Economic Performance of Two Asian Giants China & India: A Comparative Study

Abstract

India and China are two major emerging Asian giants which are the centre for the demand for the world economies. These countries have followed different patterns of development. Yet there are many similarities in their approaches. China has had a 13 years head start over India in consolidating economic gains after the reforms in 1978. As part of economic reforms, both the countries adopted outward-looking policies, liberalized prices and dismantled regulations, fostered the development of the private sector, strengthened their financial systems and opened their economies to trade and investment. Indeed, both countries are aiming at adjusting their growth and development strategies to deal with problems that have emerged and major challenges ahead. There is a lot of uncertainty about the direction of policy and about whether and how China and India adjust their pattern of growth. Over the years and after the reform time period both the countries achieved a lot, both the countries has improved their economies but still there are lot of difference in the economic performance of both the countries. Keeping in the view this fact, this paper will try to capture this particular difference in both the economies.

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Introduction

India and China are the two most populous countries in the world, have emerged as important actors in the world economy. The economies throughout the world are increasingly dependent on these two Asian giants for sustained demand. In China, policy wise opening up and gradual market oriented reforms were combined with a strong role of the government for mobilizing resources to industry and investment. Here growth has been particularly industry and investment oriented. Since the mid 1980s, India has also embarked on market oriented reforms. India's policies are not so much targeted at industrialization and investment as much as in China. Its growth pattern has not been much industry and export oriented as much as of China. There has not been any macro stress in the growth pattern of China; however it has led to important imbalances, while in India, in recent years, expectations and demand ran ahead of the supply side that has led to macroeconomic tensions. Meanwhile in both the countries, making growth more inclusive is a major challenge, India lags China substantially on all key determinants of total factor productivity growth as suggested by the cross country evidence.

Keeping in above backdrop, the present research paper is divided into five sections, Section II, describes the review of literature on the present issue. In Section III objectives and methodology of the paper are described; section IV examines the different economic indicators used for comparison. Section V, concludes the study with appropriate policy implications.

Review of Literature

There is no dearth of literature on comparative studies on India and China. Many studies have been done over the period of time to understand the difference and similarities of economic performance and development strategies in India and China. In some studies, researchers have put forward several reasons for inter-regional differences in China and India. To justify the need of the present study, we have reviewed the following literature.

Nagaraj et al 2000, Sachs et al 2002, Krishna 2004, Veeramani and Goldar 2005, Agarwal and Basu 2005 described that in Indian case, economic policies, geographic and institutional factors at the state levels could explain differential level of economic growth performance.

Aziz and Duenwald (2001), Demurger et al. (2002), and OECD (2003) found that in China differential level of development across regions could come from different sources, such as geography (coastal provinces), climate and economic policies.

Desai (2003) argued that India will remain a soft state, a consensual polity, and it will not be capable of sustained growth at the sort of rates which China has attained. …But there will not be growth Power; India may become just a Great Democracy.

This same argument is hold by various researchers' viz. Malenbaum 1959, Kuitenbrouwer 1973, Guha 1993, Bajpai, Jian and Sachs 1997, Khanna and Huang 2003, Srinivasan 2004, Basu, Klein and Nagar 2005a, and Bardhan 2006.

Klein (2004) described that India is joining the high-growth club of nations, but in their own way, as a democratic nation. Politically and culturally, the two nations differ markedly, but economically they have some great similarities.

Kanbur (2005) presented the evolution of spatial inequalities in education and healthcare provision in China. The paper concluded a substantial rising inequality since reform in China.

Kanbur and Zhang (2005) demonstrated that regional inequality could be explained by factors like openness and decentralization.

Sen (2005) described that China has joined and become a leader of the world economy with stunning success, and from this India, like many other countries, has been learning a great deal, particularly in recent years. The insularity of the earlier Indian approach to economic development needed to be replaced and here the experience of China has been profoundly important…..But the role of democratic participation in India suggests that some learning and understanding may go in the other direction as well.

Basu, Fan and Zhang (2007) provided some further comparison of the regional differences in China and India.

It is evident from the above literature that there is difference in the development performance of India and China. The above reasons promoted the researcher to endure the research work on the present topic "Economic Performance of Two Asian Giants China & India: A Comparative Study"

Objectives and Methodology

The present study is analytical in nature and exclusively based on secondary data, which have been taken from different sources Viz. World Development Indicators of World Bank, Research papers etc. The time period for study has been taken from 1980s to 2011. The available data have been processed and presented in the form of suitable tables and graphs. The specific objective of the study is to make a comparison of economic performance of India and China, the two major Asian giants. For this purpose, various economic indicators such as Gross Domestic Product (GDP) Growth Rate, Capital Formation, Domestic Saving, Export and Import of Goods and Services, FDI inflow and Outflow have been taken in the study.

