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(iv) **Sixth Trade Policy Review (TPR) of India**, June 2015

Comparison of Indian and Chinese Economy

- In any discussion of India's economy, China is an almost inevitable subtext.
- China, with its advanced modern infrastructure and fantastic growth — exceeding 9 per cent for the past three years -- China sends a clear message to the world of progress and power.
- The country's (China) **singular focus on economic development** has been **shaped by top-down government control** that extends into ownership of most major enterprises.
- By contrast, India touts its **open society** and 'messy', yet functioning, **market-based democracy** as a more **conducive environment for long-term development**. Its Western-style legal system and transparent financial systems encourage a chaotic, **bottom-up approach to growth**.
- India is one of the world's greatest experiments — the challenge is to lift a huge percentage of humanity out of poverty, and to do it in the context of a **very freewheeling and open democracy** — it could be a huge example for the world.

Crux:

China → singular focus on economic development + top-down government control → modern and advanced infrastructure → consistent high growth rate

India → open society + market-based democracy + bottom-up approach → poor social and physical infrastructure → low or medium growth rate (less than China's)

Note: It is important for us to know the background and growth story of both the countries as the first point itself hints us that – 'In any discussion of India's economy, China is an almost inevitable subtext'.

Let us understand How China became – second largest economy, important Asian and Global player, an exporting warehouse? How did it reach there?

So, again let us deal with stories.

Growth Story of China:

- The **average Indian was slightly better off than the average Chinese** in the initial years after Indian independence. But China's approach to development has varied markedly over the last 40 years and has been so successful that it now ranks as the second most important economy in the world. India has made good progress but is still substantially behind China.

- China and India, despite being such large countries, accounted for only 4.5 per cent and 4.2 per cent of global GDP in 1950 in **Purchasing Power Parity** (PPP$) terms.
- The ratio of China's GDP to India's was 1.18 in 1913 ($241 billion/$204 billion); in 1950 it was 1.08 ($239 billion/$222 billion). Estimates of **per capita income** of those days suggest that India might have had a higher per capita income. However, there was **not a marked difference in the level of human development**. ☹

Both countries have witnessed challenges:

- Both countries, in the course of history, have **feared foreign domination**, have **considered the state as the driver of growth** and have suspected the private sector's initiatives.
- For India, the problems were **achieving unity in diversity** and **accommodating various languages and religions in a democratic set up**.
- On the contrary, **China's hard state enabled it to pursue a single goal with determination and mobilise maximum resources to achieve its goals**.

Growth in China

- China experienced many problems in initiating industrialisation, but after some hitches, it **switched to an all-round emphasis on heavy and light industries**, and **had a more successful resource mobilisation strategy** than India did. As a result, Chinese manufacturing grew at 9.5 per cent, twice as much as India's rate, from 1965-80.
- Also, **China managed its agrarian reform better than India** did.
- On the whole, China grew at a much faster rate than India did during 1950-79, and Chinese per capita GDP was more than twice the rate of India's. This is l**argely due to higher growth in Chinese labour productivity and capital deepening**.
- By 1978, the per capita income of China was estimated at $979; India's at $966. China had caught up with India over the 30 years, but not dramatically surpassed it.

1978 China's economic reforms

- China made a monumental economic progress because of the economic reforms pushed by Deng Xiaoping.
- The reforms stressed the **principle of "each according to his work" rather than "each according to his need," professionalism and efficient economic management at all levels** and the gradual introduction of policy changes to avoid problems in implementation.

- Deng **transformed agriculture first** and **then took on the industrial sector**. He opened up the latter to foreign capital while making room for the growth of village and local enterprises.
- The leaders after him (including now Xi Jinping) have continued to follow Deng's principles, but with some adjustments.
- 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**.

At present,

- China is the leading nation in exports and the second largest economy in the world.
- The country's per capita income more than quadrupled, ($5,720 equivalent to about PPP $13,000) and abject poverty was completely eliminated (though income inequality increased).
- China's Human Development Index has also risen from .423 in 1980 to .719 in 2013, according to the United Nations Development Programme 2014.

Crux: Against China's success, India's achievement, though significant compared to what it was before independence, is modest.

India's story: What India missed?

- India also took tentative steps to modernise its economy in the early 1980s, but these petered out (diminished or dwindled gradually).
- India freed itself from the constraint of food grain availability, thanks to the Green Revolution. However, India did not manage to apply to its industrial sector the lessons it learnt in its **agricultural revolution** — using **foreign knowledge, relying on the private sector and deploying subsidies selectively**.
- Instead, **foreign borrowing was used to ease the consumption constraint** in the public sector and to cushion loss-making public enterprises.
- India also **failed to provide social services** such as schooling, medical care **and physical services** such as water and sanitation.

