

The Asian Giants

India and China

Readings

- “The Tiger in Front: A Survey of India and China”, The Economist, March 5th 2005
- Yasheng Huang and Tarun Khanna, “Can India Overtake China”, Foreign Policy, July/August 2003
- Yasheng Huang, Selling China: Foreign Direct Invest During the Reform Era, Cambridge University Press, 2003
- Stephen Cohen, India: Emerging Power, Brookings Institution: Washington, 2001
- Gurcharan Das, India Unbound, Viking: New York, 2000
- Minxin Pei, “Cracked China”, Foreign Policy, September/October 2001
- Jeffery Sachs, The End of Poverty, Penguin, 2005

China

- Since 1980, China's economy has grown at 9% per year
- It now manufactures:
 - 75% of the world's toys
 - 58% of the world's clothes
 - 29% of the world's mobile phones
- It is the largest recipient of FDI: £1bn per week
- By 2008, it will be the world's largest exporter
- By 2010, its economy will be larger than that of the UK or France

India

- India's economy has more than doubled since reforms began in 1991
- India's economy is booming with services leading the way
- Since services are less labour-intensive than manufacturing, growth has not dented unemployment
- By 2025, India is expected to be among the world's top 5 economies





CHINA

PAKISTAN

BHUTAN

NEPAL

Delhi

INDIA

BANGLADESH
Kolkata

MYANMAR

Mumbai

Hyderabad

Bangalore

Bay of Bengal

Chennai

Cochin

SRI LANKA

Arabian Sea



RUSSIA

KAZAKHSTAN

MONGOLIA

NORTH KOREA

SOUTH KOREA

CHINA

Beijing

Tianjin

Xian

Shanghai

Lhasa

Chongqing

Wuhan

Fuzhou

INDIA

Hong Kong

TAIWAN

MYANMAR

VIETNAM

LAOS

THAILAND

PHILIPPINES

Some History

- For the past two centuries China has been poorer than India
- By 1950, income per head was:
 - \$619 in India
 - \$439 in China
- In every decade since then, China's growth in GDP per head has been faster than India's

Today

- In 2003, income per head was:
 - \$530 in India
 - \$1,100 in China
- India's share of world GDP and world population has remained roughly constant
- China's population share has fallen and its GDP share has risen
- In 2003, China's share of world exports was 5.8% and its share of world imports was 5.3%
- India's share of world exports was 0.67%
- China's foreign exchange reserves of \$610bn are 5 times that of India

A Tale of Two Countries

Competing Giants

Sources: CIA World Factbook 2002 (Washington: Central Intelligence Agency, 2002); The Economist Pocket World in Figures (London: Profile Books, 2002); World Development Indicators CD-ROM (Washington: World Bank, 2002); Financial Times

	Population (2002)	Population Growth Rate (2002)	Infant Mortality (2002)	Average Annual Real GDP Growth Rate (1990-2000)	Foreign Direct Investment (2001)
China	1.28 billion	0.87 percent	27 (per 1,000 live births)	9.6 percent	\$44.2 billion
India	1.05 billion	1.51 percent	61 (per 1,000 live births)	5.5 percent	\$3.4 billion

	Population in Poverty (2008)	Labor Force (2008)	Fixed Lines and Mobile Phones (2008)	Size of Diaspora
	10 percent	706 million	347.7 <small>(per 1000 people)</small>	55 million
	25 percent	406 million	43.8 <small>(per 1000 people)</small>	20 million

