Can India catch up with China?

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Abstract

China and India are two neighbouring and most populous countries containing about 37.5% of the world population . These economies have big land mass , abundant resource bases and have significant impact on world economy. The two Asian emerging economies appear to have much in common, though they have pursued dissimilar growth paths. Both countries initiated the reform process at different times with Deng Xiao Ping in 1979 and India in 1991. Here an attempt has been made to compare and contrast the development strategies of India and China on the basis of various economic determinants such as GDP, Foreign Exchange Reserves, Foreign trade , FDI, investment , other demographic and social features by applying suitable statistical tools. It was found that China is ahead of India in almost all important fronts. India has an excellent chance of catching up with China if it can increase its labour force participation rate, increase the average level of education, improve the quality of its labour force through special training programmes, reduce impediments to let foreign capital participate in its development process, design policies to cultivate a culture of entrepreneurship, and reduce corruption at all levels. Make in India campaign can lead India towards an effective destination as well as grow the Indian economy ahead. It will provide a successful track of employment to the youths of country which will surely help in reducing the poverty level and other social issues in India.

Key Words: Countries , Growth, Globalization, Investment

Introduction

China and India are two neighbouring and most populous countries containing about 37.5% of the world population .Both the countries were among the most ancient civilizations .These economies have big land mass , abundant resource bases and have significant impact on world economy.Their economies are influenced by a number of social, political, economic and other factors. Both economies remained highly protected and controlled to a large extent albeit that their political systems are very different. Both the economies play key role at the international level. India has been at the forefront of developing country activism ,a member of the Non-Aligned Movement (NAM),the United Nations and the Commonwealth, a major power in South Asia .China is a permanent member of security council at UN.

Literature Review

Lot of studies are conducted to analyze the different aspects of both the economies e. g. China's national economic output was on par with that of Europe around 1400. In The Wealth of Nations (1776), Adam Smith traced the economic stagnation and subsequent decline of China to its policy of virtual isolation and self-sufficiency after 1433, a policy that was not abandoned until 1978. According to Madison (2001), China was still richer than India in 1820, but thereafter India was the one who grew more rapidly and had one-third higher output per capita than China in 1950. Since then, however, China has grown more rapidly than India, even though less evenly. Zhang (2000) and Wei and Liu (2001) found that both US and Hong Kong FDI are attracted by China's large market size. This reflects the market-seeking motive of US firms and Hong Kong firms to shift from mainly export-oriented investments towards the Chinese markets. China's and India's rapid growth and economic policies, as well as their role in international trade and capital markets, have generated a large amount of interest and research. That's why, here an attempt has been made to compare and contrast the development strategies of India and China on the basis of various economic determinants. The main objective is to overview and compare these economies in terms of chosen macro economic variables .For this purpose, secondary data is used.

Development strategies and Reform Process

The two Asian emerging economies appear to have much in common, though they have pursued dissimilar growth paths. Both countries initiated the reform process at different times with Deng Xiao Ping in 1979 and India in 1991.

Prior to 1979 ,China maintained a centrally planned command economy . The Chinese leader Deng Xiaoping directed economic reforms :Switched to a system of household responsibility in place of the old collectivization in agriculture ;increase the authority of local officials and permitted a wide variety of small scale private and public enterprises ; and adopted an "open-door policy" as an essential part of the reform program . It opened not only to developed countries, but also to developing countries . It started from the four special economic zones, to coastal cities, then to capital cities of inland provinces .The accession of China to the WTO opened the country to the world and therewith going more deeply into the globalization . As per its WTO commitments, China has reduced its tariff rates considerably and bound in different lines of merchandize trade and eliminated most non-tariff measures.China is benefited enormously from Overseas Chinese investors living in Hong Kong, Taiwan and Singapore . China has fully exploited its advantages of low cost of labour to attract foreign investment and technology to push economic development.

India opened itself to globalisation especially as a result of changes in economic policies in the early 90's . we shifted from development strategy of 'self – reliance and planned growth' in which state had to play a major role . At that time in 1991 ,there were very remarkable achievements in terms of foundations. But , Indian economy was almost a marginalized one. The state-owned industries and agencies bred the worst form of inefficiency, and stifled economic growth, leading to what was derisively referred to in economic circles as "the Hindu rate of growth." C. Rajagopalachari called the regulation-ridden economic policy "the license-permit-quota Raj." Private sector did not develop due to excessive controls .
Government emphasized self-sufficiency rather than foreign trade and imposed strict controls on imports and exports. In 1991,we made many changes in the economy and have come a long way after LPG model. Industries previously closed to opened to FDI ,state properties were privatized , procedures were simplified ,and incentives and concession (for corporates) were introduced.

