



Succeeding in China: cultural adjustments for Indian businesses

Succeeding
in China

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Abstract

Purpose – This paper aims to provide a framework for understanding the differences in the cultures of China and India and to highlight the adjustments that will need to be made for Indian businesses to succeed in China.

Design/methodology/approach – The use of historical background of cultures in India and China to define values, traditions and attitudes. Drawing conclusions based on this research in outlining areas where adjustments may help achieve success in business.

Findings – Provides a list of adjustments that Indian businesses need to make to succeed in China.

Research limitations/implications – The list is by no means exhaustive but serves as a starting point for empirical research on effectiveness of proposed adjustments.

Practical implications – An extremely useful and practical source for Indian and global business executives planning to do business in China. An opportunity for academics to conduct follow-up research.

Originality/value – This paper serves as a guide and offers practical measures in terms of behaviour for Indian and international companies doing or planning to do business in China.

Keywords World economy, International business, National cultures, India, China

Paper type Research paper

Introduction and background

One major shift in the global economy that is taking place, as this is being written, is the rapid entry of China and India as major participants. In fact, based on the current estimates, the two countries account for 40 per cent of the world population and more than 18 per cent of the global economy, based on purchasing power parity as Figure 1 shows. It is further predicated that “very soon, their share of world trade could match their population share” (IBEF, 2005a, b).

Bilateral trade between the two potential economic giants, China and India loomed in excess of \$13.6 billion in 2004 (IBEF, 2005a, b). Thus, China has become India’s largest trading partner in northeast Asia, displacing Japan. Both countries have come a long way from the time they shifted direction towards liberalizing trade to achieve national development. China set its reforms in motion in 1978 while India did so only in 1991. FDI inflows have been very encouraging indeed, as depicted in Table I.

China’s main foreign investment came mainly from its wealthy Diaspora, while overseas Indians contributed mainly intellectual capital. Both countries are succeeding in reversing the brain drain, while at the same time paying much more attention to educating its people to meet the challenges of modernization (Figure 2).

This will certainly place these two countries in an enviable position to compete with the G8 countries who are currently the leading players in the global economy, namely the USA, Western Europe, Japan and Australia. The 2004 landmark Morgan Stanley research report *India and China: A Special Economic Analysis* considers these two countries to be the new Tigers of Asia and predicts that in 10-15 years the countries’



exports should rise from a combined total of 12 percent today to a possible 20 per cent by 2010 and 30 per cent by 2030 (Ahya and Xie, 2004).

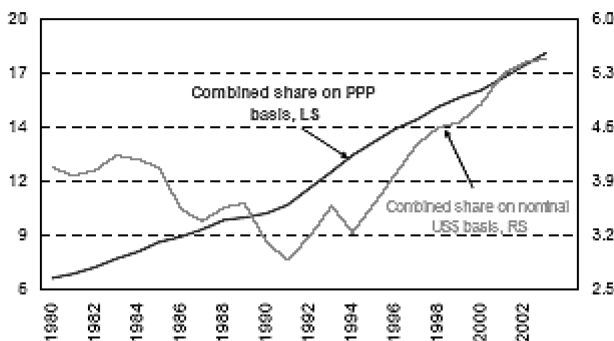
The McKinsey Global Institute's 2005 report on China and India (McKinsey Quarterly, 2005) notes that, while both countries have growing problems, they are making tremendous headway achieving between 7 and 9 per cent annual growth to the envy of many developed economies. In addition to improvements in labor productivity and quality, "global audiences are relishing the burst of creativity that is coming out of China and India" (Business World, 2005).

In his forthcoming book *Passage to China* nobel laureate economist Amartya Sen confirms that connections between these two neighbors have stretched over 2,000 years. Exchanges included in areas of science, mathematics, religion, literature, linguistics, architecture, medicine, music, art and astronomy. He however stresses that relations between the two countries "almost certainly began with trade" (Sen, 2004).

Trade between the two civilizations was not limited to the well known "Silk Road" (which included a maritime route); there was contact through Central Asia, Yunan and Burma and by sea with South India. The Chinese imperial navy had always been engaged in trade and its ships sailed through India on to the Persian Gulf to trade with the Muslims and even to eastern Africa.

