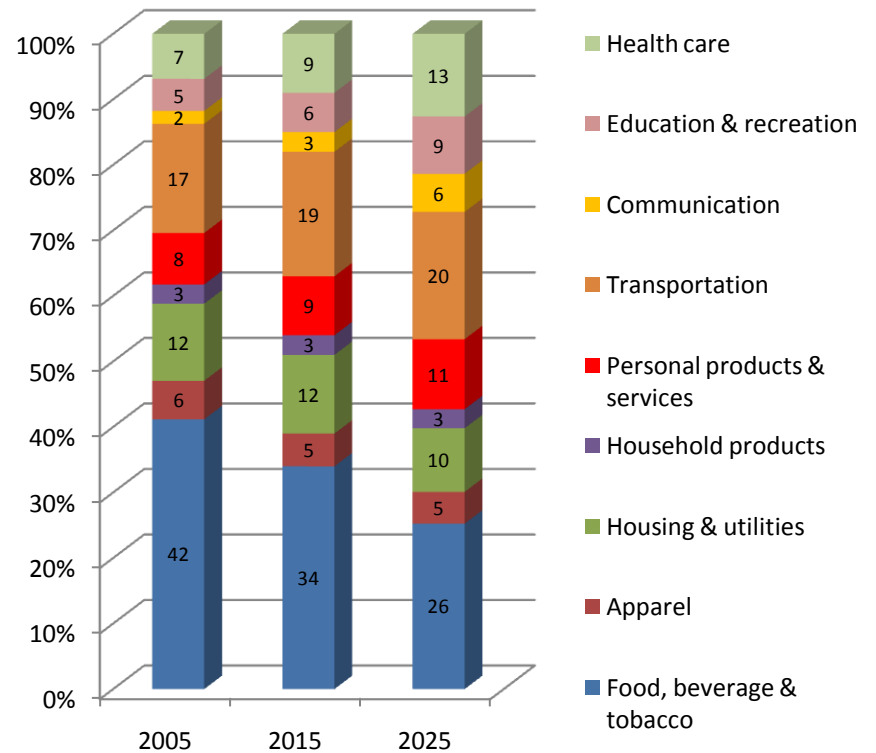
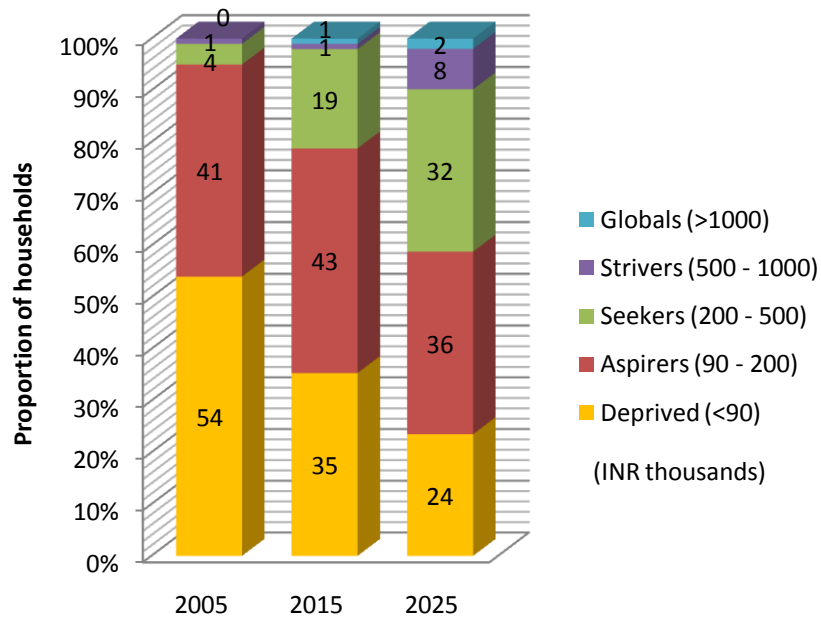
Has the world noticed?