Key Dates in China's History

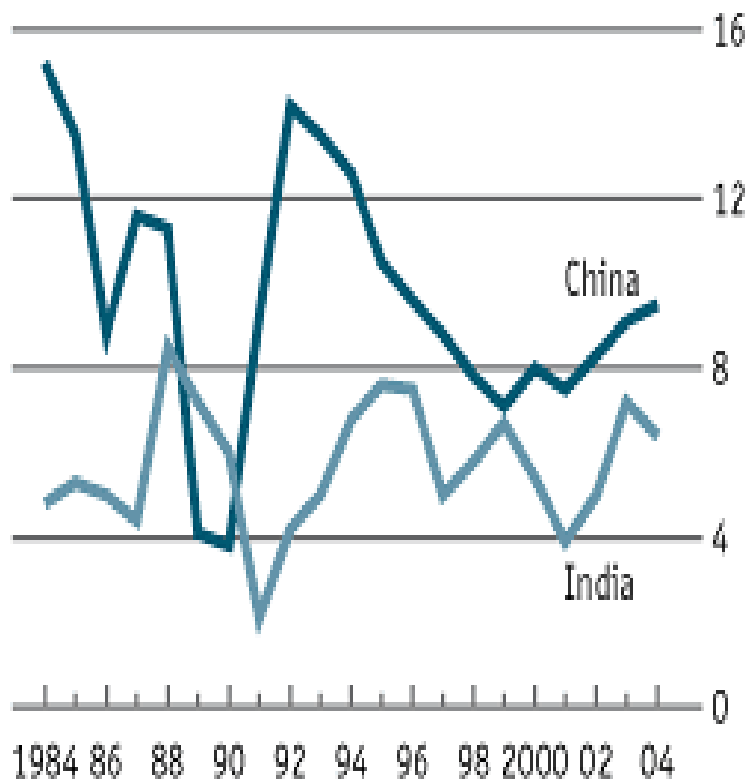
- 1434: China becomes isolationist; the Ming emperor closes international trade and dismantles China's fleet
- 1839-42: The Opium Wars; Britain opens China to its opium exports in exchange for tea
- 1937: Japan invades China and occupies Manchuria for the next six years
- 1949: the People's Republic of China is established under Mao-Tse-tung's leadership
- 1958-61: The Great Leap Forward
- 1966-76: The Cultural Revolution
- 1978: Economic Reforms begin

Key Dates in India's History

- 1602: East India Company establishes in India
- 1757: The Battle of Plassey; Robert Clive's Company forces (3,000 men) defeat the forces of the Nawab of Oudh (50,000 men)
- 1857: Indian forces defeated in the First War of Independence; India becomes a part of the British Empire
- 1947: India becomes independent
- 1990: After decades of being a socialist planned economy, economic reforms begin