Sen notes the historical close relations between the countries to be of particular importance:

- (1) India is the only country in the outside world to which scholars from ancient China went for their education and training but such exchange went both ways.
- (2) India was receptive to many Chinese ideas especially in mathematics and science; and this remains central to the contemporary commercial world in the development of industry and information technology.



Source: IMF, Morgan Stanley Research

Figure 1.
China and India:
combined share in world
GDP on PPP and nominal
US\$ basis (%)

Chinese reform process 1977

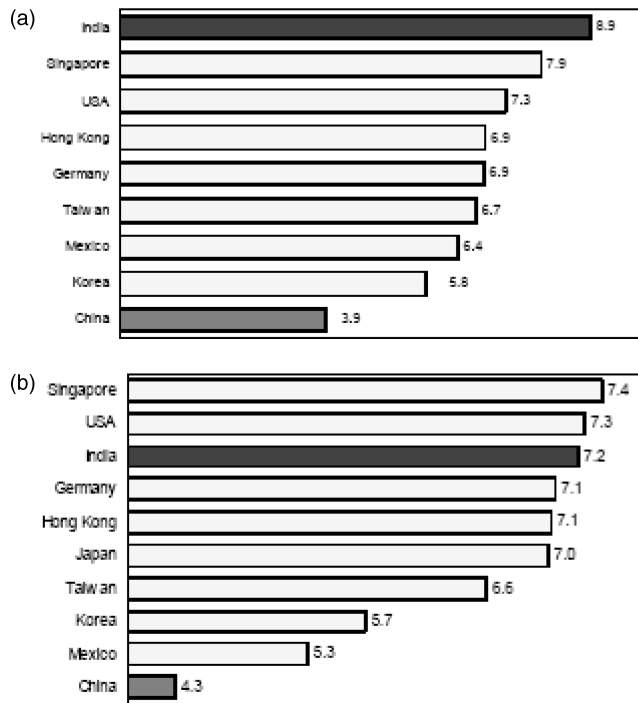
Indian reform process 1991

Five years since 1982 China, US\$4,508 million
Ten years since 1982 China, US\$13,791 million

Five years since 1991 India, US\$4,488 million
Ten years since 1991 India, US\$15,483 million

Table I.
India vs. China
FDI flows

Source: India Development Foundation



Source: IMD Competitiveness Yearbook, 2003

Figure 2.
Availability of (a)
qualified engineers and
(b) skilled labor, 2003
(1 = low; 10 = high)

These historical ties, going back millenniums, laid the way for the present convergence of the two giants with the recent visit of the Chinese leadership to India and the ongoing efforts to secure a free trade agreement between the two countries. The net result has been a marked increase in business people from both countries venturing into the other to take advantage of the opportunities now available. The Indian daily *The Deccan Herald* recently headlined a report *Enter the tiger in the land of dragon* indicating that many Indian business groups have now started making a foray into China; partly out of choice and partly out of compulsion, as “the advantages of operating from China are too tempting to be ignored” (*Deccan Herald*, 2005).

It is specifically this need that this paper addresses. This paper is a response to the growing desire of Indian businesses to succeed in China. In the last two decades, much research has led to publication of countless papers on adjustments Western businessmen need to make when doing business in China, but to date this issue specifically for Indian businesses has not been explored much. This paper attempts to provide an initial framework for understanding fundamental differences between the Indian and Chinese cultures and draws meaningful conclusions that can be used by Indian businesses to adapt and succeed in China. The focus here will not be to list the specific and detailed do's and don't about operating in China, as has been elaborately and comprehensively already been provided for Western businesses. Instead, it will explore the overt and subtle adjustments that Indian businesses need to make in China, bearing in mind the deep rooted cultural traditions and influences that both civilizations possess (Figure 3).



Figure 3.
Map of Southeast Asia
and South Asia

Source: The Economist, available at: www.economist.com/countries/China/index.cfm

The elephant and the dragon: two great early civilizations

India and China represent two ancient and great civilizations that today account for more than a third of humanity. In his epic history of human societies, Pulitzer prize winning author and scientist Jared Diamond traces both these civilizations to have begun more than a million years ago whereas European civilization has a history half that. From its African origin at around 7 million B.C., humanity spread to the Fertile Crescent and then to India and China in 1 million B.C. Diamond includes the Indian subcontinent as part of greater Eurasia, while China is the mainstay of the East Asian evolution which ultimately spread southward to Southeast Asia, the Pacific Islands and Australia, as well as northwards across the Bering Straits to the Arctic and subsequently to all of the North and South American continents (Diamond, 1999).