*“Think about some of the more recent R&D facilities established by your firm. This can include facilities you are in the process of building or staffing or which are only in the planning phase. Choose one of these that is OUTSIDE the home country and that is both **considered to be central to your firm’s current R&D strategy** and about which you are familiar. Does such a facility come to mind?”*

Home country	Destination					
	United States	Western Europe	China	India	Other	
United States	0	19	30	9	13	71
Western Europe	14	10	23	9	12	68
Other	0	0	2	0	2	4
	14	29	55	18	27	143

Consumers

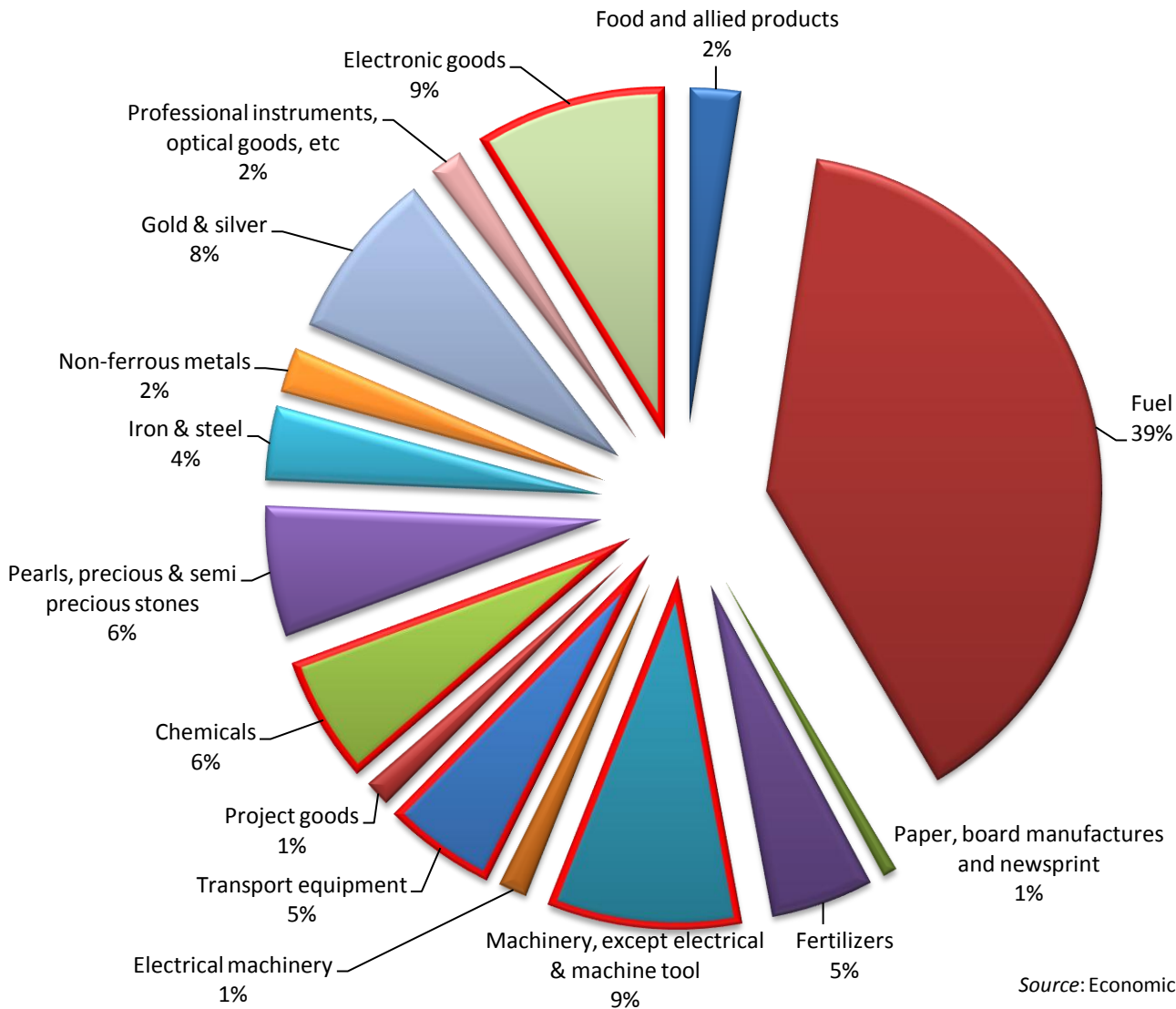
Who are they and what do they buy?



