

# Global Business (Chap 4)

## Administrative Distance

### China vs India

Dept of Technology Management for Innovation (TMI),  
Graduate School of Engineering

Professor Kazuyuki Motohashi

工学系研究科 技術経営戦略学専攻教授  
元橋一之

<http://www.mo.t.u-tokyo.ac.jp>

# Recap of mini quiz

(Question)

Please pick up one industry (or product) which will be launched as a mode of "China production for Japan (world)market" as Japanese firm's global business, and explain why?

(Answer) = aggregation and arbitrage

Electronics products, i-phone, apparel (textile products), Uniqlo, Daiso, (game) software, frozen food etc...

# CAGE framework

- Cultural Distance: language, customs, religion, cultures etc.
- Administrative Distance: regional integration administration (FTAs), currency, common suzerain state, political dispute
- Geographic Distance: physical distance, time zone, etc.
- Economic Distance: per capital GDP, wages, living costs

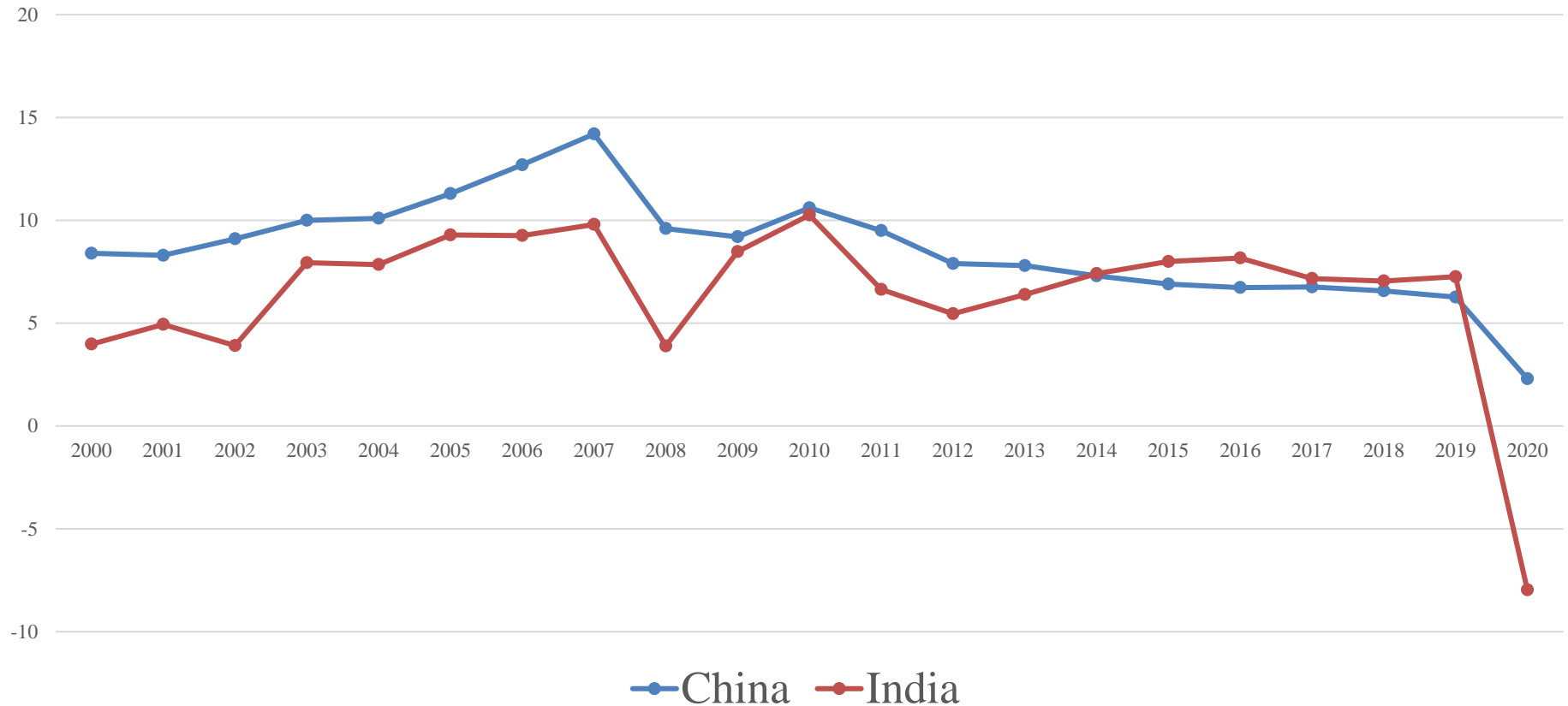
*Redefining Global Strategy: Crossing Borders in a World Where Differences Still Matter*  
by Pankaj Ghemawat (Harvard Business School Press)

