Assessment by Midwestern Agricultural Firms of Doing Business in China and India

Sanjeev Agarwal

MATRIC Working Paper 02-MWP 6
February 2002

Midwest Agribusiness Trade Research and Information Center
Iowa State University
Ames, Iowa 50011-1070
www.card.iastate.edu/matric

Sanjeev Agarwal is associate professor in the Department of Marketing at Iowa State University.

MATRIC is supported by the Cooperative State Research, Education, and Extension Service, U.S. Department of Agriculture, under Agreement No. 92-34285-7175. Any opinions, findings, conclusions, or recommendations expressed in this publication are those of the authors and do not necessarily reflect the view of the U.S. Department of Agriculture.

Abstract

China and India are two of the world's biggest countries and potentially large markets for U.S. agricultural products. This study reports the assessment by midwestern agricultural firms of doing business in the two countries. The data, collected by mail questionnaire, suggests that China posed less of a problem than did India with respect to economic and market conditions, tariff and investment barriers, and physcial and cultural barriers. On the other hand, India posed less of a problem than did China with respect to language, protection of property rights, and the legal system. Firms already doing business in these countries had more favorable comments than those with no previous experience. The study also reports results of telephone interviews with selected firms. These conversations provide a more personal account of challenges faced by firms that are testing markets in the two countries.

Key words: business, business challenges, China, investing, India.

ASSESSMENT BY MIDWESTERN AGRICULTURAL FIRMS OF DOING BUSINESS IN CHINA AND INDIA

Foreign direct investment (FDI) inflows into developing countries (including Central and Eastern Europe) expanded considerably in the 1990s. Developing countries’ share of worldwide investment inflow was 28 percent in 1991 but increased to 41 percent by 1996. The FDI inflow, in absolute dollars, increased from $44 billion in 1991 to $141 billion by 1996, a growth of 220 percent. FDI inflow to Asia increased faster, from $23 billion in 1991 to over $84 billion in 1996, a growth of 265 percent. As a share of total FDI received by developing countries, almost 60 percent went to Asia. Among developing country regions, Latin (including the Caribbean) and South America combined was the other major recipient of foreign direct investment. Almost $39 billion (or 27 percent of all investment going to developing countries) was invested in this region in 1996, a growth of about 151 percent between 1991 and 1996.

Developing countries’ markets are attractive to western firms because demand for consumer, as well as industrial, goods is expected to grow faster in those countries than in the developed country markets. Of special interest to midwestern firms is the growth in developing countries’ food consumption, typically spurred by an increase in income. With this in mind, this study was commissioned to examine the opportunities and challenges midwestern agribusiness firms face in doing business with developing countries. However, to keep the scope of the study manageable, only two of the largest developing countries—China and India—were studied.

Both countries are home to over a billion people and are thus considered potential markets for Western companies. Because of various government initiatives, China’s economy has grown faster than that of India over the last two decades. This has caught the attention of Western firms. Over the last several years, China has received the highest amount of foreign direct investment of any developing country in the world. In fact, since 1993, it is second only to the United States in terms of the size of inward foreign direct investment worldwide. On the other hand, during the same period, the annual inward FDI in India has been only about 5 percent of that of China. Despite the fact that both countries are equally large, one is receiving 20 times more investment than the other. This disparity is intriguing and thus we provide a comparison of the firms' perceptions of both China and India.

The Study

The study involved a mail survey of the midwestern agribusiness firms. A questionnaire was designed to include 30 indicators of country-market assessment, preferred modes of doing business (i.e., exporting, licensing, joint venture, or sole venture), and demographic information about the respondents (e.g., product category, annual sales, number of years since the firm has conducted business overseas, and the number of countries it does business with).

The questionnaire was mailed to firms in seven midwestern states: Illinois, Iowa, Minnesota, Missouri, Nebraska, South Dakota, and Wisconsin. The firms were selected to represent those that are involved in international trade or investment. Addresses of these firms were obtained from company directories prepared by the respective state economic development agencies. The names also were obtained from Thomas Directory, a publisher of equipment suppliers, and from Harris Info, an independent provider of mailing lists. A total of 986 firms were contacted (229 in Illinois, 323 in Iowa, 123 in Minnesota, 122 in Missouri, 121 in Nebraska, 12 in South Dakota, and 67 in Wisconsin), of which 24 were returned as undeliverable. A total of 128 questionnaires were completed for a response rate of 13 percent.