Source: The 'Bird of Gold': The Rise of India's Consumer Market, McKinsey Global Institute (2007)

Structure of imports

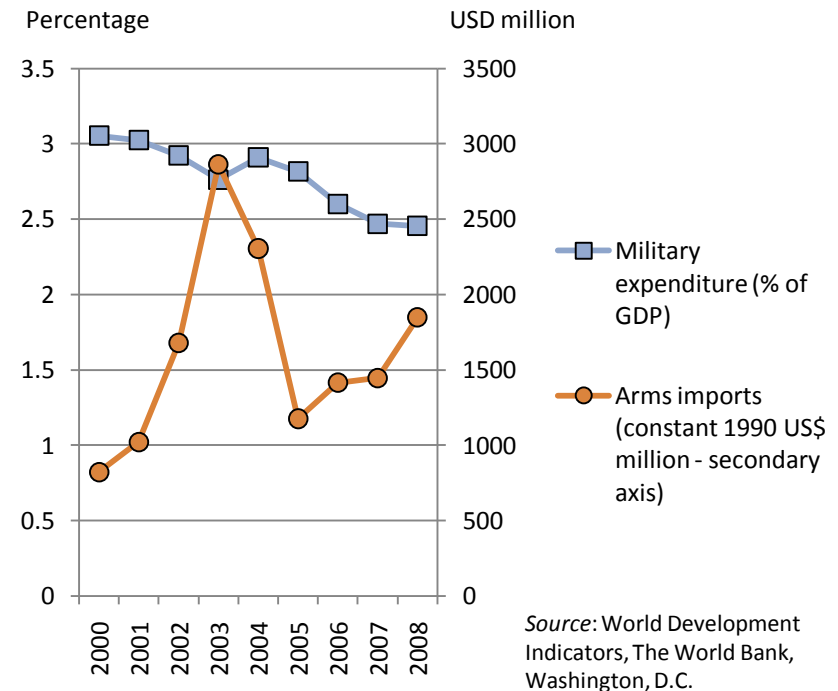
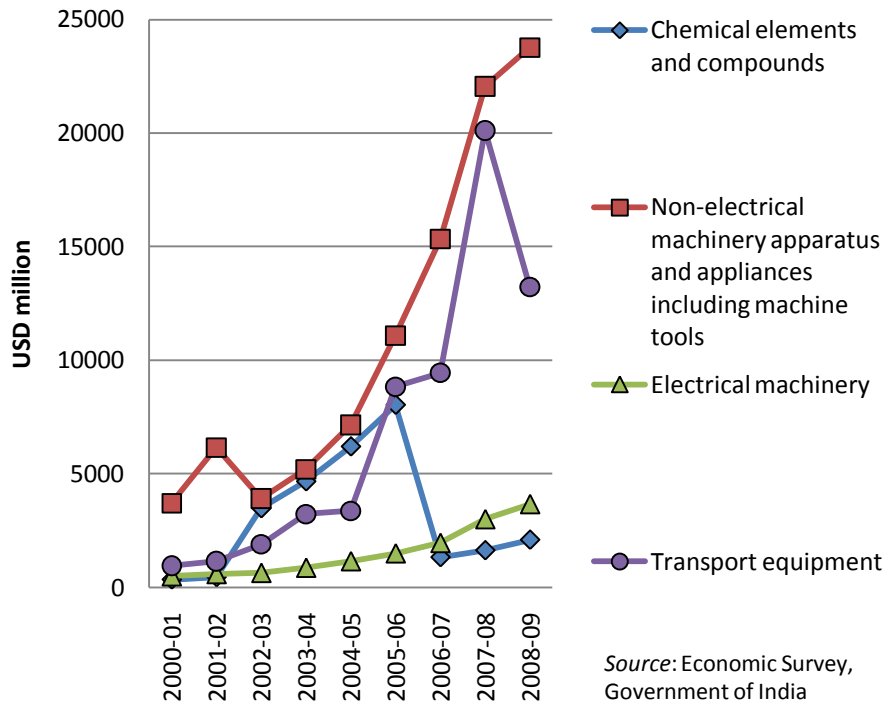
What does the world sell India?



