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CHINA-INDIA PURCHASING POWER, PRICES and SALARIES

2009

China Now Twice as Expensive as India

Shanghai on Track to Parity with New York

Indian Clothing, Food, and Services Now Good Value

China Demographics Increasing Local Costs

CHINA-INDIA PURCHASING POWER, PRICES and EARNINGS 2009

UBS has recently published their exhaustive global summary of prices and earnings in their three yearly report. The current report features some 73 cities, using New York as a global benchmark.

We have extrapolated the data UBS has produced for China and India, and taken the same useful global benchmark of New York as a standard. However, in understanding what these figures mean, we have added comments from the Dezan Shira & Associates offices throughout China and India to try and obtain a greater insight into UBS statistics and what they really mean. We have also subdivided the report up into different sections: Employment and Salary Levels, Wage Comparisons, Domestic Expenditure, Apartment Rentals, and Entertainment and Travel.

SALARY LEVELS

New York	100.0
Shanghai	16.2
Beijing	13.8
Delhi	8.2
Mumbai	6.1

Salary levels were determined as a composite of 14 different professions, after deductions of taxes and social security. Taking New York as a benchmark of 100, the weighted ratio's indicate that professionals in China earn an average of just 15 percent of their New York based counterparts, while in India the ratio is just above 7 percent. This indicates that Indian professionals earn 50 percent less than their Chinese counterparts and some 93 percent less than the average New York-based professional.

Gross hourly net pay (US\$)	
New York	19
Shanghai	3.00
Delhi	1.60
Mumbai	1.20
Beijing	2.60

Again, data for China's hourly rates indicate that levels for professionals are about double that of India in the primary cities. Reasons for this are the aging demographics of the Chinese population, while India is going through a population boom, releasing younger workers into the workforce than China is. China's minimum wage levels are also more rigidly controlled than India's.

Taxes and social security contributions as % of gross wages	
New York	28
Shanghai	22
Beijing	16
Mumbai	10
Delhi	9

China's mandatory welfare payments to employees and the level of income tax have increased and are somewhat out of proportion to the actual government benefits received. Indian social security contributions remain far lower although this is expected to rise, political pressure is likely to keep them suppressed for some time. China's figures are likely to continue to rise as the nation needs to start saving to cater for pensions and increases in medical care.

Working Hours per Annum	
Mumbai	2,196
Delhi	2,166
Beijing	2,052
New York	1,955
Shanghai	1,946

Staff in India are apparently the hardest working, again a result of weaker legislation over working hours, while China is approaching U.S. levels due to more strictly enforced labor law regulations and the legal requirement to compensate overtime. Staff in Shanghai work slightly less hard than those in New York over the course of a year.

WAGES COMPARISON

Gross annual income of car mechanics (US\$)		
	Income	Weekly Hours Worked
New York	40,700	40
Shanghai	7,500	40
Beijing	3,300	43
Delhi	2,100	48
Mumbai	1,600	48

Car mechanics were defined as having completed an apprenticeship, have five years experience and be about 25 years old. Wages in New York are a multiple of 13 times higher than Beijing, but only a 5.4 percent multiple in Shanghai, which is becoming increasingly expensive for labor services. New York mechanics earn however an average multiple of nearly 23 times their counterpart in India, while Indians also work an additional 20 percent longer weekly hours. This may have something to do with the general quality of vehicles on Indian roads. Shanghai mechanics log in and out of work at the same times as their New York counterparts.

Gross annual income of building laborers (US\$)	
New York	51,400
Shanghai	5,400
Beijing	2,500
Mumbai	1,300
Delhi	1,300

Building laborers were defined as unskilled or semi-skilled laborer, aged 25, and single. Again, Shanghai showed up as being twice as expensive as Beijing, albeit a multiple of ten times less than their New York counterpart. This also accounts for the continuing export of smuggled migrant labor from China and elsewhere in Asia to the United States. Meanwhile, laborers in India earned a

quarter of those in Shanghai. Labor in India now demonstrates a significant differential than that available in China.

Gross annual income of skilled workers (US\$)	
New York	74,400
Shanghai	7,600
Beijing	5,600
Delhi	5,500
Mumbai	5,400

Skilled workers were defined as possessing vocational training with ten years experience with a large company in the metal-working industry. They were an average of 35 years old, married with two children.