Results

A profile of respondents is presented in Table 1. The average firm had sales of less than $20 million, had 1 to 10 years of international business experience, and did business with 1 to 10 countries.

TABLE 1. Profile of respondents

Response Category	Number of Respondents	Percentage of Respondents
	Sales Revenue	
$1-$20 million	65	54.2
$21-$40 million	13	10.8
$41-$60 million	09	07.5
$61-$80 million	05	04.2
$81-$100 million	03	02.5
>$100 million	25	20.8
	International Experience (in Years)	
0 years	01	00.8
1-10 years	52	43.0
11-20 years	30	24.8
21-30 years	23	19.0
31-40 years	10	08.3
41-50 years	01	00.8
>50 years	04	03.3
	International Experience (Number of Countries)	
0 countries	01	00.8
1-10 countries	72	58.5
11-20 countries	16	13.0
21-30 countries	14	11.4
31-40 countries	07	05.7
41-50 countries	01	00.8
>50 countries	12	09.8
	Business Classification	
Farm equipment	27	21.1
Commodities	33	25.8
Processed foods	39	30.5
Service provider	01	00.8
Other	28	21.9
	Currently Doing Business with China	
Yes	46	35.9
No	82	64.1
	Currently Doing Business with India	
Yes	19	14.8
No	109	85.2

General Assessment of Countries

Table 2 lists the respondents' assessments of the two countries. The firms assessed the countries on a scale of 1 to 5 where 1 indicated no problem and 5 indicated a major problem. In other words, the higher the score, the higher the respondents' perception of a problem with respect to the assessment criterion. For example, "bureaucracy" in China (score 3.92) was the biggest problem, whereas "time difference" in China (score 1.80) was the smallest problem. As evident from Table 2, China posed significantly less of a problem compared to India with respect to physical distance, cultural barriers, differences in customer needs, market size, growth potential, product's appeal to customers, availability of raw materials, economic conditions, tariff barriers, and investment barriers. On the other hand, India posed less of a problem compared to China with respect to language barrier, protection of proprietary rights, and legal system. Other aspects of assessing business conditions were ranked the same in both countries.

We can conclude from our results that our respondents perceive China to be physically closer to the United States, with higher market potential, better economic conditions, and a more open-door policy toward trade and investment. India, on the other hand, was considered to have a better legal system, tougher protection of proprietary rights, and more English-speaking business people. For all other aspects of the business environment, there is not much difference between China and India. It is interesting to note that the respondents indicated more commitment to doing business in China than in India and perceived a greater comfort level among their managers in doing business with China. This shows that the general readiness or willingness to do business with China is relatively higher than it is for India.

Country Assessment Based on In-Country Experience

Of those who responded, 46 firms indicated they currently do business with China and 19 indicated they do business with India (16 of which were common to both countries). In order to determine whether there were differences in opinion between those who do business with the country versus those who do not, we conducted further analyses. Table 3 presents the results for China and Table 4 presents those for India.

Table 3 shows that there are statistically significant differences in the response ratings of firms who do business in China compared to those who do not. Significant

TABLE 2. Country evaluation: average ratings

No.	Item	China	India	sig of t[a]
1.	Physical distance	2.61	2.76	.006
2.	Language barrier	3.19	2.64	.000
3.	Cultural barrier	2.84	3.15	.004
4.	Time difference	1.80	1.81	
5.	Differences in business practices	3.13	3.13	
6.	Differences in customer needs	2.53	2.73	.017
7.	Firm’s commitment to do business in:	2.29	2.73	.000
8.	Firm’s managerial comfort level to do business in:	2.47	2.85	.000
9.	Firm’s financial resources to do business in:	2.38	2.49	
10.	Market size of your products in:	2.06	2.45	.000
11.	Growth potential in market size for your products in:	1.84	2.26	.000
12.	Competition from local firms for your products in:	2.40	2.36	
13.	Distribution system for your products in:	3.50	3.57	
14.	Your product’s appeal to customers in:	2.16	2.58	.000
15.	Availability of local distributors in:	3.27	3.26	
16.	Availability of local investment partners in:	3.27	3.35	
17.	Availability of marketing service providers in:	3.39	3.48	
18.	Availability of financial service providers in:	3.28	3.18	
19.	Availability of raw materials in:	2.40	2.67	.000
20.	Availability of qualified employees in:	2.76	2.77	
21.	Political conditions in:	3.12	3.32	
22.	Economic conditions in:	3.07	3.48	.000
23.	Corruption in:	3.36	3.26	
24.	Bureaucracy in:	3.92	3.76	
25.	Infrastructure in:	3.60	3.56	
26.	Protection of proprietary rights in:	3.72	3.53	.031
27.	Legal system in:	3.68	3.47	.017
28.	Tariff barriers for your products in:	2.88	3.09	.007
29.	Non-tariff barriers for your products in:	2.55	2.54	
30.	Barriers on foreign investment in:	2.48	2.73	.000

