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CHINA: FROM A PRODUCER TO A CONSUMER. PROSPECT FOR SMALL AND MEDIUM FOREIGN BUSINESS IN CHINA AND INDIA

Abstract
The paper provides an overview on key reasons of decline of growth dynamics in China, and examines the limitations and flows of Chinese growth model that caused a lot of foreign manufacturers and investments to leave China and move their business to other countries, in particular, to India. The paper also defines China's and India's economic growth models, and studies the innovations that played a significant role in the implementation of the economic reforms in these countries. It also compares the future prospect for small and medium business in the two countries.

Keywords: *economic growth model, manufacturing, foreign investments, consumption.*

Recently countries with emerging economies, especially China and India, got more power. In the modern world China is a country with the greatest history of development. Nearly 40 years of reforms and innovations have transformed China into one of the fastest growing countries with impressive political influence on the international scene.

Due to an early start and the support of governmental programs, income levels in China have overtaken its main rival – India. The role of the foreign investments in China was very significant, and the main part of exported goods and innovative product were produced due to the foreign investment sector. In terms of formation of high economic growth, governmental support and reforms had a big influence, which basically accelerated the growth.

According to World Bank, China had overtaken Germany by 2007 and became world third largest economy. In 2010 China overtook Japan, and it is projected to overtake the USA by 2029. As for India, it is projected to overtake Germany and Japan in 2020 and 2028. Income and production growth and the increase of middle class families will cause the rise in the level of education, further GDP and salaries growth, yet together with recently revoked “one child policy” in China it will also cause less family size and the aging of Chinese nation.

China became the largest exporter in the world, however the external demand for goods manufactured in China has been decreasing for various reasons. Reforms in China became a low priority. China changes its orientation from processing, manufacturing and export to domestic consumption and services. Once so attractive production prices keep rising, the requirements and laws for the operation of the foreign business in the mainland China have changed and became more restrictive and complicated. While the labor cost is growing, the production quality and worker’s qualification remains the same. Many foreign companies, especially representatives of small and medium-sized businesses, sign contracts only for outsourcing or move their production to other Asian countries. For example, Adidas closed its last factory in China in 2012.[1]

According to National Bureau of Statistics of China growth rate was 6.7% for the first three quarters of 2016, GDP reached 52.997 billion yuan or 7.87 billion dollars. Though the gross domestic product went up by 1.8 percent in the third quarter on a quarter-on-quarter basis, the pace of China's GDP growth has slowed down since 2010. In 2010 the GDP was 10.4%, it decreased to 9.2% in 2011, and then to 7.8% in 2012. At the end of 2013 the pace of China's economic growth has slowed to 7.7%, and then to 6.9% in 2015.[2]

The causes for consumption growth in China are population growth and increase in revenue due to economic development. It is expected that there will be about 320 million middle class families in China by 2020. With the growth of domestic consumption there is an increase in demand for mass-produced goods for the domestic market. Many Chinese manufacturers, who previously worked for export, have switched to providing the needs of the local market. Chinese consumers want more than they can afford, they want wealth, luxury and beauty. At the same time, overproduction has increased demand for food, real estate, transport, education and healthcare. All of the above cause inflation of goods, shortcomings in quality control and prices volatility. Prices often do not depend on the quality but on the image, prestige and sales location.

India and China experience intense competition, so they look for special business approaches, that will help them to survive the rivalry, but at the same time such conditions of the constant battle coerce these countries to discover new ways of doing business. Fintech and services markets in China have risen to unbelievable heights. Many companies, such as WeChat, Alipay, Taobao, which did not exist 15-20 years ago, nowadays have a significant share of the market. Commercial and private construction is growing fast. Right after Shanghai World Financial Center had been completed and

[1] The Wall Street Journal (July 18, 2012).
[2] National Bureau of Statistics of China (October 19, 2016).

announced the third tallest building in the world, a new megatall skyscraper, the Shanghai Tower, rose next to it and became the second tallest after Burj Khalifa.

Almost unrealistic ambitions, high speed, originality are the characteristics, which new foreign businesses have to consider when opening in China or India. At the same time, nowhere else will you find so demanding customers. Nowhere else in the world the market is so oversupplied with cheap goods as in China and India. Moreover, after getting accustomed to low prices, the customer starts paying attention to quality. High quality and cheap price are two contradictory requirements that, nevertheless, a lot of local companies still adhere to. Many of the technological companies like Huawei, Xiaomi and others have successfully entered international market due to this concept. These large-scale sales have a big influence on the global business.

One of the breakthrough changes in China is a continuous and impressive growth of e-commerce consumption. Nowadays on-line purchases make 15% of private consumption. Online sales will reach $650 bln by 2020 and will potentially lift China's consumption by an additional 4-6%. In Tier 4 cities the average online shoppers spend 27% of their disposable income through e-tailing.[3] Fast development of digital channels increased demand for services.

China have kept a record of 9.5% GDP growth for many years, and it outran India in investments and export in almost 10 times. Till 2050 Chinese economy is projected to be the biggest in the world, but in longer term India is in a stronger position. By 2040 China's GDP is expected to fall to 4%, while India's GDP will stay at 7% till mid 2030-th and will remain 6% by 2050.

China will remain an export leader in the future, because it will take a while for India to establish a competitive production, infrastructure and a well-developed raw materials supply chain. Nevertheless, the production in India is rapidly growing. Chinese companies remain relatively weak in business management and quality control. China is still a county of planned economy where connections are the most important. It sticks to old traditions while medium businesses management in India gets better. Indian companies are particularly strong in equipment production, engineering, pharmaceutical production and telecom. In these fields India is far ahead of China.

In the coming decades China and India will be among the leading world economies in terms of GDP. China's development rates have been slowing down, India has more chances to advance to the forefront. At the same time, due to the lack of sufficient economic opportunities, poverty of the population and lack of experience none of them will become world leaders able to replace the USA or Wester Europe.

[3] McKinsey Global Institute "China's E-Tail Revolution" (March 2013).