The previous disparity of skilled workers between China and India starts to disappear at this level, although Shanghai still remains 20 percent more expensive. New York's skilled workers earn a multiple average of slightly more than 12 times their Chinese and Indian equivalents.

Gross annual income and working hours of Engineers (US\$)		
	Income	Weekly Hours Worked
New York	87,700	42
Beijing	15,300	40
Shanghai	14,000	40
Delhi	7,700	46
Mumbai	4,700	48

Engineers were defined as being a university or technical graduate, employed by an industrial firm in electrical engineering with at least five years experience. They would be about 35 years old, married with two children. The more than doubling of costs to employ such an individual in China over India is again apparent. Mumbai's figure is even lower due to the larger amount of migrant labor the city attracts over Delhi. New York engineers enjoy a multiple of six times earnings over their Chinese counterparts. However, engineers from Shanghai knock off earlier than anywhere else, while those in Mumbai put in the most hours.

Gross annual income of product managers (US\$)	
New York	105,800
Beijing	28,500
Shanghai	22,100
Delhi	17,000
Mumbai	8,500

Product Managers were defined as employees in the pharmaceuticals, chemicals or food industries currently at middle management with a university or technical college degree and at least 5 years experience. Typically, this person is 35 years old, married and has no children. Chinese product managers earn about 2.5 times more than their Indian counterparts, but less than a quarter of their New York based equivalents. A sizeable difference exists again between Delhi and Mumbai, mainly as there is a current preference to work in Mumbai for the opportunity factor. However we would expect this gap to close in the short term as sought after managerial talent drives wages up.

Gross annual income of department heads (US\$)	
New York	110,300
Shanghai	35,000
Beijing	32,000
Delhi	13,700
Mumbai	13,200

Department Heads were identified as employees heading a production department with a staff of over 100 in a sizable company in the metal-working industry with vocational training and many years of experience in the field. This person is typically 40 years old, married and has two children. The gap between department heads in China and India has now increased to a multiple of three, while between China and New York the gap has also reduced to a multiple of three. The higher the level of management, the less the gap between Chinese and American employees. The distance in earnings between American and Indian employees remains fairly constant across the board at a multiple of ten, while on average Chinese employees earn twice as much as Indians do.

PURCHASING and EXPENDITURE

Domestic purchasing power	
New York	100.0
Shanghai	24.7
Beijing	23.8
Delhi	23.2
Mumbai	21.8

To calculate this figure, UBS compared price and wage levels rankings. A basket of goods and services was identified, and the average annual salary divided into this figure. This allows comparison of the purchasing power of local wages. The aim is to identify how many goods and services a local worker can buy with their net wages. Consequently, cities with high tax rates score poorly. Setting New York at a weight of 100, we can see that Chinese and Indian consumers can reach a purchasing power of slightly less than a quarter of that of New Yorkers, and that purchasing power between Chinese and Indian consumers remains similar.

Food prices	
New York	100.0
Shanghai	70.9
Beijing	60.9
Delhi	31.2
Mumbai	26.9

UBS took a basket of 39 food items, including important staples, and adjusting for seasonal variations, cultural and climatic factors, factored into that an average price globally for that basket of US\$385. New York priced out at US\$571, while Beijing reached US\$348 and Shanghai US\$404, despite China being a massive agricultural producer with far lower land and labor costs. India was at the other end of the scale with the average basket for the same commodities costing just US\$178 in Delhi and US\$153 in Mumbai. Buying food in India permits just over double the quantities purchasable in China.

Prices of men's and women's clothing	
New York	100.0
Beijing	98.5
Shanghai	62.2
Delhi	32.6
Mumbai	24.4

Prices for clothing were based on good quality items from a large department store, but not designer labels or fashion brands. Shopping for a complete man's and lady's outfit – jacket, trousers/skirt, shirt/blouse, underwear and shoes – in an off-the-rack, own brand large department store, costs an average of US\$885 per outfit in New York, US\$708 in Beijing, and US\$550 in Shanghai. China is the world's cheap textile powerhouse yet the markups on finished goods seems high. India, the world's second largest textile producer, was able to get the same outfits into its stores for an average of US\$243, representing far better value. Clothes in Mumbai are close to a third less than those in Shanghai.