Notes: Ratings are on a scale of 1 to 5, where 5 stands for major problems and 1 stands for no problems. Missing values were filled using means for response items.

[a]Only those that are significant at the 0.05 level are reported.

TABLE 3. Country evaluation: average ratings for China by firms who do and do not do business with China

No.	Item	Yes	No	sig of t[a]
1.	Physical distance	2.69	2.46	
2.	Language barrier	2.85	3.38	.021
3.	Cultural barrier	2.57	3.00	.040
4.	Time difference	1.84	1.77	
5.	Differences in business practices	3.07	3.16	
6.	Differences in customer needs	2.29	2.72	.019
7.	Firm’s commitment to do business in:	1.63	2.69	.000
8.	Firm’s managerial comfort level to do business in:	1.98	2.75	.002
9.	Firm’s financial resources to do business in:	1.73	2.76	.000
10.	Market size of your products in:	1.73	2.28	.024
11.	Growth potential in market size for your products in:	1.61	1.99	.084
12.	Competition from local firms for your products in:	2.58	2.28	
13.	Distribution system for your products in:	3.22	3.68	.062
14.	Your product’s appeal to customers in:	1.76	2.41	.004
15.	Availability of local distributors in:	2.98	3.46	.078
16.	Availability of local investment partners in:	2.77	3.61	.004
17.	Availability of marketing service providers in:	2.85	3.74	.001
18.	Availability of financial service providers in:	3.00	3.46	
19.	Availability of raw materials in:	2.25	2.50	
20.	Availability of qualified employees in:	2.51	2.94	
21.	Political conditions in:	3.02	3.17	
22.	Economic conditions in:	2.84	3.19	
23.	Corruption in:	3.18	3.48	
24.	Bureaucracy in:	3.70	4.05	.079
25.	Infrastructure in:	3.39	3.74	
26.	Protection of proprietary rights in:	3.65	3.76	
27.	Legal system in:	3.49	3.79	
28.	Tariff barriers for your products in:	2.55	3.11	.041
29.	Non-tariff barriers for your products in:	2.53	2.56	
30.	Barriers on foreign investment in:	2.03	2.80	.007

Note: Ratings are on a scale of 1 to 5, where 5 stands for major problems and 1 stands for no problems. Missing values were not filled.

[a] Only those that are significant at the 0.10 level are reported.

TABLE 4. Country evaluation: average ratings for India by firms who do and do not do business with India

No.	Item	Yes	No	sig of t[a]
1.	Physical distance	3.00	2.72	
2.	Language barrier	2.06	2.74	.054
3.	Cultural barrier	3.11	3.15	
4.	Time difference	1.78	1.81	
5.	Differences in business practices	3.50	3.05	
6.	Differences in customer needs	2.33	2.81	
7.	Firm's commitment to do business in:	1.58	2.98	.000
8.	Firm's managerial comfort level to do business in:	1.89	3.03	.003
9.	Firm's financial resources to do business in:	1.44	2.68	.001
10.	Market size of your products in:	2.06	2.54	
11.	Growth potential in market size for your products in:	1.72	2.37	.055
12.	Competition from local firms for your products in:	2.74	2.28	
13.	Distribution system for your products in:	3.00	3.70	.032
14.	Your product's appeal to customers in:	1.79	2.77	.002
15.	Availability of local distributors in:	2.24	3.48	.001
16.	Availability of local investment partners in:	2.07	3.63	.000
17.	Availability of marketing service providers in:	2.50	3.69	.001
18.	Availability of financial service providers in:	2.64	3.29	
19.	Availability of raw materials in:	2.27	2.77	
20.	Availability of qualified employees in:	2.24	2.92	.069
21.	Political conditions in:	3.12	3.35	
22.	Economic conditions in:	3.33	3.50	
23.	Corruption in:	2.73	3.36	.093
24.	Bureaucracy in:	3.50	3.82	
25.	Infrastructure in:	3.39	3.60	
26.	Protection of proprietary rights in:	3.31	3.58	
27.	Legal system in:	3.18	3.53	
28.	Tariff barriers for your products in:	3.00	3.11	
29.	Non-tariff barriers for your products in:	2.36	2.58	
30.	Barriers on foreign investment in:	2.50	2.79	