# Why “Policy” in global business for emerging economies (such as C&I)?

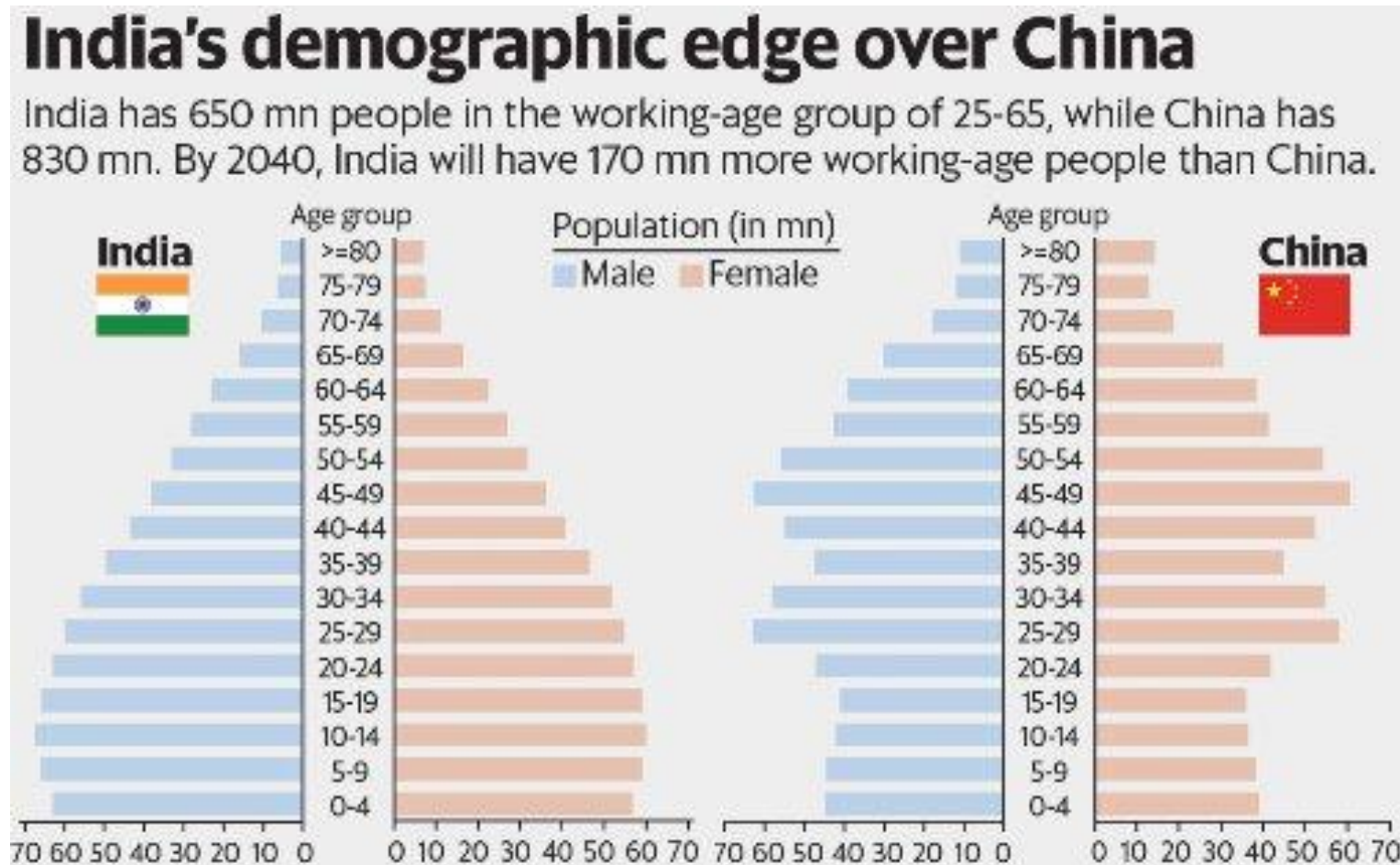
- Administrative distances are greater for developing economies. (WTO, FTAs ... but...)
- Institutional fragileness in government agencies: limited human resource capacities, fragile legal institutions and discretions of local government officers. (But institutional voids can be a business opportunities)
- Risk management perspectives (high return but high risk too) ; understanding local government incentives (sometimes government officer individual level) and business strategy alignment with the government incentives is important. -> (Neemrana Industrial Case)

# China and India : Economic Performance

GDP Growth Rate (%)