Home appliances and electronics	
Beijing	101.4
New York	100.0
Delhi	94.8
Shanghai	90.2
Mumbai	80.2

A basket of various household electrical items averaged out at US\$3,210 globally, with New York at US\$2,790. China realized prices of US\$2,830 in Beijing and US\$2,510 in Shanghai, meaning the same goods cost more in Beijing to buy than in New York, despite the additional cost of freight to New York and the likelihood many of the products were manufactured in China. Mumbai remains lowest, an early sign that some electrical manufacturing is now relocating to India.

Working time required to buy a Big Mac (minutes)	
Mumbai	61
Delhi	49
Beijing	44
Shanghai	30
New York	14

UBS's Big Mac index included salaries from 14 professions. The average Mumbaiker needs to work for an hour to be able to afford a Big Mac, against 30 minutes in Shanghai, and fifteen minutes in New York. This may partially account for obesity issues in the United States compared with India.

Working time required to buy an 8 GB Ipod Nano (hours)	
Mumbai	177
Delhi	122.5
Beijing	73
Shanghai	56.5
New York	9

The iPod Nano is a globally available, uniform product. A professional working an eight hour day requires three weeks work in Mumbai in order to purchase one, in Shanghai one week, and in New York one day with thirty minutes (double rate) overtime.

Car Prices and Running Costs			
	Price	Tax	Fuel
Shanghai	32,200	441	0.86
Beijing	31,500	190	0.85
New York	21,000	90	0.67
Delhi	18,800	752	0.81
Mumbai	7,400	23	0.88

Due to different models being sold in different markets, the survey compared different, yet similar models of vehicles. These were identified as follows in terms of vehicle:

Shanghai	VW Passat 2.0
Beijing	Honda Accord Sedan
New York	Toyota Corolla
Delhi	Toyota Corolla 1.8 JH
Mumbai	Hyundai Santro

All cars were five door, standard equipment models. The fuel price was aggregated from price per liter during March-April 2009 with crude selling for US\$49 a barrel during this period.

The purchase price of new vehicles is significantly higher in China, which also employs relatively high license taxes on new vehicles. This however may be due to government attempts to slow down auto sales in China through taxes. However, prices of the basic models in China remain high, while the U.S. market has lowered prices over the past twelve months. Taxes are highest in Delhi due to government restricting traffic ahead of next years Commonwealth Games, while Mumbai purchase prices are the lowest, also due to government involvement in getting ancient vehicles off the road in favour

of newer and less polluting models. The figures in these comparisons therefore are probably skewed due to government involvement.

Public transport (US\$)			
	Metro	Taxi	Train
New York	2	10.25	55.5
Shanghai	0.44	2.24	7.90
Mumbai	0.22	1.37	1.31
Beijing	0.20	2.78	7.70
Delhi	0.16	1.63	8.65

Journeys were defined as follows:
 Metro: journey of approximately 10 kilometers or at least 10 stops.
 Taxi: Single journey within city of 5 kilometers
 Train: Single ticket, second class, journey of 200 kilometers

The differences between China and India are not so significant, although once again, Shanghai remains the most expensive excepting trains. Infrastructure and travel costs are generally government subsidized, although this is likely to change over time as maintenance costs require private sector involvement. But for now, public transport throughout China and India remains exceptional value.

APARTMENT RENTALS

Apartment rents: Furnished four bed, medium range (US\$ per month)	
New York	8,330
Shanghai	1,430
Mumbai	1,070
Beijing	1,050
Delhi	930

Apartment rents: Unfurnished three bed, medium range (US\$ per month)	
New York	5,200
Shanghai	1,230
Beijing	760
Mumbai	720
Delhi	470

Apartment rents: Normal, local rent, medium range (US\$ per month)	
New York	3,100
Shanghai	770
Beijing	600
Mumbai	480
Delhi	370

Apartment rentals were based on buildings built no longer than 1980 which an apartment seeker would expect to pay in each of these cities. We have identified only the medium range level in this inclusion.