Notes: Ratings are on a scale of 1 to 5, where 5 stands for major problems and 1 stands for no problems. Missing values were not filled.

[a] Only those that are significant at the 0.10 level are reported.

differences were found in the areas of language barrier, cultural barrier, customer needs, market size, growth potential, product’s appeal to customers, distribution system, availability of local distributors, availability of local investment partners, availability of marketing-service providers, tariff barriers, and investment barriers. Notably, all of these aspects of the business environment were rated as presenting a lower level of difficulty by those who do business with China than by those who do not. Consistent with these results, firms that do business with China, compared to those who do not, had fewer problems relating to the firm’s commitment, management’s comfort level, and the firm’s financial resources in doing business with China.

Likewise, Table 4 shows that there are statistically significant differences in the response ratings of firms who do business in India compared to those who do not. Significant differences were found in the areas of language barrier, growth potential, the product’s appeal to customers, distribution system, availability of distributors, availability of local investment partners, availability of marketing-service providers, availability of qualified employees, and corruption. Notably, all of these aspects of the business environment were rated as presenting a lower level of difficulty by those who are doing business with India than by those who do not do business with India. Consistent with these results, firms that do business with India, compared to those who do not, had fewer problems relating to the firm’s commitment, management’s comfort level, and the firm’s financial resources in doing business with India.

The similarity of results across both China and India suggests that the level of observed or perceived difficulty without concrete experience tends to be higher than what it may be in reality. The results are interesting from both public policy as well as company strategy perspectives. The areas where significant differences arise between experienced and inexperienced firms suggest what types of false or unrealistic perceptions may be held by firms that have not done business with these countries. For example, it is interesting to find that while there is a general perception that corruption is a problem in both India and China, firms who have dealt with India think it is not as big a problem as generally perceived. In the case of China, the same conclusion can be drawn with respect to bureaucracy.

Choice of Entry Mode

Table 5 shows respondents' preferred mode of doing business in both China and India. The four modes studied included exporting, licensing, joint ventures, and sole ventures. The majority of the respondents (81 percent) preferred to use the exporting mode in doing business with both China and India. Among the other three modes, the preferences, in decreasing order, were for joint venture, licensing, and sole venture. The least desirable mode for most firms was the sole venture mode; about 50 percent of respondents chose this mode as least desirable for doing business in China (49 percent in the case of India). Licensing was also an undesirable mode of entry with about 32 percent

TABLE 5. Choice of entry mode

	China		India	
	# of Respondents	**% of Respondents**	**# of Respondents**	**% of Respondents**
Exporting				
Most desirable	96	80.7	91	80.5
Somewhat desirable	08	06.7	08	07.1
Somewhat undesirable	08	06.7	08	07.1
Least desirable	07	05.9	06	05.3
Licensing				
Most desirable	03	03.8	02	02.6
Somewhat desirable	29	36.3	28	36.8
Somewhat undesirable	22	27.5	20	26.3
Least desirable	26	32.5	26	34.2
Joint venture				
Most desirable	12	15.6	12	16.2
Somewhat desirable	27	35.1	25	33.8
Somewhat undesirable	30	39.0	31	41.9
Least desirable	08	10.4	06	08.1
Sole venture				
Most desirable	07	09.5	06	08.5
Somewhat desirable	14	18.9	15	21.1
Somewhat undesirable	16	21.6	15	21.1
Least desirable	37	50.0	35	49.3

Note: Missing values were excluded from analysis for this table.

of the firms choosing this as the least preferred mode of entry in China (34 percent in the case of India). The opposition to joint ventures was relatively less intense with only about 10 percent of the firms choosing this as a preferred mode of entry in China (8 percent in the case of India). In conclusion, the most preferred mode of doing business is exporting, followed, in decreasing order, by joint venture, licensing, and sole venture.