Gross domestic Product

Going by the data, the economy of China is more developed than that of India. While India is the 11th largest economy in terms of the exchange rates, China occupies the second position surpassing Japan. Compared to the estimated $1.3123 trillion GDP of India, China has an average GDP of around $4909.28 billion. On PPP basis, China is at 1st and India is at 3rd place in 2014. Both country together shares 16.08% and 23.16% of total global wealth in nominal and PPP terms, respectively. Among Asian countries, China and India together account for 52.77% (PPP) and 48.99% (Nominal) of total Asia's GDP. China is 4.66 times richer than India in nominal method and 2.20 times richer in ppp method.

In case of per capita GDP, India lags far behind China with just $1124 compared to $7,518 of the latter. India and China accounted for 2.25 per cent and 8.5 per cent of world GD at market prices in 2009. Both, the absolute ratios as well as the ACGR indicate towards more and fast domestic investments in China as compared to India as shown in Table 1 .

Table 1.1 Gross Domestic Investment (% of GDP)

Economy	2005-06	2006-07	2007-08	2008-09	2009-10	Mean	ACGR
India	34.3	36.0	37.6	35.6	34.5	35.6	0.12
China	43.6	43.6	41.7	42.5	45.8	43.44	0.99

Source: Asian Development Outlook, 2010.

Growth rate

The growth rate is thought to be the first and foremost indicator of any economy of the world. The pace of opening up has been much earlier and faster in China, therefore it has experienced significant high level of economic growth. From 1989 to 2010 China experienced an average economic growth of 9.3 % per year, reaching an historical high of 14.20 percent in 1992 and a record low of 3.80 percent in 1990.China's economy is the second largest in the world after that of USA .Globalization has helped India to come out of the annual low (Hindu) growth syndrome of 3.5% till 1979-80. It has been on the increase from 5.6 per cent during 1980-90 to seven per cent in the 1993-2001 period. Over the same period ,China had a much higher rate of growth (9.7%) per annum . In the last few years after globalisation ,the annual growth rate of the Indian GDP was impressive at 8.5 per cent (2003-04), 7.5 per cent (2004-05), 9.5 per cent (2005-06) and 9.7 per cent (2006-07), nine in 2007-08 and 6.7 percent in 2008-09. Economic growth decelerated in 2008-09 due to economic crisis .It represented a decline of 2.1 percent from the average growth rate of 8.8 percent in previous five years (2003-04 to 2007-08) .High growth has raised the expectations of the people.

Population

One of the key factors driving economic growth is population . China is the most populated country with approximately 1.39 billion people in 2014. India is second most populated country with approximately 1.27 billion people in 2014. China and India together account for 37.5% of total world population. Population growth (2013) of India is 1.2% while Population growth of China is 0.5%. Fertility rate (2012) of India is 2.5 and of China is 1.7.Population density of India is 367 person per square km compare to 142 of China. So, India is 2.58 times more dense than China. China is 4th and India is 7th largest country in terms of area. In 1950, India was a more urban nation than China (17 percent of the population lived in cities, compared with China's 13 percent).

But from 1950 to 2005, China urbanized far more rapidly than India, to an urbanization rate of 41 percent, compared with 29 percent in India.

Foreign Exchange Reserves

The foreign exchange reserves are an essential element in the analysis of an economy's external position .It reflects the health of the economy. Foreign Exchange Reserves in India averaged 191277.21 USD Million from 1998 until 2016.China has surpassed those of Japan ,making China' foreign exchange reserves the largest in the world. **China** has relatively abundant foreign exchanges reserves amounting to USD 3.3 trillion despite a decline.

FDI Inflows

One of the most striking developments during the last two decades is the spectacular growth of FDI in the global economic landscape .Foreign Investment is considered as an instrument of international economic integration as it brings a package of assets including capital, technology, managerial skills and capacity and access to foreign markets. China's economic growth was also made possible by a very large net inflow of foreign direct investment, a sign of confidence in the Chinese economy by outside investors.