Source: Economic Survey, Government of India

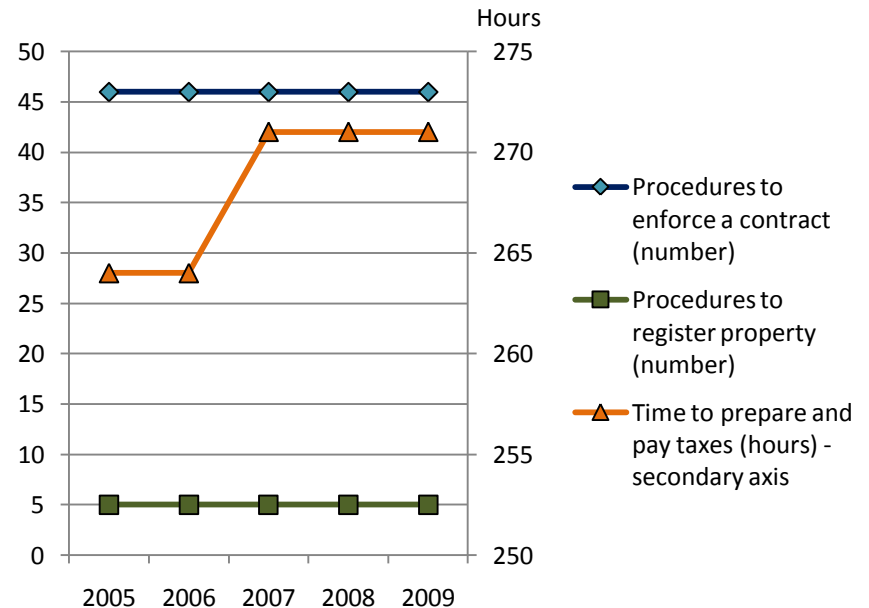
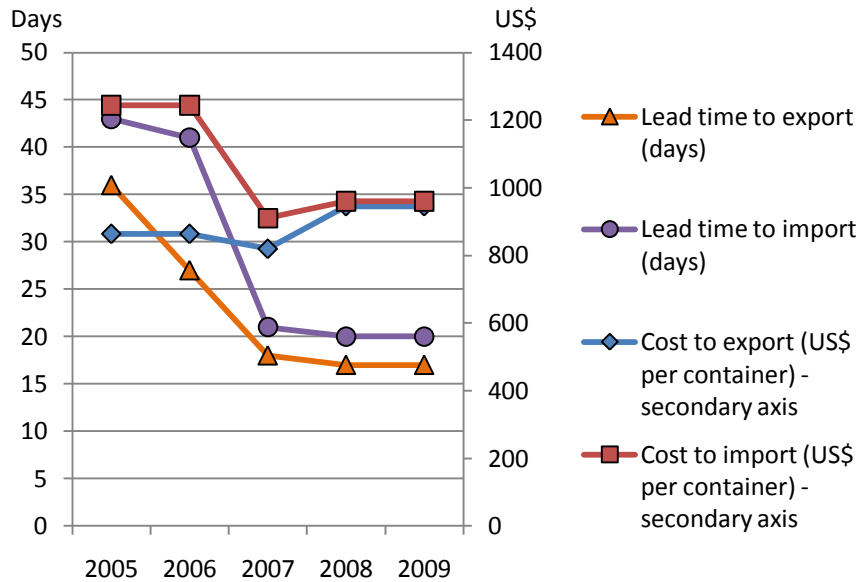
Growth in imports

What does India like to buy?