# Demographic characteristics



# India vs China: public organization

	China	India
Political Organization	Chinese Communist Party (virtually one party control)	Multiple parties competition NDA (National Democratic Alliance) such as INC (Congress) vs UPA (United Progressive Alliance) such as BJP
National Congress	National People's Congress (全人代)	Two house system (Upper house and Lower house)
Administrative organization	Centralized	Local (state) independency
Officers	Bureaucrats (CCP member)	IAS system
Governance mechanism	人治 (ruled by human)	法治 (ruled by law)
Discretion	Small in central, but large in local	Small by legal system, but large for executions
Risk associated with policy change	Large and unpredictable (such as Shanghai industrial park case)	Large but somewhat predictable (democratic process)

# Recent topics : China

## Politics

- Xi Jinping : Continuation of his presidency for 3<sup>rd</sup> term, after 2023 (constitution amendment to allow re-election for 3<sup>rd</sup> term in 2018) -> Domestic focus, Neo-Maoism movements
- CCP's control over IT giants (such as Alibaba, Tencent), could be propaganda for 小康社会 (moderately prosperous society in all respects).

## Economics

- Innovation (Made in China 2025, Internet + alfa, BAT, Entrepreneurship promotion.... In around 2015) -> Recently, these policies are more politicized (counter reaction to US decoupling policies)
- Belt and Road Initiative (one belt one way, AIIB, recent resistance from loan countries..)



# Xi's Thought : Ideology controls possible?



See? Isn't this more fun than video games?

The Economist "China's New Reality", October 2-8, 2021

# Recent topics : India

## Politics

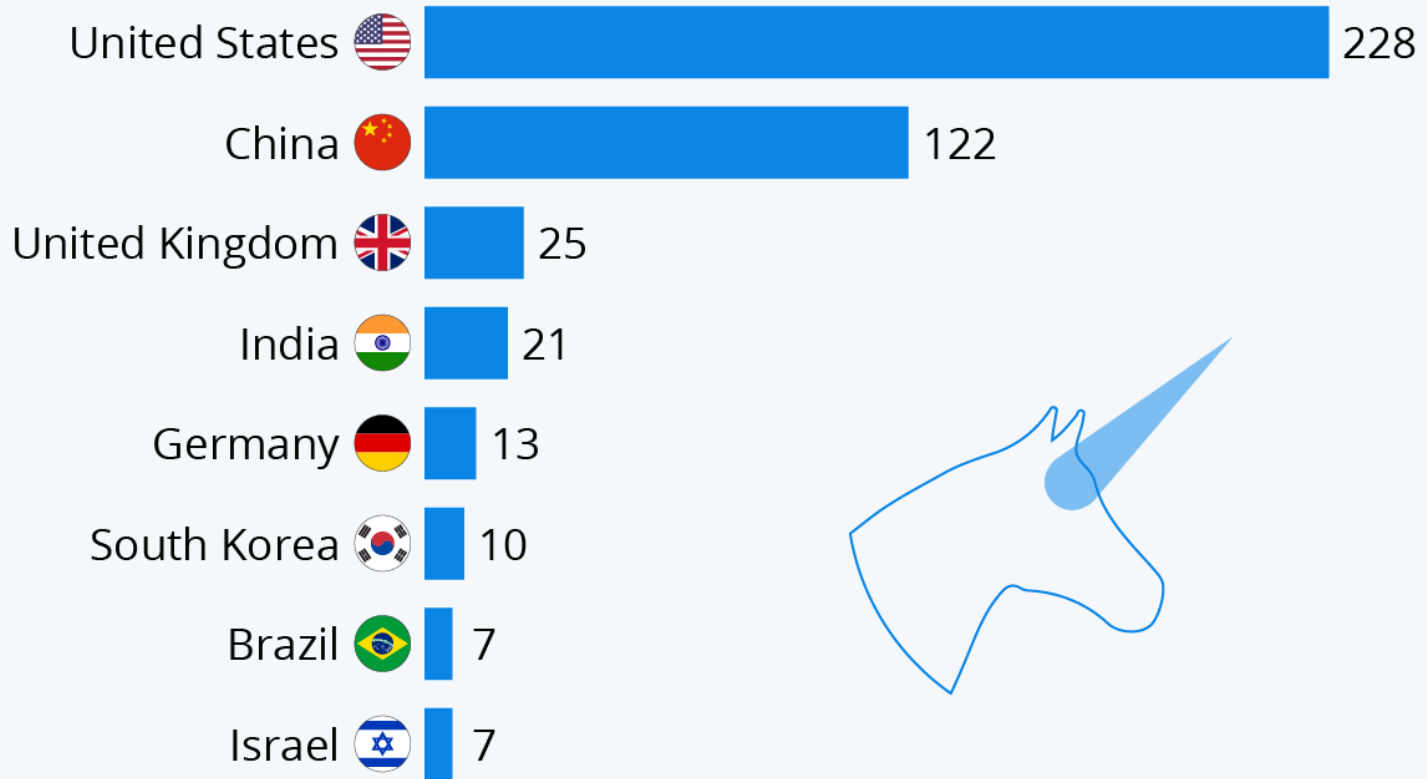
- Prime minister, Narendra Modi's 1<sup>st</sup> term (2014-2019), pro-industry reform policies
  - Battles with stagnation and inflation, anti-corruption (abandoned 500, 1000 rupee notes to curb underground transactions)
  - GST (Goods and Services Tax) reform (streamlining province level tax differentials, inter-province transportation facilitation etc)
- Later in his 1<sup>st</sup> term and 2<sup>nd</sup> term (2019-2024), inclined toward domestic policies
  - Popularism policy in 2018: raise import tariff under “Make in India”
  - Conservatism policy of BJP (Bharatiya Janata Party, or Indian People's Party) policies -> stifle diversity in religion (mainly for Muslim), invited social disruptions