China is the major recipient of global FDI flows among the emerging economies of the world. It is also most preferred destination of global FDI flow. A recent United Nations Conference on Trade and Development report shows India's FDI inflow is merely 4.3 per cent of its gross fixed capital formation as compared to the global average of 8.3 per cent. FDI stocks as a percentage of GDP stand at 12.2 per cent in contrast to the ratio for developing economies at 30.4 per cent. China still led Asia-Pacific in 2013 with an FDI total value of $64.14 billion and a dominant 34.73 per cent market share for FDI. India's FDI market share was only 8.57 per cent.

China continues to be the largest destination of FDI outside the US, Europe and Japan due to abundance of skilled and hardworking laborers and resourceful entrepreneurs, sufficiently well functioning market institutions and by adopting modern technology from the more developed countries . Hong Kong is the dominant direct investor in China. . Britain, France, and Germany are important source countries. Nearly 400 of the world's top 500 transnational companies have opened business or investment in china. In China, by and large, provinces belonging to the Eastern Zone have been attracting FDI and they also happen to be the provinces enjoying higher per capita income. The provinces belonging to the Western Zone have not been attracting FDI and they also happen to be the poorer provinces. In China, incoming FDI in the service sector is highly concentrated in real estate, specifically in property development. At present , China is exporting capital, not only to less developed countries but also to the United States. Chinese investment has also helped the economic development of some Asian and African countries.

Sectoral Growth

China has become a centre for low wage manufacturing and exporting clothing ,electronics and other goods .Millions of consumers in other countries including India are gaining from the low prices of Chinese goods . Technology ,labour productivity and incomes have advanced much more rapidly in industry than in agriculture. The disparity between these two sectors have combined to form gap between rural and urban areas. China is world leader in gross value of industrial output; mining and ore processing, iron, steel, aluminum, and other metals, coal; machine building; armaments; textiles and apparel; petroleum; cement; chemicals; fertilizers; consumer products (including footwear, toys, and electronics); food processing; transportation equipment, including automobiles, rail cars and locomotives, ships, aircraft; telecommunications equipment, commercial space launch vehicles, satellites.This is for the first time that the share of tertiary sector in GDP has increased in comparison to industry sector in China. In case of India ,not only is more than half of her's output contributed by services , the service sector has the distinction of leading the growth process . The rise in the share of this sector has been accompanied by a steady decline in the share of agriculture and a near constancy in the share of manufacturing in the recent years . India's secondary sector is including textiles, chemicals, food processing, steel, transportation equipment, cement, mining, petroleum, machinery, software, pharmaceuticals. According to CIA Fackbook sector wise GDP composition of India in 2014 are as follows : Agriculture (17.9%), Industry (24.2%) and Services (57.9%). Sector wise GDP composition of China in 2014 are : Agriculture (9.7%), Industry (43.9%) and Services (46.4%)

Table 1 Composition of National Income in 2014

Sector –wise	India	China
Agriculture	17.9 %	10.4%
Industry	24.2%	43.9%
Service	57.9%	46.4%

Agriculture is another factor of economic comparison of India and China. It forms a major economic sector in both the countries. However, the agricultural sector of China is more developed than that of India. Unlike India, where farmers still use the traditional and old methods of cultivation, the agricultural techniques used in China are very much developed. This leads to better quality and high yield of crops which can be exported. China managed its agrarian reform better than India did. The growth of total factor productivity has also been faster in China. This appears to reflect a greater ease for labour to move out of agriculture into higher productivity sectors in China than in India .

Foreign Trade

China have experienced significant increase in international trade due to globalisation, which leads to high levels of economic growth. China is the leading nation in exports and the second largest economy in the world. China's total exports value to $2.21 trillion and total imports value to $ 1.95 trillion. Foreign trade has helped economic growth in China .China's largest export market are USA ,Hong-Kong, EU,while its top sources for imports were Japan,The EU and Taiwan.Today exports from China can be found all over the world. China exports more of its goods and India exports more of its services. The mean growth in exports of China is significantly higher at 15.6 percent in comparison to 9.94 of India. Contrary to this, the imports of India have shown an average growth of 23.29 per cent vis-à-vis China's 13.37 per cent. Consequently, the current account balance of India has been in deficit continuously as compared to strong balance of China .

Labor migration reflects economic and cultural linkages among South Asian countries. Here, India is linked much more deeply than China across South Asia. Around five million South Asian migrant workers in India sent more than $7.5 billion in remittances back to their home countries in 2014, while just twenty thousand workers in China sent $107 million (including to India), according to the World Bank.