1991 Economic reforms

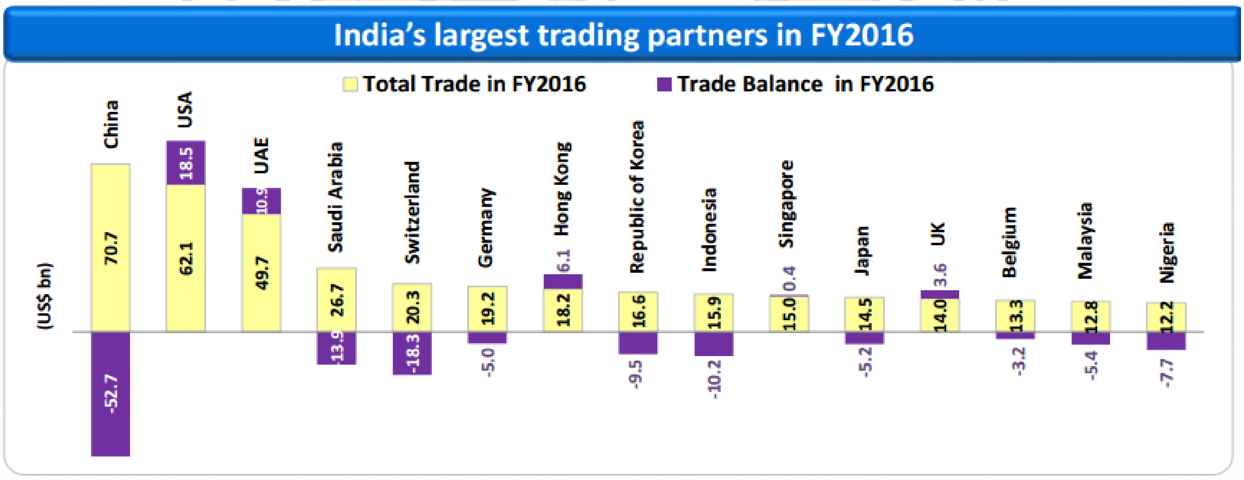
- Indian policy underwent **directional changes in 1991**.
- (Prime Minister **Narasimha Rao** ushered in reforms which were implemented well by his Finance Minister **Manmohan Singh**, who then became the second-longest serving Prime Minister of India.)
- Indian economic growth accelerated during the period 1995-2008, but could not maintain the momentum **due to political paralysis of policies** that were necessary for economic growth. Gross national income per capita in 2015 was $1,590 and India's HDI increased from 0.369 in 1980 to 0.609 in 2015.

Primary difference

- The primary difference between the performance of the Indian and Chinese economy has been the **faster growth of capital stock in China**. With only a slight difference in the growth of employment, this translated into a more **rapid growth of capital intensity**.
- 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.
- China has outdistanced India in every area of economic endeavour in the last 35 years, except in computer software industry and agricultural research.

India and China ties:

- Despite international border issues that still exist between India and China, the two countries are trying to create a cooperative relationship — China has become one of the India's largest trading partner, India's trade deficit with China is about $52 billion (2015).



Comparing India and China's Growth Stories

Indicators	India	China
Political System	Multi-party Democracy	One-party authoritarian rule
Speed of Growth	Economic reforms started in 1991. Average 6% growth rate in past two decades.	Economic reforms started in 1978. Average 9.5% growth rate in past two decades.
Areas of Specialization	Rising power in software, design, services, and precision industry.	Dominant in mass manufacturing, electronics and heavy industrial plants

Raw material: (Organize your raw material like below for further chapters)

Initial years after Indian independence:

- Average Indian was slightly better off than the average Chinese
- India and China was somewhere close with respect to PPP and contribution to global GDP
- India had a higher per capita income compared to China

Challenges:

Both countries, in the course of history,

- have feared foreign domination,
- have considered the state as the driver of growth and

- have suspected the private sector's initiatives
- **India** → problems were achieving unity in diversity and accommodating various languages and religions in a democratic set up → No marked difference in the level of human development
- **China** → China's hard state enabled it to pursue a single goal with determination and mobilise maximum resources to achieve its goals → China's approach to development has varied markedly over the last 50 years and has been so successful

Growth plan

- **China** → singular focus on economic development + top-down government control → modern and advanced infrastructure → consistent high growth rate
- **India** → open society + market-based democracy + bottom-up approach → poor social and physical infrastructure → low or medium growth rate (less than China's)

China's strategy

- switched to an all-round emphasis on heavy and light industries
- had a more successful resource mobilisation strategy
- China managed its agrarian reform better than India
- higher growth in Chinese labour productivity and capital deepening
- greater ease for labour to move out of agriculture into higher productivity sectors
- 1978 China's economic reforms → Deng Xiaoping →
    - principle of "each according to his work" rather than "each according to his need,"
    - professionalism and
    - efficient economic management at all levels
    - transformed agriculture first and then took on the industrial sector
    - leaders after him → continued same

Outcome

- very large net inflow of foreign direct investment + outside investors
- faster growth of capital stock in China

- growth of total factor productivity has also been faster in China
- leading nation in exports
- per capita income → quadrupled
- Human Development Index improved

India's Strategy

- Against China's success, India's achievement is modest
- India took tentative steps to modernise its economy but dwindled
- Focus was more on Agricultural Revolution → Green Revolution → using foreign knowledge, relying on the private sector and deploying subsidies selectively
- However, **same focus was not provided to Industrial or Manufacturing sector** → relied on foreign borrowing to ease the consumption constraint in the public sector and to cushion loss-making public enterprises.
- Failed to provide social services and physical services → Poor infrastructure
- **1991 Economic reforms** → Narasimha Rao - Manmohan Singh
    - Liberalistion, Privatisation and Globalisation (LPG)
    - Involvement with global economy
    - economic growth accelerated --> but could not maintain the momentum due to **political paralysis of policies**

Outcome:

- Gross national income per capita, HDI, PPP --> less than China

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Can India catch up with China?

- India will most probably overtake China as the most populous country in the world in 2030.
- China is **better placed structurally** than India for a good economic performance, but it is most likely to be much lower than its recent average performance of about 10 per cent a year. How much lower it would be would **depend on its ability to maintain current labour productivity levels and the benefits likely to flow from its proposed trans-continental rail system and other transport-related activities**.

- 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.

- India has an excellent chance of catching up with China if it can **increase its labour force participation rate (particularly women)**, 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**.

- The **problem in India has always been implementation**. In a noisy political democracy, problems are compounded by the **existence of multiple political parties with no coherent approach to development**.