Business environment

How easy is it to do business in India?



Business environment

The politics of land

- “In a meeting held with the Hon’ble Chief Minister of West Bengal, Mr. Buddhadeb Bhattacharjee and Minister in Charge, Department of Commerce & Industries, Mr. Nirupam Sen, Mr. Ratan N. Tata, Chairman, Tata Sons & Tata Motors and Mr. Ravi Kant, Managing Director, Tata Motors, expressed their extreme anguish at the heightened level of agitation and hostility by the opposition parties resulting in a concern for the physical security of their staff, contractors and vendors. Threats, intimidation and instances of assault and general obstruction in one form or the other have been the order of the day. It was therefore with great regret that Mr. Tata and Mr. Ravi Kant conveyed to the Chief Minister that in the interest of the project’s success and viability and in light of the opposition’s continued agitation, there was no option but to move the project out of the State of West Bengal. Mr. Tata and Mr. Ravi Kant expressed their deep appreciation of the State Government’s efforts to facilitate and support the NANO Project.”

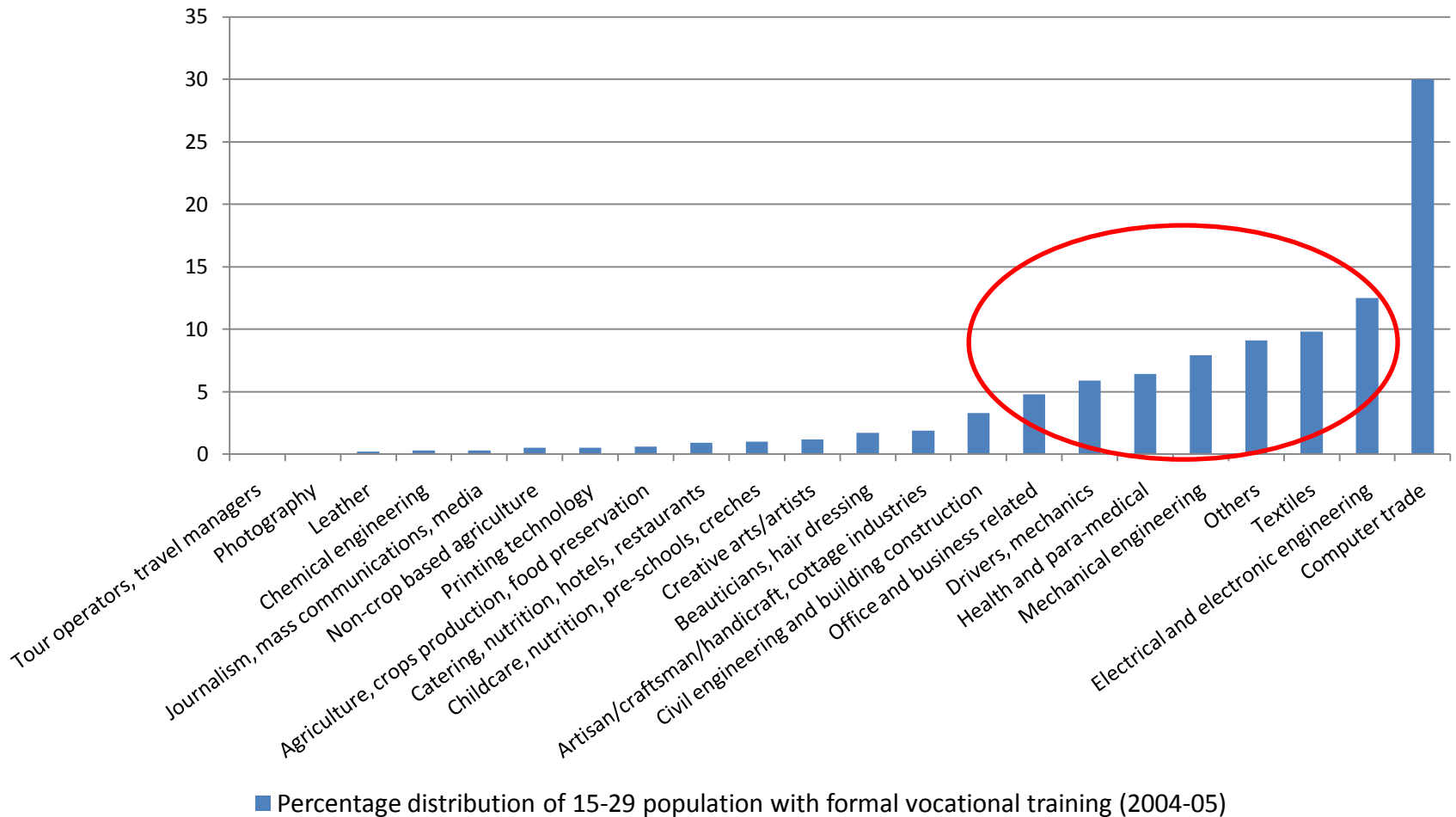
(Source: http://www.tatamotors.com/our_world/press_releases.php?ID=392&action=Pull)