Human Development

According to the UNDP's latest Human Development Report (2014), India ranks 130 out of 187 countries on the Human Development Index (HDI) in the medium human development group. India's life expectancy at birth increased to 68 years, mean years of schooling increased to 5.4 years and expected years of schooling increased to 11.7 years with GNI $ 5497 . The HDI rank in China is 90 with 0.727 HDI value in the high human development group. China' life expectancy at birth increased to 75.8 years, mean years of schooling increased to 7.5 years and expected years of schooling increased to 13.1 years with GNI $12547 .

The Global Competitiveness Index (GCI), presented by the World Economic Forum, put China at 30th place in its recent report, out of a total of 139 countries, leaving behind India at 50th place. India and China stood at 79th and 36th place in basic requirements, 76th and 46th place in infrastructure facilities, 101 and 45th place in health and primary education, 83rd and 32nd place in labour market efficiency, and 5th and 2nd place in market size respectively. The core areas that spearhead our march towards a knowledge society are both technology as well as areas that are service-driven India's KEI (Knowledge Economy Index) rank is 110 th in the 2012 whereas china stood at 84 .Expenditures on research and development activities (R&D) was worth 1,190.6 billion yuan in 2013, up 15.6 percent over 2012, accounting for 2.09 percent of GDP.

India's innovation pillar rank is 76th, EIR (Economic Incentive and Institutional Regime) rank is 99 and ICT(Information and Communication Technology)pillars rank is 122. India will only be able to reap the benefits of its young populace if it is able to provide the education and skills needed to meet the demands of its high-technology industries. The increasing importance of knowledge is both a challenge and an opportunity for us

Table 2

Country	KEI rank 2012	KEI	EIR	Rank	Innovative index	Rank	Education Index	Rank	ICT	Rank
China	84	4.37	3.79	97	5.99	54	3.93	75	3.79	94
India	110	3.06	3.57	99	4.50	76	2.26	111	1.90	122

Source:KAM 2012www.Worldbankorg/kam

Inequalities in both the countries

Of the two countries, India has a more equal distribution of income, with a Gini index of 36.8 compared with 41.5 in China which is a good indicator of equal distribution and also good for growth.A report from the Asian Development Bank states that China ,which two decades back was one of the most equal countries in the world,is now among the most unequal countries.Most obvious divergences are ; in incomes between rural and urban areas; Inland versus Coastal areas; and globally oriented versus more insular areas .The three wealthiest regions are along the South-east coast centred on the Pearl River Delta ;along the east coast ,centred on the lower Yangtze river ;near the Bohai Gulf ,in the Beijing –Tianjin –Liaoning region.The richest 10% of the Chinese population (mostly living in coastal cities) owns 45% of the nation's wealth, while the poorest 10% own only 1.4% of it. The coastal cities benefit more from globalisation because of its proximity to the rest of the world. In addition to ,15 free trade zones (FTZ)China established 15 EPZ mostly in coastal areas .Foreign companies moved there ,pushing wages up. The impact of the industrial recession and the collapse of agricultural growth is visible .

Conclusion

The primary difference between the performance of the Indian and Chinese economy has been the faster growth of capital stock in China. China has outdistanced India in every area of economic endeavour in the last 40 years, except in computer software industry and agricultural research. Troubles in China's financial markets, a declining young and increasing older population as a proportion of the working age population, increasing wages in general and export industries in particular, costs associated with cleaning up serious environmental pollution, increasing competition from other countries in export industries using low-skill and semi-skill labour, lower savings rate and a possibly lower investment rate will have a negative effect on its growth. The era of easy growth based on China's reintegration into the global economy is now over. China has produced and built far too much capacity , that China is now sitting on the top of the greatest accumulation of bad debt and overcapacity .

India has an excellent chance of catching up with China if it can increase its labour force participation rate, increase the average level of education, improve the quality of its labour force through special training programmes, reduce impediments to let foreign capital participate in its development process, design policies to cultivate a culture of entrepreneurship, and reduce corruption at all levels. Make in India, An ambitious campaign was launched by the Prime Minister on 25th of September in 2014 in New Delhi. The purpose of launching this campaign is to make India a destination of global manufacturing hub. Almost 25 key sectors (such as aviation, chemicals, IT, automobiles, textiles, ports, pharmaceuticals, leather, hospitality, tourism, wellness, railways, etc) have been identified by the government to work for the investors and become a world leader.This campaign can lead India towards an effective destination as well as grow the Indian economy ahead. It will provide a successful track of employment to the youths of country which will surely help in reducing the poverty level and other social issues in India.

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