## Economics

- Growth of “middle class” (purchasing power)
- Entrepreneurship boom (in Bangalore or so)

# The Countries With the Most Unicorns

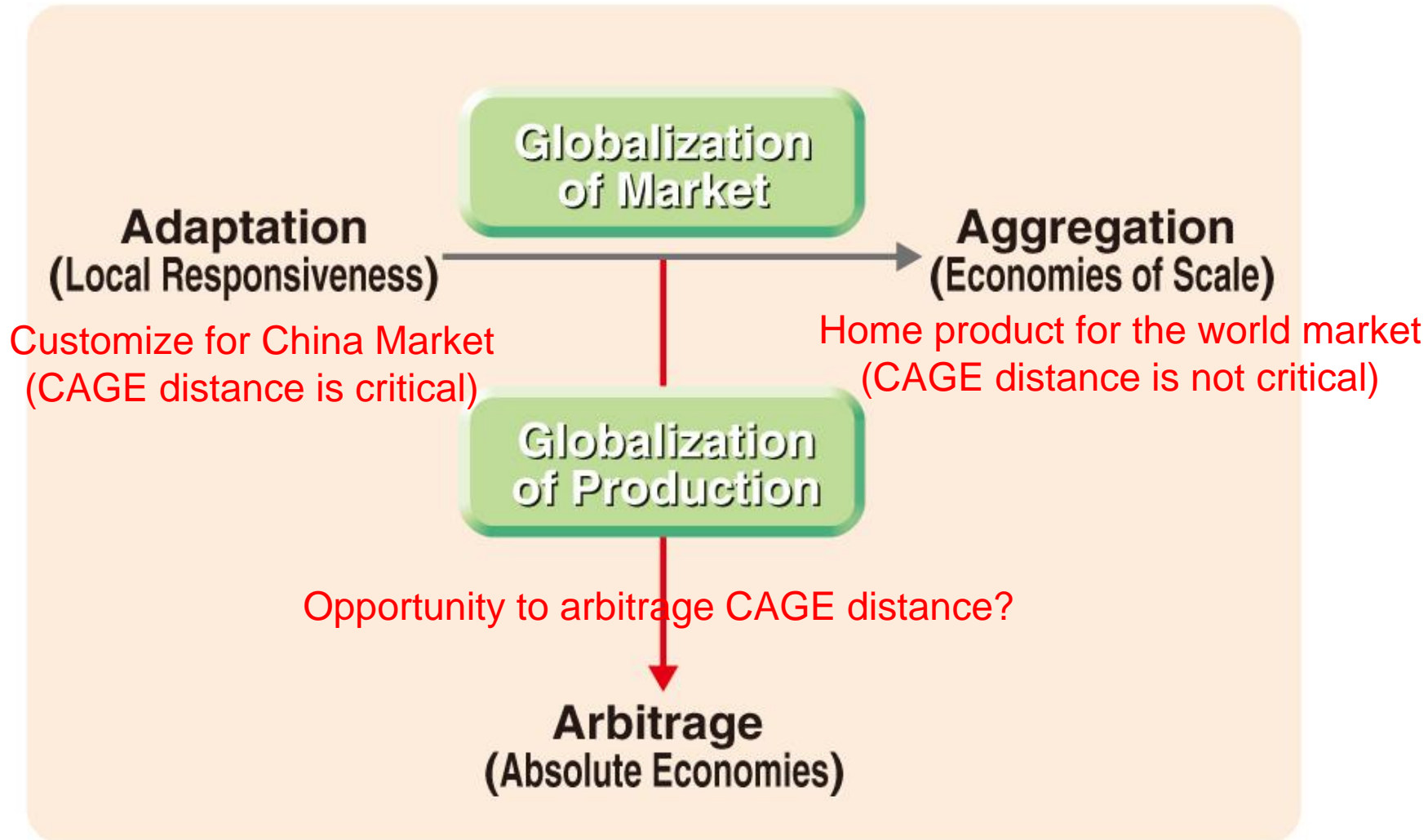
Countries with the most unicorns as of June 2020\*