Economic Performance of China And India

China and India have seen rapid growth, development and opening up in recent decades. They have combined rapid economic growth with substantial improvements in living standards, poverty alleviation, and health and education indicators. They entered their reform process with different initial conditions. Table 1 shows some notable differences. In 1978, China started its reforms with relatively good "raw input" in the form of the population's education and health. This was a major support for growth in the reform period. On the other hand, China's economy was heavily distorted, with production factors strongly misallocated, as shown by the particularly low level of total factor productivity.

China believes in investment and industry-heavy growth, with a strong role for the government. In its transition from a centrally-planned to a market economy, China diverged from the 'shock' approach to economic reform used in the Soviet Union. Instead, China followed the successful East Asian economies in combining export-oriented opening up to the global economy with maintaining a leading role for the government in allocating and mobilizing resources towards selected industrial sectors and investment, including infrastructure.

Since the mid-1980s, India also embarked on reform and saw growth picking up. Since the mid-1980s, and reinforced in the early 1990s, key reforms included trade liberalization and domestic market liberalization and integration, although India's economy remains less open to foreign competition than China's.

Table 1: Initial Condition of China & India in 1980

CHINA	INDIA
Production Factors And Physical Setting For Economy	
Good basic public health & education Wide spectrum of formal industrial companies	Much weaker basic public health and education Some strong large conglomerates; many small firms
Economic Institutions	
Institutional set up often not compatible with market economy Market distortions severe very low TFP	Institutional set up broadly compatible with market economy Market distortions less severe, shown by TFP
Other Institutions Aspects	
Egalitarian land reform & distribution Little gender imbalance Relative homogenous society "Political and Social priming" 1940-1978	40%rural people(almost)landless Major gender inequality(literacy, participation) Heterogeneous society(regional, language, caste) Less "docile" population and workforce.

Source: Louis Kuijis (2012)

Growth Rate of Gross Domestic Product (GDP)

In China, GDP (at constant 2000) was $183 billion in 1980. It increased to $3538 billion in 2011. While in India, GDP increased from $161 billion to 1040 billion during the same time period. There is 19 times increase in GDP of China while India's GDP increases by 6 times as shown in table 2.

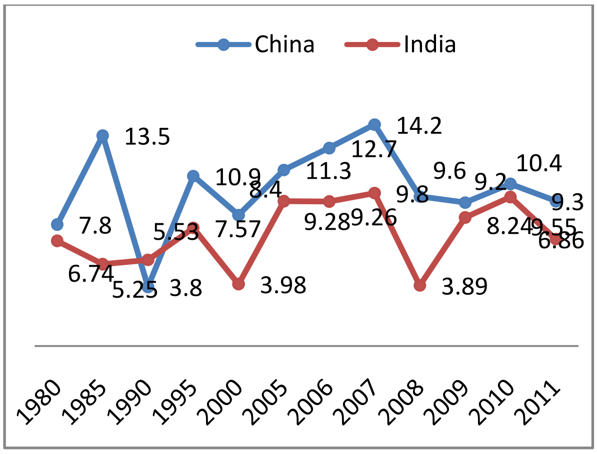
Table 2: Gross Domestic Product of China & India (Us $ Billions)

YEAR	CHINA	INDIA
1980	**183**	**161**
1985	**304**	**207**
1990	**445**	**276**
1995	**793**	**354**
2000	**1198**	**475**
2005	**1909**	**659**
2006	**2151**	**720**
2007	**2457**	**790**
2008	**2693**	**821**
2009	**2940**	**888**
2010	**3246**	**973**
2011	**3548**	**1040**

Source: World Bank

If we put a glance on the per annum growth rate of GDP of both the countries, it is higher in china than India except the year 1990 as depicted in figure 1.

