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15.225 Economy and Business in Modern China and India  
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# Economy and Business in China and India (15.225)

**Yasheng Huang**

**MIT Sloan School**

- **Raising some questions about China and India**
- **Basic idea of the course**
- **Going over course contents**
- **Requirements and administration of the course**

*Economist* March 3, 2005: “China's other big advantage over India is its infrastructure. It has 30,000km (19,000 miles) of expressway, ten times as much as India, and six times as many mobile and fixed-line telephones per 1,000 people.”

- Which of these two countries is China?
  - Country 1:
    - 1) 107 telephone sets per 1,000 persons
    - 2) 153 million tons of steel production
  - Country 2
    - 1) 10 telephone sets per 1,000 persons
    - 2) 66 million tons of steel production
- Length of paved roads (1989):
  - Country 1: 1.4 million kilometers
  - Country 2: 862,000 kilometers
- Length of railways (electrified railways)
  - Country 1 (1980-1): 61,240 kilometers (5,345 kilometers)
  - Country 2 (1981): 53,900 kilometers (1,700 kilometers)

*Economist* March 3, 2005: India may be more efficient but China invests more. “It pays to be profligate. The “so what?” also applies to the argument that India is much more efficient than China at using capital.”

- Which of these two provinces in China has grown faster in the 1990s?
  - Province 1
    - 1) FDI/fixed asset investment: 13.6%
    - 2) Investment/GDP ratio: 51.2%
  - Province 2
    - 1) FDI/fixed asset investment: 5.7%
    - 2) Investment/GDP ratio: 44.4%
  - (Data above: Referring to the 1990s)

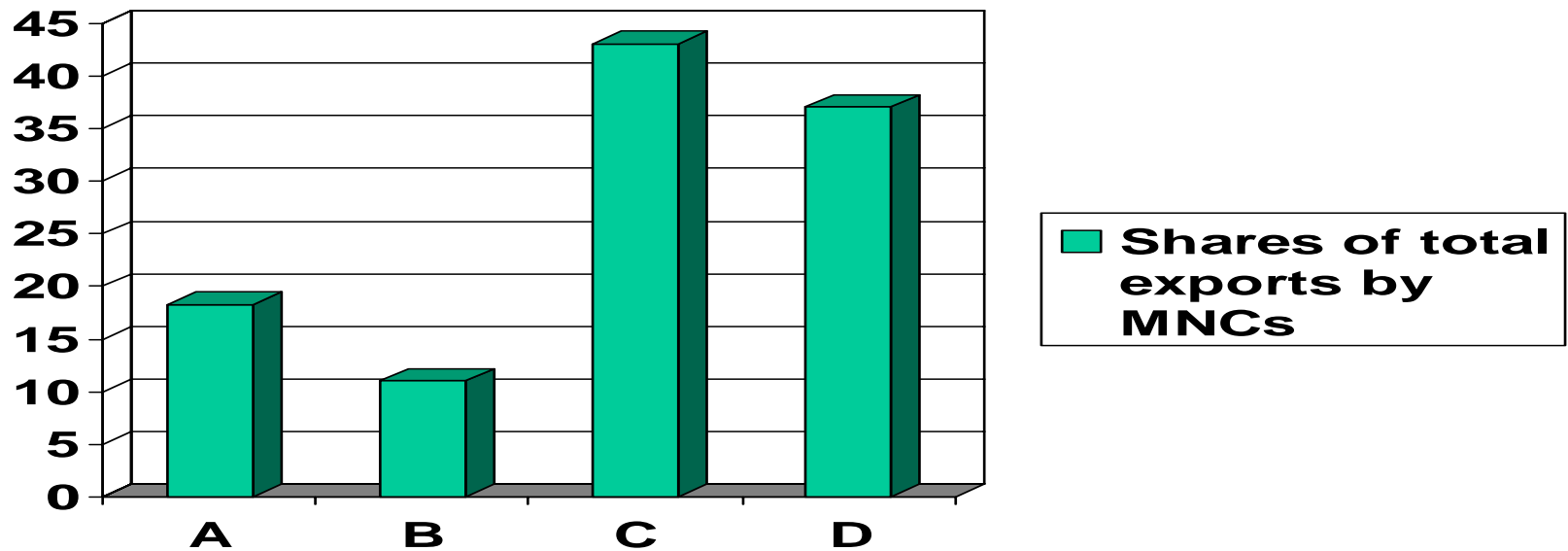
“The insidious charms of foreign investment.” *Economist* March 3, 2005.

“FDI inflows, no contest.”

- “In China, provinces compete to lure investment. Paran Balakrishnan, of India's Telegraph newspaper, once accompanied a party of Indian businessmen to China and explains that they were flabbergasted, on approaching the northern town of Datong, to find their bus joined by the local mayor and given a police escort. Few Indian state officials or politicians go out of their way to attract foreign investors.”