\* Private companies valued at \$1 billion or more

Source: CB Insights

# AAA Triangle by P. Ghemawat



China as a factory or a market exercise

# Global Strategy Making

- Identifying the difference (distance) by CAGE framework (list up of C, A, G, E factors, and comparison in case of comparing target countries (such as C or I)
- Analysis of CAGE (Factory or Market?), by using AAA framework (triangle)
  - AD (aptation) – AG (gregation) axis (demand side) : CAGE distance is critical or not
  - AR (bitrage) axis (supply side): arbitrage CAGE distance (mainly E as cost differentials)



# India vs China from US viewpoint

	Cultural Attractions	Administrative Attractions	Geographic Attractions	Economic Attractions
<b>India</b>	<ul style="list-style-type: none"> <li>•English Language</li> <li>•Westernized Elites</li> </ul>	<ul style="list-style-type: none"> <li>•Common Colonizer</li> <li>•Common Law</li> <li>•Political Friendship</li> <li>•Lower Long-run Risk?</li> </ul>		<ul style="list-style-type: none"> <li>•Specialized Labor</li> <li>•Profitability</li> <li>•Firm Strategy and Upgrading</li> <li>•Soft Infrastructure</li> </ul>
<b>China</b>	<ul style="list-style-type: none"> <li>•Linguistic and Ethnic Homogeneity</li> <li>•Diaspora</li> </ul>	<ul style="list-style-type: none"> <li>•Ease of Doing Business</li> <li>•Enclaves</li> </ul>	<ul style="list-style-type: none"> <li>•Closer to U.S. West Coast</li> <li>•Superior Ports, Other Infrastructure</li> <li>•East Asian Production Network</li> </ul>	<ul style="list-style-type: none"> <li>•Larger Markets</li> <li>•Higher Income</li> <li>•Labor Inputs and Productivity</li> <li>•Capital Availability</li> <li>•Supply Chains</li> <li>•Foreign Companies as Export Bridges</li> </ul>

# Exercise : China and India

- Given that you are working for Japanese firm then

Q1 : India: factory or market? Please provide at least one example in each Quadrant of factory or market matrix.

Q2: Pick up one industry of your favorite. Discuss attractiveness in India over China by CAGE framework? What kind of AAA strategy to be pursued?