Written Remarks

Most respondents wrote that working in these countries requires patience. Many of the respondents found that the countries' markets are not well developed and may not be ready for the firms' quality products. Problems pertaining to cultural differences, distance, and language are obvious. However, respondents indicated additional problems relating to payment terms, corruption, bureaucracy, piracy, and trade barriers. Some firms have overcome these (or some of these) problems by working through export companies or local agents. Some firms have overcome the import barriers by producing locally through joint ventures. However, many have simply decided other markets are more attractive given the problems in these two countries.

Results of Personal Interviews

Most firms acknowledged that Asia, especially China and India, is an important market that should not be ignored. However, depending upon the product being sold, the firms expressed several concerns about obstacles to doing business in the two countries.

Challenges

For one pre-packaged, processed food firm, the major hurdle is that consumers in both countries are not wealthy and sophisticated enough to use high quality, pre-packaged products. Even if it could market its products, it found that China required different labeling and packaging. The same problem existed, although to a much lesser extent, in India as well. India, on the other hand, was deemed very protective of the local industry. The respondent also said that corruption and counterfeiting was rampant in both countries.

An animal-feed nutrient supplier identified a lack of qualified personnel as its biggest challenge. The local work ethic and business ethic was also questioned. The respondent complained about high tariff rates (about 150 percent) in India, saying that the government "does a lot of talking" about reducing the tariffs. The fact that India has reduced tariffs to 120 percent "is a joke!" according to this firm's representative. The respondent said that China's tariffs are not as bad as India's but that China imposes other types of barriers (such as product registration).

East Asia is an important export market, according to a food and feed ingredients producer. The respondent said that while Europe is a strong market today, Asia holds greater potential for expanded growth in future. China and India present the greatest prospects for the company's continued export growth. Immediate significant growth in these two markets is largely hampered by the lack of hard currencies available to the importers.

A manufacturer of after-market farm equipment replacement parts said that the major obstacle in expanding export activities is the unfavorably strong U.S. currency vis-à-vis the currencies of target markets. The resulting exchange rate has put the firm at a competitive disadvantage with foreign competitors. A key reason this company is not active in China and India is the derived-demand nature of its product lines; after-market farm equipment replacement parts are designed to fit American manufactured farm equipment such as John Deere and International Harvester. Because this farm equipment does not have a strong presence in Asia and Brazil, demand for the company's products is limited.

Another agricultural equipment manufacturer said that population growth signals greater food production, which, in turn, signals greater use of this company's machinery. The respondent has more experience with India than with China. He believes there is substantial corruption in India. He said that his agent has to pay people off when he wants to get things done. "This has stopped me from doing more business in India." The respondent said that Indian workers lack the proper work ethic. He also noted the considerable cultural differences between the United States, India, and China. He is concerned about domestic imitators, who are extremely good at replicating foreign equipment for the domestic market and selling it cheaply. He believes that India is potentially a very big market. However, the respondent said that the government must clean up its act, and economic conditions must be improved. "It works better if everything is on the rise."

Asia presents a number of attractive markets for the products of a seed conditioning and handling equipment manufacturer. But, according to the respondent, it has no immediate plans to enter those markets, though it has exported to India. Major impediments to export growth for this manufacturer are trade barriers in the target countries, especially import tariffs. High import tariffs have especially inhibited sales growth in the Indian market. In China, the company faces additional problems. It has found that it is difficult to compete with European firms because they receive substantial subsidies from their governments to enter the Chinese market. In addition, domestic competitors in China are very good at reverse engineering and often produce high-quality imitations of leading foreign equipment. There is no way to defend property rights. This is further compounded by cross-cultural barriers; the company has little knowledge of working in these totally alien Asian markets. As its products are highly technical in nature, getting adequate and reliable technical assistance from local/host partners is another serious problem. The company has realized that The World Bank and a few other international agencies finance projects in developing countries where its products and technology is much needed. The bureaucratic maze and lengthy paperwork, however, have been major impediments to its involvement with these organizations. Most World Bank projects simply take too long to materialize and use up precious time and other resources the company can ill afford.