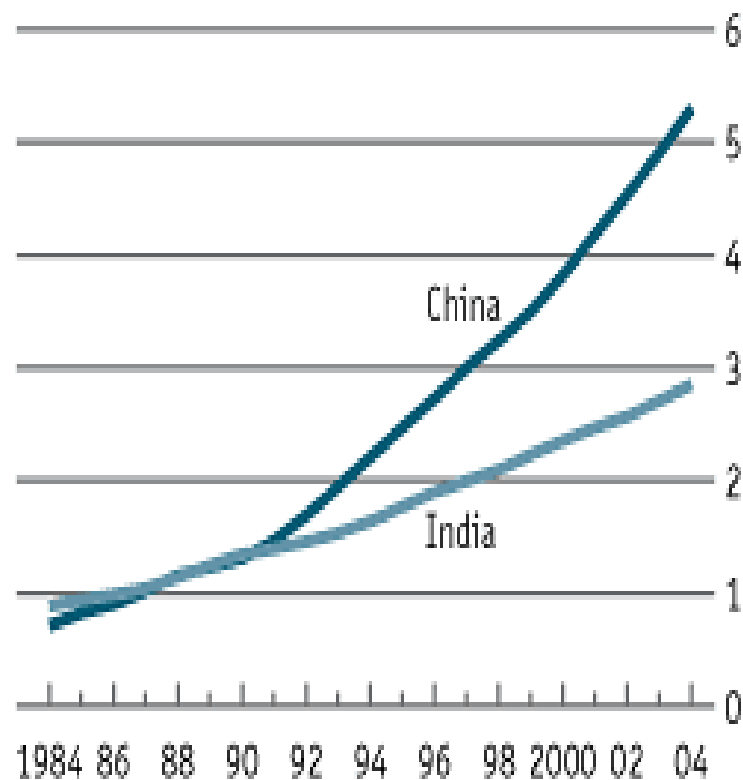
How a tiger earns its stripes

GDP, % increase on a year earlier



Source: IMF

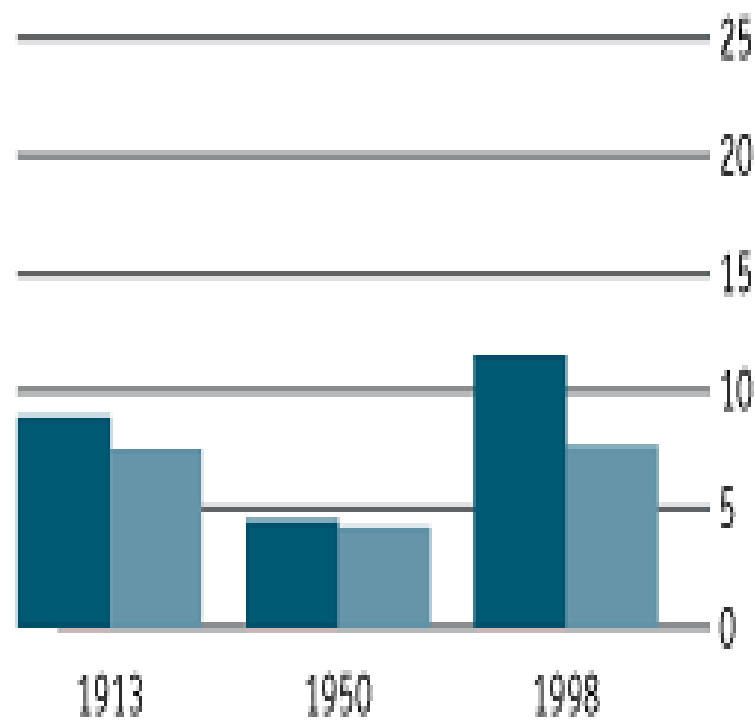
GDP per person at 2004 PPP*, \$ '000



*Adjusted for purchasing-power parity, deflated by US GDP deflator

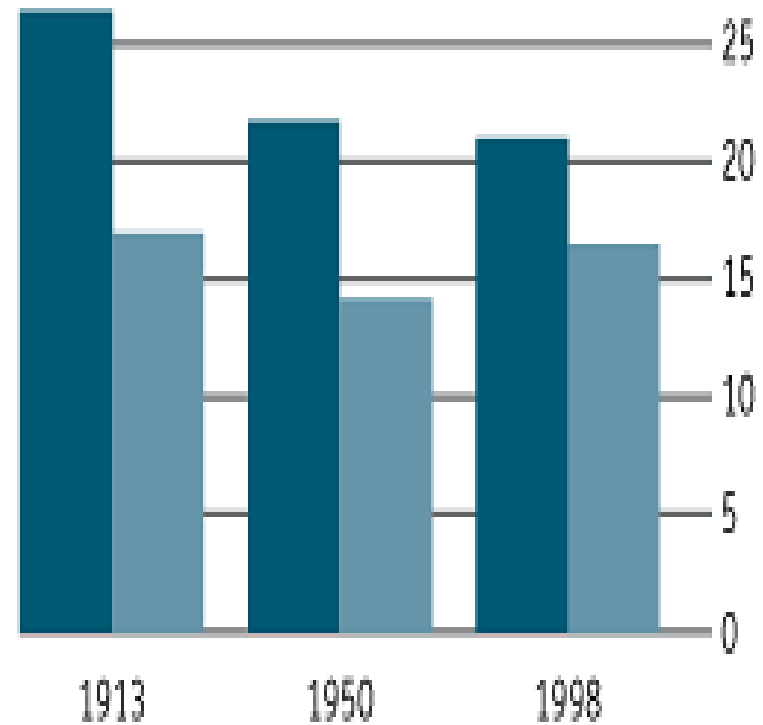
Jockeying for position

Share of global GDP, %



China India

Share of global population, %



Source: OECD, Angus Maddison

INDIA

	2000	2001	2002	2003
GDP per head (\$ at PPP)	2,360	2,500	2,620	2,830
GDP (% real change pa)	3.95	5.14	4.59	8.1
Government consumption (% of GDP)	12.85	12.46	12.51	12.8
Budget balance (% of GDP)	-5.28	-4.73	-5.9	-5.4
Consumer prices (% change pa; av)	4.01	3.78	4.3	3.81
Public debt (% of GDP)	56.52	57.66	60.6	62.2
Labour costs per hour (USD)	0.59	0.62	0.66	0.74
Recorded unemployment (%)	9.17	9.2	9.9	9.5
Current-account balance/GDP	-0.59	0.37	0.91	0.5
Foreign-exchange reserves (mUS\$)	37,902	45,871	67,666	98,903

China	2000	2001	2002	2003
GDP per head (\$ at PPP)	3,980	4,340	4,720	5,180
GDP (% real change pa)	8	7.5	8	9.1
Government consumption (% of GDP)	13.08	13.39	13.2	12.9
Budget balance (% of GDP)	-3.62	-2.97	-2.96	-2.5
Consumer prices (% change pa; av)	0.35	0.73	-0.77	1.17
Public debt (% of GDP)	30.4	30.6	31.1	29.6
Labour costs per hour (USD)	0.59	0.69	0.8	0.92
Recorded unemployment (%)	8.2	9.3	9.75	10.1
Current-account balance/GDP	1.9	1.48	2.8	2.2
Foreign-exchange reserves (mUS\$)	168,278	215,605	291,128	401,036

India China Comparison: I

	India	China
Under-nutrition among 5-year olds (%)	47	10
Life Expectancy (yrs)	63.3	70.5
Adult Literacy Rate (%)	57.2	84.1
Combined Enrolment Ratio (%)	55	73
Infant Mortality Rate (deaths per 1,000 births)	69	32
Population Below Poverty Line (\$1/day)	44.2	18.8

The Human Development Index

- The United Nation's HDI recognises that there is more to welfare than just income
- $HDI = (LEI + EAI + GDPI) / 3$
- $LEI = \text{life expectancy index} = (LE - 25) / (85 - 25)$
- $EAI = \text{educational attainment Index} = (AL - 0) / (100 - 0)$
- $GDPI = \text{per capita GDP index}$

Human and Economic Development

	Norway	China	India
Human Development Rank (173 countries)	1	96	124