# Supplementary material

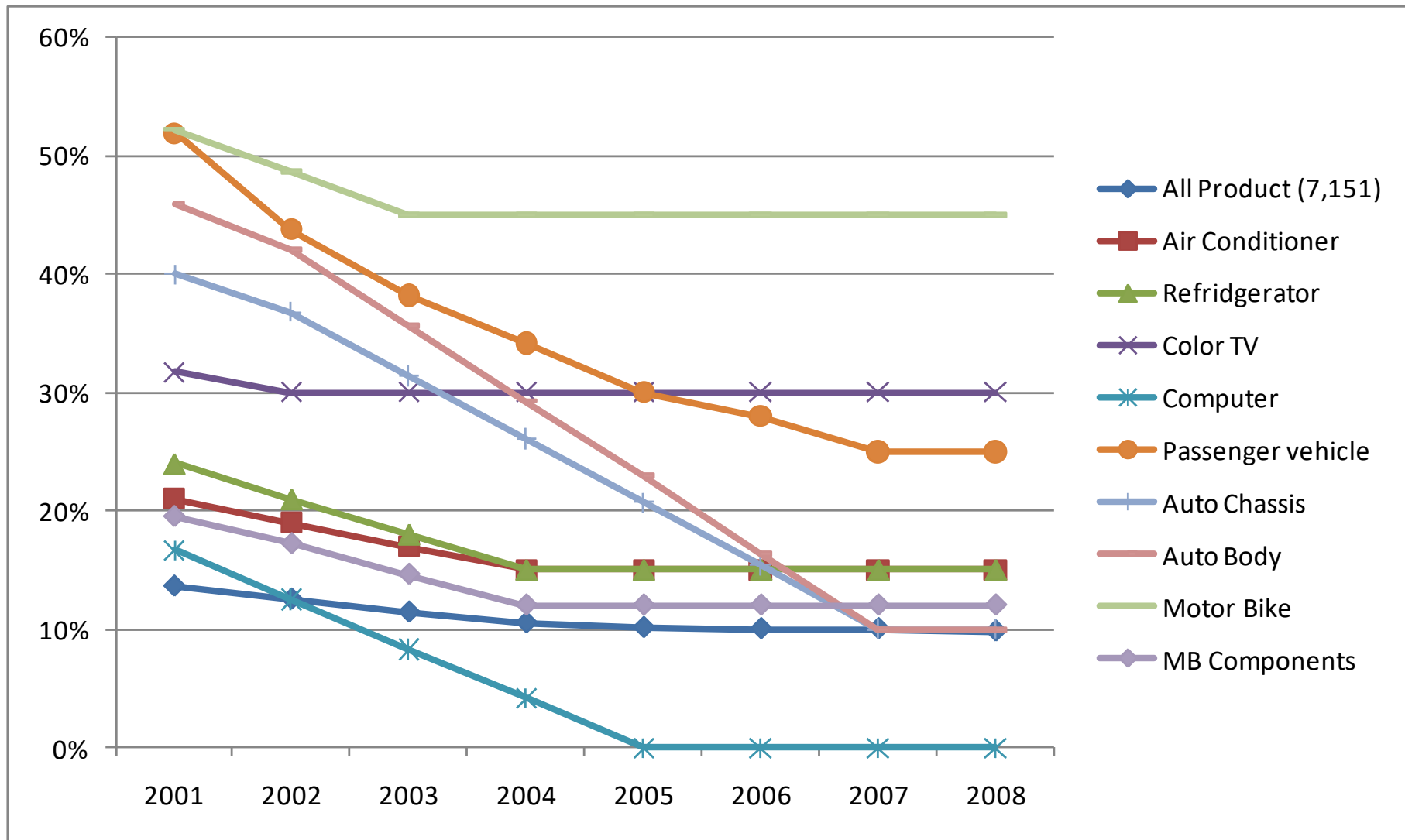
1. WTO and regional regime (ETA/FTA)
2. Institutional Voids
3. Risk factors associated with international business



# What is WTO?

- World Trade Organization (HQ: Geneva, UN organization, 151 countries, established in 1995, former GATT)
- WTO principles
  - MFN (Most Favorable Nation) 最惠国待遇:  
Exception for regional integration (FTA, EPA)
  - NT (National Treatment) 内国民待遇
- WTO rules
  - Tariffs in goods and services: ITA (Information Technology Agreement)
  - Trade Related Investment Measures (TRIMS)
  - Trade Related Intellectual Property Rights (TRIPS)
  - Government procurement, safety regulation, anti-dumping, safe guard rules etc.

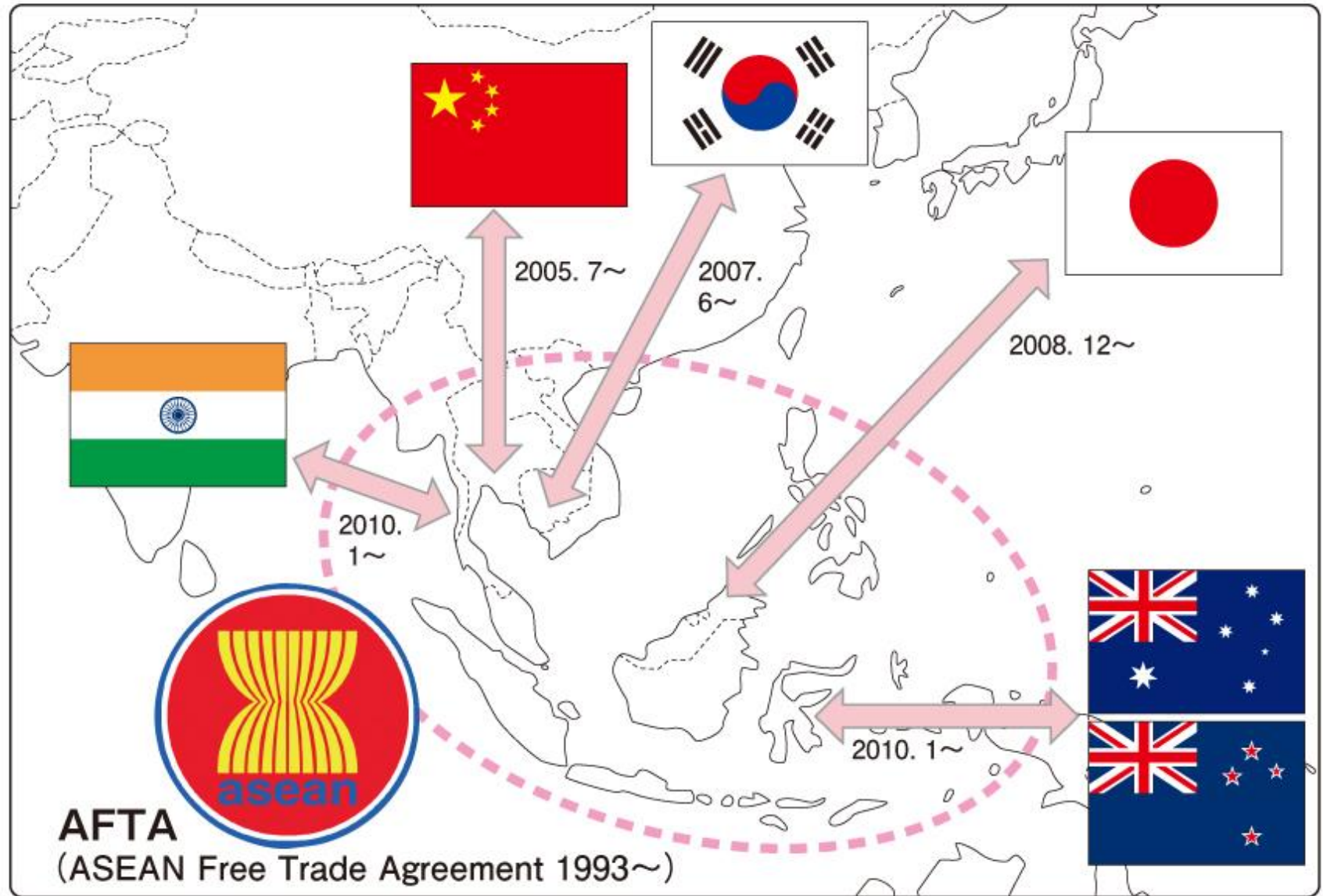
# Tariffs revision schedule (China's accession to WTO)