- “The Rs 54,000-crore project, billed as India's single largest FDI, failed to take off due to stiff opposition from farmers to part with their land. The project now delayed for five years as it had signed an agreement with the government in 2005 to set up a plant with an annual production capacity of 12 million tonnes. Recently, the environment ministry had asked the Orissa government to "stall all activities" related to the Posco project citing violation of green norms in land acquisition. The world's third largest steelmaker, Posco, requires a total of 4004 acres of land in the Jagarsinghpur district of mineral rich Orissa. Most of the required land falls under the green cover. The steel minister asked Posco to give adequate compensation, job opportunities, education and annuity to the people from whom land is acquired.”

(Source: <http://economictimes.indiatimes.com/news/news-by-industry/indl-goods/-svs/steel/Posco-to-get-land-soon-for-Rs-54000-cr-project-Virbhadra-Singh/articleshow/6537335.cms>)

Business environment

Availability of skilled labour



Corporate landscape

With whom will you do business?

Company	Business lines	Top executive
Adani Enterprises	Private merchant port, Coal trading, Edible oil manufacturing, Power transmission	Gautam Adani
Axis Bank	Financial services	Shikha Sharma
Bharat Heavy Electricals ¹	Electrical equipment	K. Ravi Kumar
Dr. Reddy's Laboratories ²	Pharmaceuticals	G.V. Prasad
HCL Technologies ³	IT services	Vineet Nayar
HDFC Bank	Financial services	Aditya Puri
Hindalco Industries	Aluminium, Copper	Kumar M. Birla
Infosys Technologies	IT services	S. Gopalkrishnan
ITC	Tobacco, FMCG	Yogesh Deveshwar
Jindal Steel & Power ⁴	Steel	Naveen Jindal
JSL Steel	Steel	Sajjan Jindal
Kotak Mahindra Bank	Financial services	Uday Kotak
Larsen & Toubro	Construction, engineering services	A.M. Naik
Mahindra & Mahindra	Commercial vehicles	Anand G. Mahindra
Sterlite Industries	Metals & minerals	Anil Agarwal
Tata Consultancy Services	IT services	N. Chandrasekharan