There is not a huge difference between China and India, although the China property market is more speculative, somewhat erratic in movement and prone to regular bubbles. Rentals in Mumbai are increasing and are expected to do so significantly while demand outstrips supply for the next three to five years.

ENTERTAINMENT and TRAVEL

Restaurant eating US\$	
New York	50
Shanghai	45
Beijing	25
Mumbai	20
Delhi	13

Meals were calculated as a three course evening meal without drinks, in a good quality restaurant. It is now nearly as expensive to dine out in Shanghai as it is in New York.

Five-star hotel, one night (US\$)	
New York	500
Mumbai	370
Shanghai	325
Delhi	270
Beijing	190

Three-star hotel, one night (US\$)	
New York	240
Delhi	140
Mumbai	110
Shanghai	65
Beijing	60

Hotel prices were calculated as a double en-suite room, including breakfast for two and service. India currently has a dearth of medium and high end quality hotels, and this is reflected in the significantly higher prices which are close to double those of China.

Services	
New York	100.0
Shanghai	68.2
Beijing	44.4
Delhi	25.3
Mumbai	23.8

Service prices reflect local labor costs, and here a basket of 27 types of services was included. These included haircuts, phone charges, dry cleaning, movie tickets, internet usage, amongst others. Using New York as a weighted benchmark of 100, we can see quite clearly a summary of the preceding figures: China varies between 50 to 70 percent of the costs of services in New York, and is on average now twice as expensive as India.

Summary

UBS’s statistics cannot be put down simply to factors determining the state of economies over the past years global financial crisis – the report was three years in the making.

What is clearly demonstrated however is the surprisingly large gap that has now appeared between China and India in terms of business expense. Salaries in China are consistently shown to be double those of India, while property prices also have crept ahead, albeit by not such a large degree. We have also been surprised at the disparity in costs between China and India in terms of basic commodities such as textiles and food. China, despite having the benefits of huge domestic agricultural and textiles industries, and a relatively low salary cap, has prices comparable to Europe. India in this regard is now far better value in the provision of these commodities.

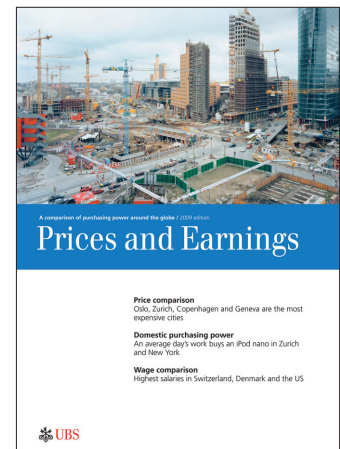
Much of this has to do with the simple demographics of aging. As China’s economic and development has lasted for 25 years, its one child policy, introduced at the same time as its reforms, has now had the intended impact; China’s population is now aging. This increases the costs required for social welfare, and this added factor is now finding its place in the costs associated with the supply chain. India meanwhile has a young population, prepared to work for less and without yet the extra additional burdens to the state of national health care or

social security. This will change, and is a cornerstone policy of the new Indian government. However, this reform will take years to implement.

For now, the message for global manufacturers seems loud and clear: China has matured beyond being the most financially attractive destination for production of labor intensive manufacturing, and that market now belongs to India. We would additionally caution against the apparently high costs of doing business in Shanghai. While the city wants to be seen as being to international standards, it cannot continue to do so purely on the basis of charging internationally sized prices. If the city wishes to remain globally competitive it will need to rein in some of its cost elements in getting products to consumers. One may also wonder where the now high China price is justifiable – a look at the implied costs of distribution channels may reveal surprising results.

One aspect remains constant, the range of prices that exist in China and India is far higher than it is in New York, and this hasn’t been adequately reflected in the UBS study. One can still buy, for example, (as millions of people daily do) a bowl of noodles in Shanghai for a dollar. That price level does not exist in New York. However, the overall picture tells of an increasingly expensive China. That can be good news for sales, with the caveat of supply chain costs. India however is set to boom in cheap manufacturing and enhance its export driven capabilities as the price point is positioned to be far more attractive.

The Full UBS report can be found [here](#).



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