Human Development Index	0.94	0.73	0.58

Population

- China adopted the “one child” policy in 1980
- As a consequence, 300 million births were averted
- In contrast, India’s population growth of 1.6% per year is twice China’s rate
- This the main reason why India’s GDP per capita is half that of China
- Both countries suffer from a severe shortage of women: per 100 girls
 - 118 boys in China
 - 108 boys in India

Population as an Asset

- Each additional child birth is both another mouth to feed and a potential worker
- So a growing population is both a liability and an asset
- Whether it is a net asset or liability depends on the costs of caring versus the contribution to output
- A growing population which is well educated and healthy can be a great asset
- 300 million averted births in China are 300 million fewer workers

India versus China: Population

- The average age of the Indian population is 26 years
- The average age of the Chinese population is 33 years
- In the coming decades, India will have a higher proportion of its population in the 15-64 age group than China
- Chinese population is ageing faster than any other country
- Chinese growth has the potential to run out by 2050, India's has the capacity to continue
- But, India has to invest heavily in education and health

Chinese Economic Reforms

- In 1978, agricultural communes were dismantled: this resulted in higher agricultural production
- In the 1980s, peasants were given permission to leave their farms and work in rural industry: this opened up a large number of jobs in small industry
- Also in the 1980s, Special Economic Zones (SEZs) were established to attract foreign investors: strategic location of industry along the coastal regions
- The zones combined low-cost Chinese labour, freed from villages, with foreign technology

Indian Economic Reforms

- In the 1970s, India made its first economic breakthrough through the “Green Revolution”: this made food scarcity a thing of the past
- In 1991, the bureaucratic restrictions on trade and investment were lifted: businesses could pursue profitable activities wherever they found them
- More cautiously than China, India opened up to FDI