1 State ownership 68%, FII ownership 15%, Operates in 23 countries

2 Overseas markets including USA, UK and Germany account for 82% of sales

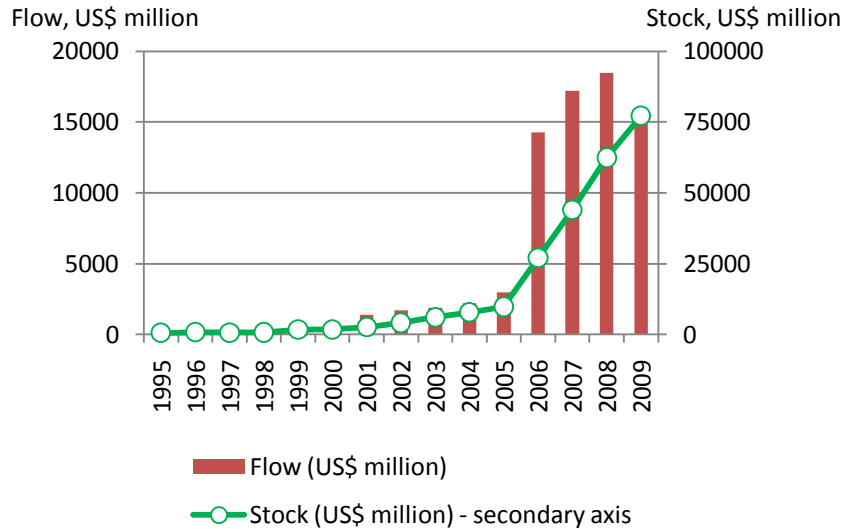
3 Projects include critical software for flight test of the Boeing 787 Dreamliner

4 Completely integrated vertically, from coal and iron ore mines to steel mills

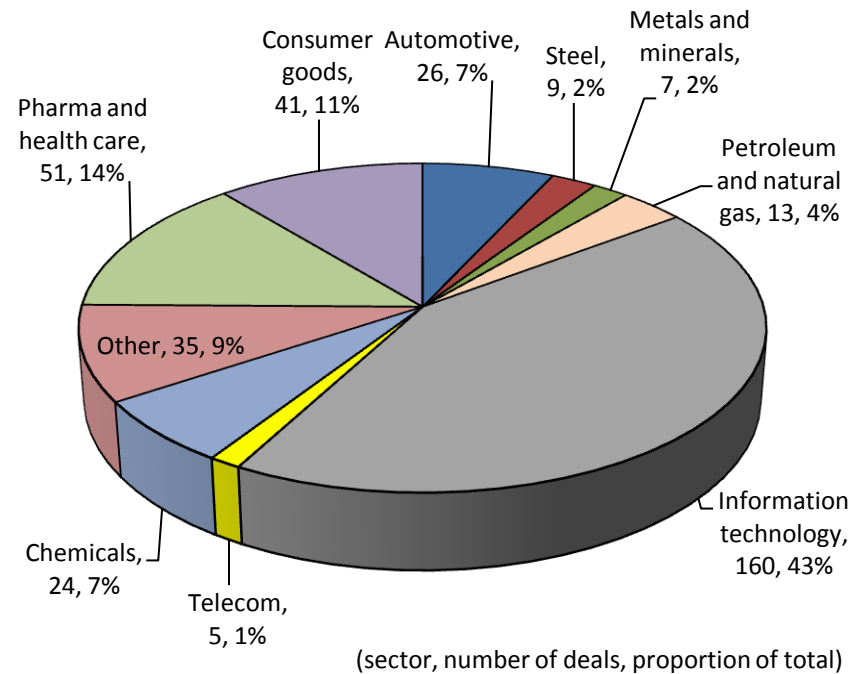
Source: http://www.forbes.com/lists/2010/37/fab-50-10_Asias-Fab-50-Companies_Company.html

Indian corporates

In what are they investing overseas?



Source: UNCTAD (<http://stats.unctad.org/fdi/ReportFolders/>)



Source: Athukorala, Prema-Chandra (2009), "Outward foreign direct investment from India," *Asian Development Review*, vol. 26, no. 2, pp. 125-153 (Table 5)

What does all these mean?

- Large and growing consumer base
- Export opportunities for engineering and chemical industries
- Investment opportunities for skill and R&D intensive companies (or units of companies)
- Local experience likely to be quite useful
- Local companies increasingly global and professional, but with strong family ties
- Local companies increasingly investing abroad to develop capabilities and market presence