# Deregulation schedule for retail and wholesale sector in China

	Wholesale		Retail			
	Geographical Restriction	Foreign Shares	Geographical Restriction	Foreign Shares (All Retailers Except for the Listed Right)	Foreign Shares (Automobile Retailers)	Foreign Shares (Retailers for Particular Goods)
2001.12			Except for 13 Cities	Except for 13 Cities	Except for 13 Cities	Except for 13 Cities
Within 1 Years After Accession (By 2002.12.11)		Allowing Foreign JV (Only for Minority Shares)				
Within 2 Years (Until 2003.12.11)	Lifting Completely	Allowing Majority Foreign JV	Adding All Provincial Capitals, Chonggin and Nimbo for Exceptions	Allowing Majority Foreign JV		
Within 3 Years (Until 2004.12.11)		Lifting Completely	Lifting Completely	Lifting Completely		
Within 5 Years (Until 2006.12.11)					Lifting Completely	

# Regional integrations with ASEAN



# FTAs (EPAs) in Asia

	Japan	ASEAN	China	Korea	Australia	NZ	India	FTA/EPA
1993. 1		●						AFTA Effective
2002.11	●	Singapore						Japan/Singapore EPA Effective
2005. 7		●	●					China/ASEAN FTA Effective (Goods)
2006. 7	●	Malaysia						Japan/Malaysia EPA Effective
2007. 6		●		●				Korea/ASEAN FTA Effective (Goods)
2007. 7		●	●					China/ASEAN FTA Effective (Services)
2007.11	●	Thailand						Japan/Thailand EPA Effective
2008. 7	●	Indonesia						Japan/Indonesia EPA Effective
2008. 7	●	Brunei						Japan/Brunei EPA Effective
2008.10			●			●		China/NZ FTA Effective
2008.12	●	●						Japan/ASEAN EPA Effective
2008.12	●	Philippine						Japan/Philippine EPA Effective
2009. 5		●		●				Korea/ASEAN FTA Effective (Services)
2009. 6		●		●				Korea/ASEAN FTA Agreement (Investment)
2009. 8		●	●					China/ASEAN FTA Effective (Investment)
2009.10	●	Vietnam						Japan/Vietnam EPA Effective
2010. 1		●			●	●		Australia/NZ/ASEAN FTA Effective
2010. 1		●					●	India/ASEAN FTA Effective (Goods)
2010. 1				●			●	Korea/India CEPA Effective

# Institutional Voids

---

Developed world

	Product Market	Financial Market	Labor Market	Macro Condition
China	Relatively well retail sector, competitive	Murky firm info., under-developed banking	Potentially good, but small amount of manager supply	Institutional voids are covered by state control, but info. controlled
India	Protected and fragmented retail, disastrous PI	Relatively well developed	Strong labor unions and actions	Government policy is politicized, open info exchange

