

## **\*What our authorities MUST learn from China if we hope to win on the business front\***

We may rail against China as we should, for their sins are many, but if we want victory over them, we should be willing to learn from them and improve upon what they are doing. The following is the experience of an Indian who has been running a successful, 100% Indian owned company in China for 10 years. Just notice how the Chinese authorities facilitate business and the speed with which they take decisions to keep their businesses competitive. Compare this with the red tape and hassles our entrepreneurs have to go through in India and the number of bureaucratic rules and regulations and, often, whims, that they have to satisfy.

If we are not willing to do something similar for our industrialists and for foreign industrialists who we are trying to woo, in 5 years time, all of them will be headed back to China or Vietnam or Laos.

### **\*EXPERIENCE OF INDIAN MANAGEMENT IN CHINA\***

I am the Vice President of a medium sized Indian corporate. We are one of the largest manufacturers of Drum Closures in the world. These are a closing devices used in the manufacture of 200 litres Steel drums. It is a very high precision engineering product. We are also one of the largest manufacturers and exporters of scaffolding system out of India. These are also highly engineered precision products.

It is a common practice in these days in the business circles to compare India and China in almost all spheres. In every forum or platform the discussion inevitably veered around China - India comparison. In this article, I want to share the experience of starting and operating business in China. You may make your own comparison with the conditions in India based on your own experience. I am a patriot to the core and am no fan of China. However the business and economic considerations compelled our group to consider putting up a factory in China for producing drum closures and scaffolding for Chinese and international markets. We considered the availability of cheaper raw material, highly productive labour, very low logistic cost and good sized domestic market in China as the reasons enough to invest in a factory in China.

We were aware about volatile Indo-Chinese relations and the risk involved in operating in China. They have some typical laws and their legal system tend to favour Chinese. We had developed high level of indigenous manufacturing technology which is economic and competitive. There was also fear of Chinese learning and copying our technology. In spite of all these fears we decided to go ahead by taking reasonable precautions. We decided not to take any Chinese partner. Apart from the fear of loss of technology there is also a law in China that Chinese citizen holding minority interest also has a veto power in the company. Hence we decided to go on our own.

In 2006 we started searching for a suitable location. We wanted to be close to East Coast but in a location where the labour was cheaper than the developed eastern provinces and the laws permitted generation and disposal of effluent.

In 2008 after many discussions and considerations we located an Industrial Zone Quanjiao in a small town about 50 km west of Nanjing which met most of our requirements. After obtaining initial

information about the zone, we decided to meet zone authorities personally and to see the area. I and one of my colleagues reached the zone office in the morning at about 10.00 AM. To our surprise we found that the zone authorities had made elaborate arrangements to welcome us. Local party chief and few other senior officials were also present. We felt awed and nervous. We told the zone head that we had visited only for a survey and do not have a plan to sign any deal. The zone chief informed very politely that they were sure that we would be satisfied with the land and the conditions.

They then explained their proposals and showed various sites in the zone. After we showed our interest in a piece of land they made a final offer which was substantially more attractive than the offer made in the mail earlier. We asked for few more facilities which they readily agreed and after about 4 hours the deal was signed. We were amazed at their helpful and cordial approach all through the discussions and their determination to get first foreigner to invest in their industrial zone.

After signing a short MOU, we informed them that we need to go to Nanjing and speak to a lawyer to form a company. The zone chief mentioned that if we have trust in them they would form the company with all approvals free of cost. By this time we had already started trusting them and agreed to their proposal. They had also got a local Bank Manager with all the necessary forms for opening the bank account. All this in a day's work!

Within a week we got company registration with the name and registration number and the company documents were given to us within 2 weeks. The bank account was opened within one week thereafter. Hence within less than one month we were able to buy the land with all the registration and approvals and also open the bank account.

One officer in the zone was nominated to give us all the required assistance. We mentioned about the need for an architect. Promptly he gave us names of about 5 architects who were already active in the zone. After some discussions with architects we finalized one from Nanjing and gave him details of the building requirements. We once again approached the officer of the zone for help to find some contractors for construction. Within one day he gave list of 8 or 9 civil contractors who were doing construction activities in the zone. We floated the enquiry to all the contractors and finalized one of them.

The building was constructed in about 4 months and in 6 months time we were able to start the production. In my last 30 years of experience in India I have yet to see a factory starting within 6 months.

We have been in production for last 10 years and are quite satisfied with our working in China. I would now like to share some of my experiences of operation in China.

1) Even though the labor wages are higher than India, the cost per piece works out to be cheaper because of high productivity of the labor.

2) The zone we selected is located in a small town with a population only about 1,50,000. The

zone was also one of the most ordinary typical industrial zone of China. In spite of this the internal road of the zone are wide, concreted with shady trees on both sides, good landscaping and very clean and organized. The zone offer 5 basic services of providing electricity, water and sewerage connections at the factory gate, levelled land and road connectivity. I have yet to see an industrial estate of similar quality and services anywhere in India.

3) The workers are provided free lunch every day by the company. This is the common practice in China.

4) Every year during Chinese New Year all the business in China remain closed for 10 days. Apart from these there are few holidays during Labour day in May ,National Day in October , Dragon boat festival in June. There is no PL,CL system .

5) The factory loss in China is very well defined and there is no room for any discretion. The 5 star Insurance is compulsory for each and every employee which covers Endowment , Accident ,Unemployment , maternity/paternity and hospitalization . For the compensation for injury during working is well confined depending on the nature of injury. The compliance of factory rules are done once at the time completion of construction and then there is no further inspection. In fact during our more than 10 years operations we do not have any inspector visiting our factory for any reason.

6) We submit VAT returns online every month and every month our VAT refund due is credited. There is no human interaction or any failure.In fact no one can issue Invoice which they call Fapiao with their own logo or style . Each and every seller has to by pre-printed Invoice/Fapiao from the Sales Tax department and can issue only those Invoices to their customers. Seller has to buy one devise from tax department which gets connected between computer and printer and data gets transferred to tax department automatically .

7) There is a very high degree of safety and security and there is no theft.

8) There are no aggressive unions. In fact the wages and benefits are well defined and there are no negotiations. The working is peaceful. There is no political or bureaucratic intervention. After every Chinese New year , our area's Mayor visits our factory with entire HOD of departments like Electricity ,Labour,Zone etc. to discuss on any issues if faced by us.This is amazing.

9) All the government offices are fully accountable. If any application for any license or permit is not settled in 30 days then the same is deemed to be approved.

10) In spite of Indo-Chinese tensions from time to time due to situation in the borders the Chinese workers and staff are very cordial and friendly. They are all aware about the tensions but it has not affected our or any other Indian establishment.

11) There are no other taxes or dues except VAT, Income Tax, Custom Duty and local taxes. These are all well-defined and there is no room for disputes. All assessments are done online.

12) The government of China response very quickly to changing international situation. For example when President Trump slapped 10% Custom Duty on Chinese products, within one week government of China increased the VAT rebate by 4% and also devalued their currency . Thereby nullifying the custom duty in US and at the same time making Chinese goods more competitive in the rest of the world. This is their usual speed of response.

These are some of cuff observations of operating in China. Clearly China has unmatched ease of starting business as well as ease of doing business. It is because of this combination that the invisible transaction cost are almost NIL in China. This propagates downstream and upstream giving over all competitiveness to the Chinese products.

If the Government of India follow the China model of ease of starting business and doing business then I am sure India can overtake China as world manufacturing hub because intrinsically Indian entrepreneur is more seasoned, matured and experienced than Chinese counterpart.

Best Regards,

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