A manufacturer of food processing machinery said its major obstacle in the Chinese market is a lack of a large middle class and consequently a relatively smaller food processing industry. For this firm, India seems to have more potential than China.

A supplier of water-handling equipment finds language and culture to be the biggest stumbling blocks to trade with China. The respondent said business is extremely difficult in China unless you know how to deal with the people of the country.

A supplier of water-treatment systems identified a reluctance to accept U.S. technology unless the price is rock bottom. According to the respondent, “the attitude over there is, ‘You should feel privileged to sell to me.’ ” The respondent said that the Chinese do not have an expectation of high quality. This leads to competitive disadvantage vis-à-vis cheaper and inferior product offerings in the Chinese market. He said that there are two different generations in business in China. The younger generation is used to western technology and willing to negotiate. The older folks are used to their old ways of doing things. According to the respondent, corruption is still rampant in China, but newer leaders are better. "It has improved quite a bit. China is much ahead of Taiwan and South Korea at this stage. China is doing pretty well. I am optimistic that things are getting better. It just takes time." The respondent said that China's tariffs are unreasonable but that they are being phased out. "We pay anywhere from 0 percent to 11 percent tariffs. It used to be 33 percent. The non-tariff issue is that all products must be certified to enter China. We also have to give them technical information about our products and it is being copied there. The country is going in the right direction. The regulatory certification is a small price to pay."

In the case of India, the respondent from this company felt that the country is a strong, legal, and democratic nation. However, the respondent finds it difficult to deal with India because of the time difference. "It is hard to take my work home and be at my best and trade over the phone with people in India at night." India is more like a continent than a country, according to the respondent, with all the different areas and regional differences. "The northeast is very different from the west. But language in India is not a problem. Doing business in India means you have to be able to negotiate." The respondent said that trade with India takes a lot of willpower. It takes a five-year commitment. Though India is a signatory to the GATT, the general tendency is to keep imports out. However, the respondent noted that India has excellent people, education, and technology. He believes that the legal system is slow but fair and that there is a higher power in the law, unlike in China. While corruption does exist, it can be handled easily by refusing to pay. The respondent also noted the low cost of labor and the high level of technical information available in India. He said there is some violation of intellectual property rights but the Indian government is forthright and working hard in this area.

A respondent from a steel foundry company said the main problem in doing business in Asia is the distance. The firm's employees do not like to go to India because of the distance and the time it takes to get there. Also, the conditions are not sanitary, according to the respondent. Finally, the costs of doing business there take a toll. "The import duty is an added cost," he said. "Once we add these costs, it tips the scales, so to speak and we cannot afford to do business in India."

A furniture-making company, which does considerable business in China, indicated that the biggest problem is the import tariff. The respondent admitted, though, that things are getting better. Three years ago the company paid tariffs as high as 70 percent of the value of their products; today it is down to 33 percent. The cost of participating in trade shows in China is high: it costs $25,000 to $40,000 for 1,000 square feet to be in a show. The respondent complained about bureaucracy in China but said he felt that the situation has improved dramatically. He acknowledged the firm has encountered corruption but that company representatives strongly resist this from the beginning, which seems to deter the practice. In the case of India, the firm dealt with products from India only once, with a negative outcome. The respondent said, "We ordered fabric and they promised a four-week turnaround and it got to be 22 weeks. The lead time was killing us. So we dropped our business with this Indian firm."

Language and culture were cited by a publishing business as obstacles to doing business in India. According to the respondent, "They don't understand us very well and we don't understand them. I don't like the way people in India do business. They are very demanding."

A company representative in the automotive industry, which does business in China, believes that the problems include a combination of time and distance away from the United States. "Problems include just getting into it. The distance is a bottleneck. China has payment issues, and how we collect for the goods. Getting a confirmed letter of credit is hard."

Another automotive industry representative from a company that has investments in both China and India sees the two countries as wide open markets. The firm is actively pursuing both markets. Challenges include lack of infrastructure, communications, roads, and civilization. Because of this, said the respondent, "I hear horror stories about both countries. Nobody wants to go over to India; even less desire to go to China. Shanghai is OK. No way anyone wants to go to India. Living conditions are pathetic."