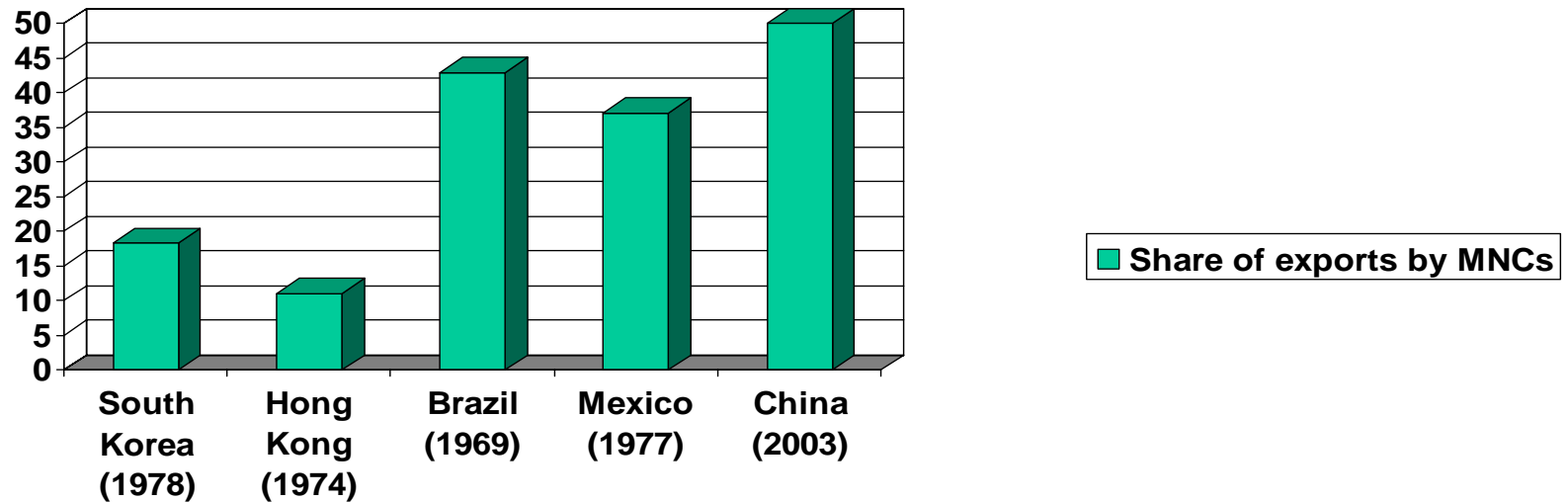
# The great virtues of FDI: Promoting export competitiveness

- Which two economies were more successful growth stories?



# AN FDI-DRIVEN MODEL

- The contrast between the East Asian model and the Latin American model
  - China is far closer to the Latin American model



The basis for the conventional wisdom: Same starting point but divergent performances (From *Economist* March 3, 2005.)

Content removed due to copyright restrictions.  
Chart titled “How a tiger earns its stripes”  
from “Asia’s emerging giants.” *Economist*  
March 3, 2005.



# It matters to get the starting point right.

- Varying estimates for Chinese income levels:
    - Dwight Perkins (1986): \$500 in 1985; India at \$270.
    - Garnaut and Ma (1993): Based on nutrition data and on comparisons with Taiwan.
      - China in 1990: \$1,100
      - India in 1990: \$350
  - Life expectancy data:
    - 1965:
      - China: Men at 54 years and women at 55 years
      - India: Men at 46 years and women at 44 years
    - 1985:
      - China: Men at 68 years and women at 70 years
      - India: Men at 57 years and women at 56 years
    - 2005
      - China: Men at 70 years and women at 74 years
      - India: Men at 63 years and women at 64 years
- 11/11/2008 Korea in 1990 (\$5,400): 71 years.

# It matters to get the starting point right.

- Takeaways:
  - FDI and infrastructures are not the end of the story
  - There is a need to understand
    - Different starting points both in economic and social developments
    - China far ahead of India in social indicators, not necessarily in infrastructures
    - Efficiency of financial and legal systems
    - Entrepreneurship
    - Social conditions

# Basic idea of the course

**An effort to bring an integrated analysis to both countries**

**–There are standard, conventional approaches.**

**Both are a part of “emerging economies:” The idea—and the fallacy—of “Chindia.”**

- Yes, but: 1) Substantial differences in the political and economic systems, 2) development models, 3) areas of corporate strengths and capabilities, 4) social contexts of economic development and modernization**

# Basic idea of the course

## **2) Academic approach: Detailed analysis of single-country cases rather than an integrated analysis**

**Result: A lot of factual knowledge but not much of an understanding**

- An example: The role of FDI
- High FDI/GDP ratio=competitiveness of China
- Low FDI/GDP ratio=lack of competitiveness of India
- Very few actually compared FDI policies, rather than the actual FDI outcomes

# Basic idea of the course

## **3) More comparative analyses are emerging**

### **But:**

- Separating economic and political analyses: One performs economically; the other, politically
- Mechanical rather than substantive comparison: Comparing growth rates rather than comparing growth rates **RELATIVE** to economic potentials
- Economist piece in March 2005 as an example.