Both India and China have contributed much to human evolution. From India came wheat, barley, sorghum, hyacinth bean, black and green gram, cotton, flax and cucumber. The Chinese discovered foxtail millet, broomcorn millet, rice, common bean, adzuki bean, mung bean, hemp and muskmelon. This is not to say that the Fertile Crescent made little contribution; as a matter of fact the early civilization in what is today Iraq, Iran and Turkey discovered emmer wheat, einkorn wheat, barley, pea, lentil, chickpea, flax and also muskmelon.

The Chinese domesticated the dog, pig, chicken and water buffalo, and introduced apricots, peaches and tea; while the Indians domesticated the cow, and introduced sesame, citrus fruits, opium and mango. The Chinese discovered or invented grafting techniques, early writing and subsequently paper, printing, paper money and also gunpowder. Other inventions include canal lock gates, cast iron, deep drilling, efficient

animal harnesses, kites, magnetic compasses, movable type, porcelain, sternpost rudders and wheelbarrows. From India came the three great Asian religions of Jainism, Hinduism and Buddhism, as well as the discovery of the numeral zero, chess, astronomy, astrology, dyes and colors. Religious contributions of China include Taoism and Confucianism, as well as developments in Buddhism. India and China also both contributed to language expansion in the old world, as well as an amazing variety of musical instruments, and most recently all the numerous spices and foods (Diamond, 1999).

Huntington (1998) describes a civilization as “the highest cultural grouping of people and the broadest level of cultural identity people have short of that which distinguishes humans from other species”. Any civilization by nature includes the culture of the complex society with a specific set of ideas and customs, and a certain set of items and arts that make it unique. The net result of millennia of evolution in China and India has been the establishment of deep rooted traditions, social structures, rituals, norms and values and most of all unique and steadfast cultures. Early and later history led the two countries through different experiences which resulted in the formation of their current cultures.

China’s historical evolution: united as the Middle Kingdom

The long series of dynasties that ruled China goes back from the 21st to the 16th century B.C., when the first prehistoric Xia dynasty which marked the evolutionary stage between late Neolithic cultures and the series of Chinese urban centers. From 1776 B.C., China has had ruling families where control passed from one generation to the next. One dynasty lasted more than 800 years, while many ruled for lesser periods and one lasted only 15 years. Although specific dynasties were overturned, the dynastic system survived. China was even ruled at times by foreign invaders such as the Mongols during the Yuan dynasty from A.D. 1279 to 1368 and the Manchu during the Ch’ng dynasty from A.D. 1644 to 1911. The dynastic system was overturned only in 1911. Hence, the Chinese can claim to have shared a common culture longer than any other group on earth.

The Chinese writing system dates back to almost 4,000 years and this has resulted in a distinctive system of writing, philosophy, art and political organization. The one main and unique trait has been the capacity of the Chinese people to absorb the people of surrounding areas into their own civilization. This can be attributed to the sheer weight in numbers and homogeneity. Coupled with the advances they made in technology, artistic and intellectual creativity, this has resulted in the Chinese seeing their domain as the self-sufficient center of the universe. Most, if not all, foreigners that came into contact with the Chinese were from less developed societies and were quickly labeled as barbarians. The Chinese derived from this image the traditional and still used name for their country “Zhong Guo” meaning Middle Kingdom or Central Nation. They saw themselves surrounded on all sides by inferior cultures.

The end of the dynastic system in 1911 saw a weak republican form of government until 1949, when, after a long civil war, the People’s Republic of China with a communist government was proclaimed. The Republic occupies essentially the same territory with the same people and today Chinese culture remains as unified as ever.