For another company that manufactures automotive components, key markets today are in Europe and East Asia. Countries in East Asia were some of the fastest growing markets during the past few years until this past year. While the company is concerned about typical problems such as tariffs and non-tariff barriers, it sees the lack of recovery of East Asian economies as the biggest problem facing the U.S. export effort.

For a company involved in the instrumentation business, challenges include understanding the two markets. The respondent compared the firm's experiences in the two countries:

> "From a distance, China seems to look good and calm. Underneath, you find that it is corrupt and confusing. It is very difficult to open an office, a joint venture, manufacturing, or engineering centers. Underneath all of this, there is not much legal and legislative framework. In China, every week you read of corruption of some kind. The perception of India is that it is chaotic. It appears that it is difficult to work in. Once in India, things are more pragmatic. Business law is British based with Western style management. This paradox is only with these two countries. Our company is very interested in India because of this paradox. We know that contracts are legally binding there. India's skill base is better than China's. The work ethic is better in India compared to that in China. India allows free movement of information; China doesn't. In China, there are cultural problems due to the language. I hear from peers who work in India that India is more homogeneous than China. It is very expensive to do business in China. It costs up $22,000/month for phone, fax, office space, etc. Financial barriers are very high. Doing business in each of these counties is a trade-off. We have to balance risk versus reward. It is high risk to do business in India and China compared to other Southeast Asia countries and Latin America. It is still easier to do business in Latin America. There is fear of the unknown when doing business in India and China. Barriers include trying to get available partners to work with. Trade barriers are not as significant as they were before. It is time to market. Trade barriers are no reason not to do business now. We look at both countries for manufacturing sites. We look for 'best costs' not necessarily

> lowest costs. It is easier to do business in those countries that follow consistent policies and create an open and free business atmosphere. We will do more business in such countries. Another important factor is improved access-ease of telephone communication, and travel is very important."

A steel manufacturer sees great potential in the Chinese market but not in India or Brazil. The company recently sold technology to a Chinese company but found lack of familiarity with the language, culture, and legal system to be key barriers to expanding sales. It found the existence of many restrictive covenants and communications, in particular, to be confusing and discouraging.

A diecasting and manufacturing company that produces agricultural equipment, auto parts, and office equipment views China as having the best potential for Iowa companies engaged in exports. The company's own attempts have been futile. After several tries and because of what it deems to be an insurmountable mountain of regulations in the Chinese market, the company does not see a lot of potential for its export effort there. The company finds informal import barriers to be intense.

A manufacturer of water treatment equipment has seen only a slight improvement in its overseas sales in the last five years. It believes that it is more likely that informal rather than formal trade barriers will hinder its export growth.

Firms' Recommendations

Most of the firms surveyed consider company resources and experience a limiting factor in doing more business with both countries. Consequently, most of them recommend operating through a local firm. Said one company representative: "We use distributors and subagents to deal with our problems in China. Some things are under the table, but we don't deal with it. We support our distributor as much as possible." Another firm respondent indicated that the company uses a distributor based in Hong Kong and has an agent in China. "We get paid in U.S. dollars. The distributor has a trading company that deals with currency transactions and trade shows." Said another respondent: "I would not consider doing business without a local agent." However, one company representative cautioned: "Local managers need to undergo extensive training, so that they understand western style business."

Firms also agreed and recommended that companies need a long-term strategy for dealing with these markets. Said one representative: “One must have a degree of patience, not 12 to 36 months: more like 36 months to five years in India to develop markets there.” Another company respondent said: “We use the rifle approach to enter into a country to sell product. We focus all of our resources in one country and once that is up and running, we keep the sales force intact and move onto another country.”

Some managers have trouble educating their management within the firm about committing resources for such long-term prospects. As one manager put it: “Internally, our company’s biggest problem is the lack of commitment to the Chinese market. Upper management does not support it due to their lack of understanding. One newspaper article will have one story and another story will be told the next day by newspaper articles that are totally different. Also, if you talk to 10 Chinese, you will get 10 different answers. My hardest job is to market my ideas about China to my own Company.”