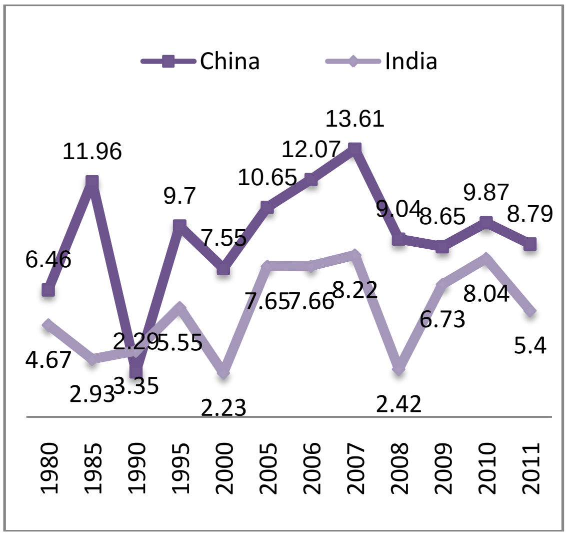
Figure 1: Per Annum GDP Growth Rate Of China & India



Source: World Bank

Per annum growth rate of per capita GDP is also higher in China. It was 6.46 percent in 1980 and increased to 8.79 percent in 2011. For India it increased from 4.67 percent to 5.4 percent during the same time period. There is 2.33 percent point increase in the per capita GDP in China on the other hand for India it just increase 0.73 percent point (shown in figure 2)

Figure 2: Per Annum Growth Rate of Per Capita GDP

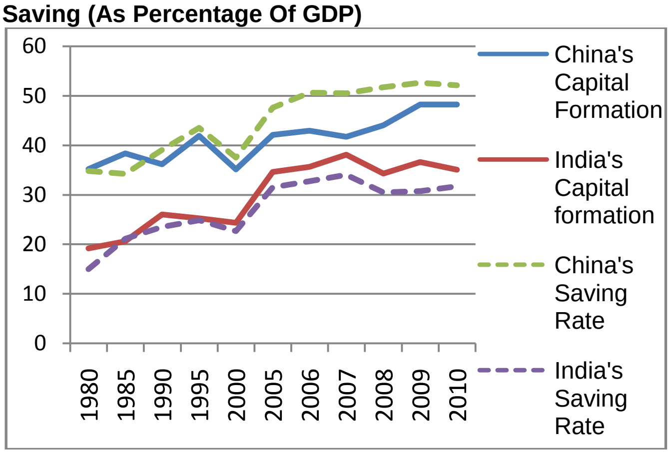


Source: World Bank

Gross Capital Formation and Gross Capital Saving

China's reforms are based on high investment. In 1980 gross capital formation in China was 35.19 percent of GDP, it increased to 48.45 percent of GDP in 2011. It has increased by 13.36 percent point. In India, gross capital formation was 19.17 percent of GDP in 1980, it raised to 35.52 percent of GDP in 2011. There was 16.35 percent point increase in the capital formation of India. Initially the gap between gross capital formations of was 26.02 percent point less than China but in 2011 the gap has narrowed down to 17.93 percent point.

Figure 3: Gross Capital Formation And Domestic Saving (As Percentage Of GDP)



Source: World Bank

Gross Domestic Saving is also higher in China than India. In 1980 it was 34.83 percent of GDP in China, while 14.99 percent of GDP in India. There was 19.84 percent point difference in the saving. In 2011, this rate increased to 52.52 percent of GDP in China and 30.31 percent of GDP in India. There was 22.22 percent point gap in Gross

Domestic Saving. The saving gap has increased over the time. Trend of capital formation and saving has been shown in figure3.

Export and Import of Goods and Services

In China, export of goods and services was 10.6 percent of GDP in 1980 while in India it was just 6.03 percent of GDP. This increased to 31.4 percent of GDP for China and 24.64 percent of GDP for India in 2011. In 1980, there was 4.57 percent point difference in export. It has increased over time. In 2011 it increased to 6.8 percent point of GDP.

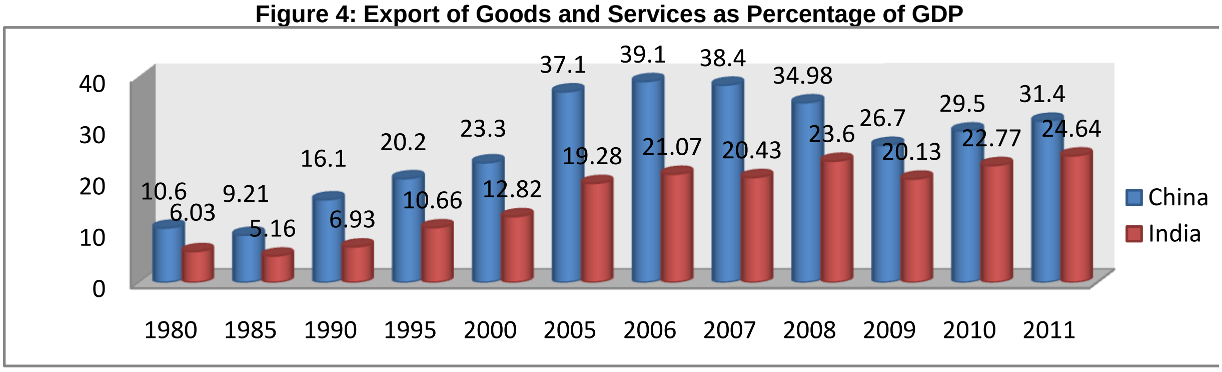
As we put a glance on the imports of goods and services, in China it increased from 11.1 percent of GDP to 27.3 percent of GDP during 1980 to 2011. While in India it increased from 9.09 percent to 29.85 percent. There was 16.29 percent point increase in China's imports on the other hand India's imports increased by 19.7 percent point of GDP (shown in figure 4 and 5)