India’s historical evolution: nation divided again and again

The history of India is one which has passed through many invasions. The earliest civilization dates back to around the third millennium B.C. when the local Dravidians

(or Dravids) inhabited the Indus valley, from which the name India is derived. Physically they were shorter darker skinned people, proto-Australoids and akin to aborigines of South and Southeastern Asia. Although this urban society was highly organized, their writings have yet to be deciphered.

Around 1800 B.C. this civilization ended abruptly with the influx of new people to India. These were mainly nomadic tribes from Central Asia. These are referred to as Aryans or Indo Europeans, and it is apparent that each wave moved southwards, intermingling and displacing the Dravidians. Eventually, the Dravidians, who were mostly in the West, South and East were overrun by the warlike Aryans but in the process became localized. Aryan and Dravidian cultures merged and a new civilization began to surface. The four great books of knowledge (vedas) are supposed to have been written in Sanskrit, during this period between 1500 B.C. and 1000 B.C. Socioeconomic divisions that existed within the society resulted in the hierarchical stratification of society known as the caste system.

The next great invasion into India incurred around 500 B.C. from Persia and they occupied the Indus Valley for about 150 years. Then came the Greeks under Alexander in 326 B.C. but they left only a garrison behind and did not move beyond the northwest. Aryan based kingdoms continued to flourish independently in the East and expanded to the north as the Maurya dynasty. Emperor Ashoka (268-231 B.C.) ruled as far south as Mysore and supported the spread of Buddhism. The Maurya dynasty lasted a mere 100 years.

The Greeks under King Menander came again in 150 B.C. and occupied a small part of the north, but the local kingdoms enjoyed relative autonomy for the next four hundred years or so. In A.D. 319, another dynasty emerged called the Guptas who ruled the entire north and as far south as the Vindya mountains for 150 years. Then six thriving and separate kingdoms covering most of India allowed for relative stability (termed the Golden Age of art) until the dawn of the Muslim era.

Arab traders had been visiting the western coast since 712 A.D. but it was only in 1001 A.D. that a series of Arab armies swept down the Khyber Pass to wreak havoc, pillage and plunder. The first invader who stayed came in 1192 was Mohammed of Ghor and by 1202 he had conquered most of the powerful Hindu kingdoms along the Ganges. The Sultanate of Delhi was established in 1202 ruling the north while the south remained free of invaders. However, in 1397 Mongol hordes under Tamerlane invaded from Samarkand and ravaged the entire region. It was only in 1527 that the Mughal (Persian for Mongol) under Babur came to power. It was to rule India until their disintegration in the early 18th Century.

The arrival of the Europeans began with the Portuguese trading in Goa as early as 1510, and beginning in 1610 the British East India Company slowly started consolidating its hold over the entire subcontinent. The rule was to last 300 years as the British divided the country into governable districts using local rulers as proxies. It was only after the Second World War and the decline of the British Empire that India emerged as a sovereign state in 1947.

Fundamental cultural distinctions between China and India

Definition

Culture has been defined as “a way of life, a conventional order, physically acquired and rooted in subliminal consciousness. The rule of culture extends from the family, village or circle of social acquaintances to the tribe or nation” (Mazakazu, 1996).

Learning is hence culture's essential feature. It is necessarily directly influenced by language, ways of organizing society and the characteristics of the resultant groups.

Ethnicity and language

Chinese culture evolved independently of foreign influence and China has long remained a nation united with common values, attitudes and identity and Chinese were "allergic to outside cultural differences" (Mazakazu, 1996). As a homogenous group, the Hans have endured for over 4,000 years and preserved their ethnicity even in the face of the Mongol and Manchu invasions.

The Han Chinese constitutes 95 per cent of the nation's population and is also the largest ethnic group in the world. The remaining 5 per cent of China's population are made up of 55 other ethnic groups (Ferroa, 1991). Though there are seven major groups of Chinese spoken dialects, the written language is one which is Mandarin. The Chinese language is the oldest written language in the world with at least 6,000 years of history.

The ethnic and linguistic diversity of India's civilization is as variable as Europe, and unlike any other single nation-state. Within the subcontinent are vast numbers of different regional, social and economic groups, each with different cultural practices. The nation's identity is a creative blend of cultures, religions, races and languages. There are in excess of 15 recognized languages and an estimated 1,600 spoken dialects. There are three major scripts, the Devnagri, Bengali and Pallavi and originate from the Brahmi script.