# Basic idea of the course

**More comparative analyses are emerging**

**But:**

- Investment bank/consulting firm analyses: 1) India is strong in service industries; China is strong in manufacturing industries, 2) China has great infrastructures; India has poor infrastructures, 3) India has labor market rigidity; China has flexibility.
- These amount to sophisticated tourist observations.
- For us: What is it about these two countries an average tourist could not have seen on the surface?

# Basic idea of the course

- **The design of the course**
- **Highly EXPERIMENTAL**
  - **Very few precedents to draw from: 1) Harvard summer school course, 2) Some graduate level, specialized PhD courses, 3) A half-term course at HBS in 2003.**
  - **Joint learning exercise.**
  - **This is a platform, not a forum.**
- **Country expertise: Some are strong on China; others on India.**
- **Know enough to ask questions but not enough to know the answers.**
- **Get to know the other well in order to know your own country better.**

# Research Project

**A collaborative project between you and me**

**Will make detailed (and constant) suggestions, such as:**

- How do you measure the economic potentials of the two countries?
  - Economic levels before the takeoff period: 1) GDP measures and 2) quality of life measures: Life expectancy, nutritional levels, public health, etc.
- Are there “objective” measures of corruption?
  - Common measure based on opinion surveys
  - But fraught with problems such as perception bias
  - How about tallying up business and economic crime cases?



# Research Project

- What are the institutional differences that give rise to this difference in industry focus? Why such big differences in infrastructures? What exactly are the economic implications?
- Labor market rigidity argument: How did China grow in the 1980s when it had a socialist economy?

# Research Project

- Are IPR violations only a function of law enforcement?
  - Economist survey on China: Business partners cheat on each other.
  - Why low trust among business partners?
- What are the legal and social costs of building infrastructures in India and China?
  - India seems to have built too few; China seems to have built too many?
  - What are the non-financial dynamics behind this observation?
- Why the contrast between the macroeconomic performance and microeconomic performance?
  - GDP growth and financial sector development
  - Which measure matters?

# Cases in the course: A brief tour

- About even coverage of the two countries:
  - 10 readings on China and on India each
  - A number of readings on both countries.
    - Okay to focus on one country
    - But debate and exchange with alternative views
- **Macro perspectives**
  - Country cases on China and India.
  - Objectives: 1) Getting some basic knowledge about both countries, 2) Recognizing the substantial similarities and differences, 3) Getting some knowledge about the contexts in which firms operate.

# Cases in the course: A brief tour

- **Module I: Introduction**

- **Course framework**

- **Macro perspectives**

- Country cases on China and India.

- Objectives: 1) Getting some basic knowledge about both countries, 2) Recognizing the substantial similarities and differences, 3) Getting some knowledge about the contexts in which firms operate.

# Cases in the course: A brief tour

- Financing environment
  - ICICI
  - Indicators of financing environment in China
  - Objectives: 1) Getting to some of the microeconomic differences between the two countries, and 2) how do these differences matter for other dimensions of the two economies, growth, FDI inflows, etc.?
- Business environment
  - Issues of corruption in both countries
  - How a firm, such as Infosys, dealt with it.

# Cases in the course: A brief tour

- Module II: Entrepreneurial dynamics
  - Infosys and Lenovo (Legend).
    - Objectives: 1) Both successful but in very different ways, 2) Each fits the service/manufacturing model
  - Venture capital and private equity
    - A new phenomenon
    - Increasingly important
    - Compare and contrast the two countries
    - New high-tech centers?
  - The role of Diaspora
    - Why Diaspora is important to China and India?
    - Similarities and differences in the two countries?

# Cases in the course: A brief tour

- Module III: FDI controversies

- FDI opening: 1) China's FDI policies and 2) Enron experience in India

- Opening vis-à-vis infant industry:

- Pharmaceutical industry in India

- The 1970 Patent Law and pharmaceutical industry

- MNCs and local competition in China

- Auto industry

- Issues to consider: Does FDI crowd out domestic firms?

# Cases in the course: A brief tour

- Module IV: Business and poverty

- Despite high growth, both countries have a large number of poor people.

- Bottom of pyramid dynamics:

- Unilever in India and the Aravind Eye Hospital

- Can similar models work in China?

- Module V: Thinking about big issues

- Conceptualizing development

- Debating two development models



# Requirements of the course

- Grading: 10% for each of two case write-ups; 40% class participation; 40% final project
- Heavy reading load for some sessions
  - Okay to focus on one country
- Case write-ups: Will assign case topics soon.
- Class participation:
  - Case discussion format
  - Active participation from students
  - Prior preparation of required readings is key
  - Right to “cold call”
- Final projects
  - Will suggest topics.
  - Team work is required.
  - Could be comparative of two countries or single-country focused.
  - Depth is always better than width.
  - Due date: TBA

# Administration

- Attendance monitored
  - Need prior notices for non-attendance on legitimate grounds
- Prior notices for non-cold calls
- Non-case issues at the end and reserving time by prior notices
- Will post notices and handouts on Sloan Space
- Fixed seating