Table 3: Inflow and Outflow of Foreign Direct Investment (FDI)

	FDI inflow (% of GDP)		FDI outflow (% of GDP)	
Year	China	India	China	India
2000	**3.2**	**0.76**	**0.07**	**0.03**
2005	**5.2**	**0.91**	**0.61**	**0.11**
2006	**4.6**	**2.14**	**0.88**	**0.36**
2007	**4.6**	**2.06**	**0.49**	**1.51**
2008	**3.9**	**3.54**	**1.25**	**1.4**
2009	**2.3**	**2.61**	**0.87**	**0.15**
2010	**3.1**	**1.43**	**0.98**	**1.17**

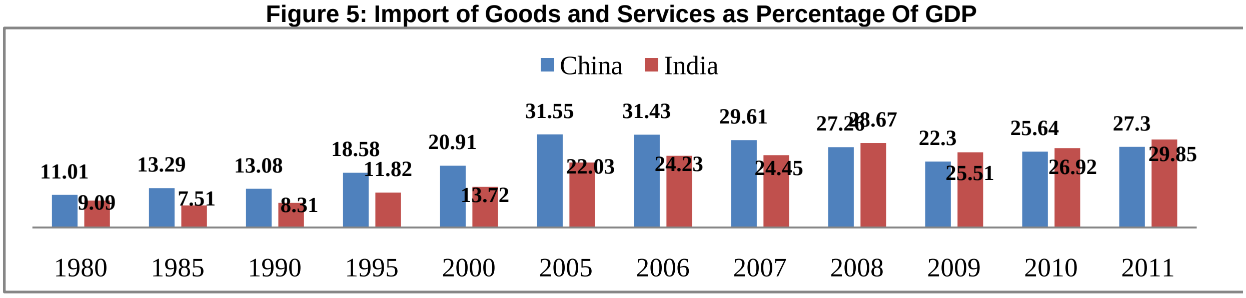
Source: World Bank

Figure 4: Export of Goods and Services as Percentage of GDP



Source: World Bank Data

Figure 5: Import of Goods and Services as Percentage Of GDP



Source: World Bank Data

FDI Inflow and Outflow

Inflow and outflow of FDI is shown in table 5. In 2000, inflow of FDI was 3.2 percent of GDP; it has declined to 3.1 percent of GDP in 2010. For India, inflow of FDI was 0.76 percent of GDP and it has increased to 1.43 percent of GDP. Even if FDI inflow has increased in India but still it is lower than China at about 1.67 percent point of GDP.

` Data regarding outflow of FDI shows that in 2000, it was higher in China but in 2010, it was higher in India as shown in table 3.

Conclusion and Policy Implications

From above analysis, we can conclude that after the economic reforms, both the economies have improved a lot but China's growth momentum is faster than India.

India is lagging behind China in most important aspects of economy. China's GDP has increased higher than India. The difference in the Gross Capital Formation has narrowed down but the gap in Gross Capital Saving has widened between both the economies. China's exports are higher than India; on the contrary India's imports are higher than China's. Data regarding Foreign Direct Investment (FDI) inflow and outflow shows that China is surpassing India in FDI inflow due to many reasons while in case of FDI outflow China is lagging behind India. India needs to improve a lot to equalize or surpass China in economic performance. Large and growing market opportunities in China and India has been widely seen and understood from the evidence that there are large flows of FDI. Because of Indian government restricted FDI policy, there is less flow of foreign currency. It has large opportunities.

To overtake China, there is a rationale of essential reforms such as to enhance infrastructure investment, to eliminate fiscal deficit, to increase agricultural growth with other sectors, last but not least to adopt more liberal FDI and trade policy to increase FDI inflow in India economy. Whether or not India overtakes China in the next two decades, it is clear that both countries will be economic powerhouses. Undoubtedly, their growth will have significant impacts on the World economy.

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