Social structures

In addition to being a homogenous nation, Chinese society comes from the same basic root and has long had a traditional social structure. The main have been farmers supported by a small number of specialized craftsmen and traders and even a smaller number of land-holding elite families. These elite who comprised perhaps one per cent of China's population were dispersed throughout the country and did not possess large real estate nor held hereditary titles. All titles were bestowed by the Emperor based on annual examinations which were highly competitive. There was no sharp line dividing the elite from the masses, and social mobility was possible and common.

India, on the other hand, is famous for its complex social systems, perhaps unknown elsewhere. The people of India belong to thousands of castes and caste-like groups in hierarchical order. Within Indian culture all people are ranked according to various essential qualities such as north and south, rural and urban, wealth, power, education, religion, families and kinships, age and gender. Each person has a fixed place in the social hierarchy that last throughout the lifetime and many even live on the fringes of these established structures. To say that Indian society is divided in a multitude of ways would be an understatement.

Religious influences

Traditionally, religion has been diffused throughout Chinese society and has had a weak institutional structure. It is interesting to note that the term "religion" (*zong-jiao*) did not even exist in the Chinese lexicon until the 19th century. The ruling elite were never religious practitioners. In the main, the Chinese have been relatively free of religious influence. Taoism and Buddhism have had some influence in daily life but it is Confucianism that has had the most profound and lasting effect on Chinese society. It promoted harmony through moral tenets at all levels of human relationships,

especially the family and nation. The direct effect was the creation of a collectivist social order and an agnostic attitude towards the supernatural.

In contrast, religion has pervaded all life in India. India's social and religious structures have defined the nation's identity for more than 4,000 years. Indian society has been structured mainly by the Hindu religion which is rooted in ritual, castes, pantheon of gods and reincarnation. Hinduism has endured numerous foreign influences and evolution of new religions. Today it is practiced by more than 80 per cent of the population. More than 12 per cent of the population is Muslim, perhaps second largest in the world after Indonesia. Other religions include Sikhism (2 per cent), Buddhism (0.8 per cent), Jainism (0.4 per cent) and a smaller number adhering to Christianity, Judaism and Zoroastrianism. Hinduism, Buddhism and Jainism have an ascetic heritage and this has resulted in the majority taking a mystical approach to life. There is a tendency to cultivate a culture of preparation for the hereafter. Hence, even though officially India is posited as a secular country, religion rules every facet of life.

Similarities and differences in national characteristics

- (1) There is no place in China for individualism. It has always been a collective society based on personal relationship which is hierarchal, flowing from the leader or older family member down. In principle this was the same case in traditional India but has now been somewhat eroded due to external influence. This is also changing in China with the new generation.
- (2) Personal relationships are vital for success in China (Chan, 2003). Chinese do not differentiate business from friendship, so in order to do business with them they expect you to be their friend. Indians also value personal relationships but to a lesser degree.
- (3) Chinese do not have the same sense of privacy as Americans and expect to talk about age, family, wives, money, etc. but are still reserved when talking about others. Indians on the other hand have a very lax view of privacy and will not hesitate to ask very personal questions.
- (4) Chinese do not show their emotions publicly. Hence touching and hugging in public is not practiced. Indians display emotions very publicly and at times in an exaggerated way.
- (5) Chinese and Indians prefer a very formal communication style in public due to the hierarchal structure of their societies.
- (6) Chinese, more so than Indians, consider trust very important in all their dealings.
- (7) Both Chinese and Indian ethical systems involve respect of superiors, duty to family, loyalty to friends and sincerity and courtesy. Age brings increased respect and status. Indians bow with folded hands in salutation and Chinese lower their eyes and bow slightly when greeting.
- (8) Indian women are expected to be and are very shy when introduced. Many do not shake hands even when offered. Chinese women are much more emancipated and participate as equals in the business and professional world.