---

No institutions  
(Chaotic world)

(Khanna and Palepu, 2010)



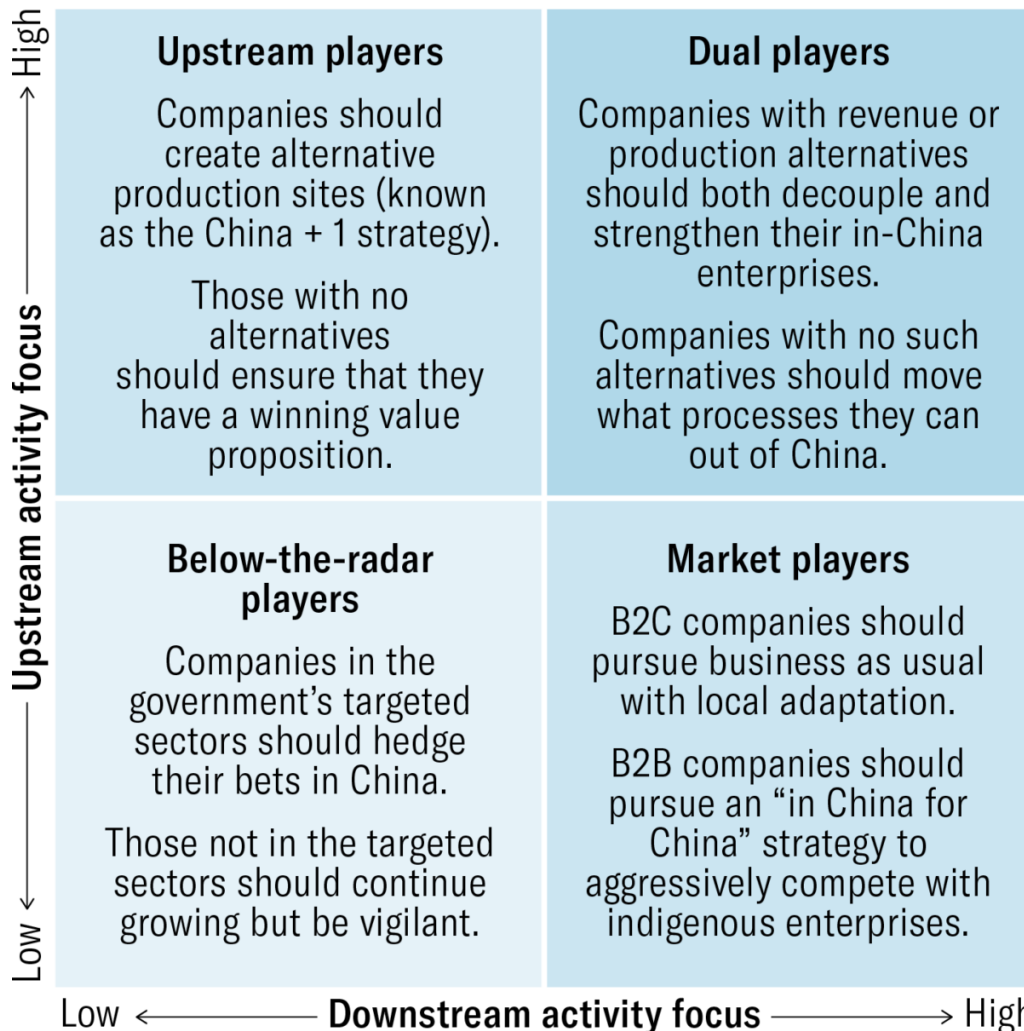
# Strategy questions from IV view

- Again, replicate (aggregation), adapt(adaptation) or exploitation (arbitrage)?
  - Examples of exploitation: METRO cash and carry, Blue River Capital (IV in financial market)
- Compete alone or collaborate?
  - Working together with local partner? This will be discussed later in my course
- Accept or attempt to change market context?
  - Filling IV by yourself? Influence on local government? (Toyota supply chain system in Guangzhou)
- Enter, wait or exit?
  - Investment (exit) decision making with risk analysis

# US-China decoupling and GB implications

US side : Import restriction (for US jobs), control for high-tech information

China side : Indigenous economic circulation, international competitiveness



## MIC (Made in China 2025) targeted industries

- Information Technology (AI, IoT, smart appliances)
- Robotics (AI, machine learning)
- Green energy and green vehicles (energy efficiency, electric vehicles)
- Aerospace equipment
- Ocean engineering and high-tech ships
- Railway equipment
- Power equipment
- New materials
- Medicine and medical devices
- Agriculture machinery