- (9) Staring makes the Chinese very uncomfortable, while Indians make it a habit of staring at others out of curiosity. The Chinese consider that holding the gaze of another person is rude and disrespectful (Kenna, and Lacy 1996).
- (10) Both Chinese and Indians are aware of the favors done for them and are always prepared to respond in a likewise manner.
- (11) Both cultures are strong believers in offering maximum hospitality to the “honored guest” and will spare no effort in showing their generosity when hosting others.
- (12) Chinese and Indian businesses tend to be typically secretive centered on hierarchical relationships. Traditionally businesses have been family owned and tend to remain that way for several generations.
- (13) Chinese place a greater value on timeliness than Indians do, though the Chinese also treat time polyphonically. They tend to take a long-term view of projects and plan future events very thoroughly. Lately, Indians have tended to go for the “quick buck” instead.
- (14) Indians, like westerners, tend to expect resolution of disputes through legal action. The Chinese have little experience in any modern legal system. Historically, judgments were made by wise judges appointed by the Emperor.
- (15) Both cultures tend to be paternalistic in nature. Age is very much respected.
- (16) Like Indians, Chinese are not likely to say “no” very directly out of respect for the guest. Both also dislike confrontation.
- (17) Both cultures are very insistent in lavish giving and receiving gifts. Just like Indians, the Chinese will decline the gift several times before accepting.

Adjustments that Indian businesses need to make in China

- (1) Indians have a tendency to exaggerate their claims while Chinese are more subdued and reserved. Typical statements such as “No problem” or “Acha, ho jayega” (yes, it can be done) may result in loss of trust and damage relationships. “Indians think they are the greatest but do nothing about it. The Chinese on the other hand want to go out and prove to the world that they are that” (Iyengar, 2005). Humility, if increasingly displayed by Indian businesses, will go a long way in securing success in China.
- (2) Indians can be poor listeners as being very vocal has been a national trait, especially when attempting to show superior knowledge or in expressing personal opinions. Chinese are very much given to the use of silence as a sign of respect for the wisdom and expertise of others. As the saying goes “God gave us one mouth and two ears so that we may listen twice as much as we speak!” adhering to this adage would serve Indians well.
- (3) China is a very high-context culture and meanings are very often expressed though non-verbal communication. Indians need to “read between the lines” when communicating with the Chinese. “Don’t listen to what you are told, but listen to the gaps in between, to what you are not told” (Zinzius, 2004). For example, “the meaning of a sentence in Chinese is determined by the order of the words themselves” (Bulard, 2005).

- (4) Indians as a clan are given to washing their dirty linen in public (Iyengar, 2005). Chinese are not apt to criticize someone in front of others. The relationship one develops represents the entire family, company or organization.
- (5) Chinese value trust and the keeping of promises made. It will do the Indian businesses good to bear this in mind and act on it constantly.
- (6) Indians should use their traditional patience (though now a much eroded value) in negotiating with the Chinese who have along tradition of patience.
- (7) Indians have a built-in capability to apologize for any discrepancy and this is highly valued in the Chinese milieu. "An apology is not an admission of guilt; it indicates that you recognize that the situation makes you as well as others uncomfortable" (Alson and He, 1997).
- (8) Chinese values are based on human feelings and not on religion (Kenna, and Lacy 1996). They have less restriction about eating and drinking than Indians. This is an adjustment Indian vegetarians' and purists need to make.

Conclusion

In a special report, *Business Week* (2005) magazine very recently devoted an entire issue to the changes taking place in India and China. The title said it conclusively: *China and India – The Challenge and the Opportunity* and predicted the coming of "A New World Economy" where "the balance of power will shift to the East as China and India evolve".

Both China and India have differences in culture, language and religion, they both have civilizations with deep roots in the past which are still very strong in the present. Although much of this self-confidence may have disappeared during the colonial period, it is slowly emerging once again. But the uniqueness of the two cultures requires that appropriate adjustments be made by Indian businesses to take advantage of the opportunities afforded by the new beginnings. They can also benefit from many similarities in their cultures. It is recommended that further research be undertaken to identify and experiment in explicit detail the specific characteristics of Indian and Chinese cultural characteristics' both similarities and differences.

In a catchy report *Hands Across the Himalayas* Michael Elliott in Time Asia's April, 2005 issue predicts that "the potential for increased human happiness flowing from China's and India's continued economic and cultural development is almost limitless" (Elliott, 2005). This can become a truism only if cultural idiosyncrasies do not become barriers.

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