Different Patterns of Development

- Chinese growth has been based on manufacturing: a marriage of low cost Chinese labour with foreign technology and capital
- Indian growth has been based on outsourced business and IT services and software exports
- China employs 160m people in manufacturing, India about 7m
- About 70% of India's population, but less than 60% of China's population, are in rural areas

Different Patterns of Development

- China has a great deal of internal migration: between 100-150m persons every year
- By contrast, lack of employment opportunities in India, limit migration to about 11m per year
- In India, it is hard to fire workers and so firms are reluctant to hire
- In China, firms in the four SEZs can layoff staff and link pay to performance
- Both India and China carry the weight of loss-making publicly owned industries

Foreign Direct Investment

- China is the world's biggest recipient of FDI: \$60bn in 2004
- By contrast, India received only \$5bn in 2004
- The size of FDI is the key to understanding China's growth and its prospects

A Tale of Two Diasporas

- FDI into China began in 1985 through overseas Chinese in Hong Kong, Macau, and Taiwan investing in China. Between 1985-1996, two-thirds of FDI into China came from overseas Chinese
- This established a platform for future US and European investment
- By contrast, overseas Indians have had a less warm relation with the mother country and have been less eager to help it

Why China?

- A vast domestic market: 300m “middle class” consumers, against 50m in India
- Export Promotion Zones from which it is easy export
- Chinese workers in labour intensive manufacturing are more productive than Indian workers
- Much better infrastructure than India:
 - 30,000km of highway compared to 3,000 in India
 - 247 fixed lines and mobile telephones per 1,000 persons compared to 44 per 1,000 in India
 - 27% of Chinese, compared to 61% of Indian, manufacturing units have own generators
 - Cost of power is 39% lower in China compared to India

Made in China! But Where Are the Chinese?

- China's big weakness is that, compared to India, it has very few native entrepreneurs
- So, "Made in China" means made by a foreign firm using Chinese labour
- By contrast, India has several Indian-owned companies which world leaders
 - Infosys, Wipro, Tata Consultancy in information technology
 - Sundaram Motors, Reliance in manufacturing
 - Ranbaxy in pharmaceuticals
- The Forbes 200 list for 2003 included 13 Indian, but only 4, Chinese firms
- At the top end of the labour market, Indians are "better" than Chinese

Top Down versus Bottom UP

- China is much more impressive from a macroeconomic perspective
- India is more impressive from a microeconomic perspective
- China has been bolder with external reforms, but it imposes substantial constraints on indigenous firms:
 - Some of the most lucrative sectors – banking, telecommunications, power – are off limits to private business
- India, because of its colonial legacy, has been more suspicious of foreign involvement but does not constrain its entrepreneurs:
 - There is substantial private involvement in key industries: telecommunications and air transport

Use of Investment Funds

- China's use of investment funds is more inefficient than India's:
 - India invests about 23% of its GDP compared to China's 42%
 - But China's growth rate is only 50% above that of India's
- If India could invest at Chinese rates, it could have a higher growth rate than China's?!

Financial and Political Infrastructure

- In terms of physical infrastructure and human capital, India suffers in comparison to China
- But, in terms of financial and political infrastructure, India scores over China

Finance

- India is better at channelling private saving into productive investment because:
 - Its banking sector is more efficient
 - It has a highly developed stock market
- In China, access to funds is controlled by Party officials
 - A great deal of funds are spent propping up State Owned Enterprises (SOE)
- Consequently, Indian firms have fewer problems than Chinese firms in getting external funds

Politics

- India is a democracy, China is a one party state
- Consequently, India has more safety valves than China
- Although decisions are taken more slowly in India, and frequently reversed, they are more thoroughly debated
- In China, policy making is decisive but lacks consultation
- The Three Gorges project is implemented in China
- The Narmada project is shelved in India
- China has no political mechanism to cope with the changes associated with economic transformation: it risks a “big explosion”
- India carries on with frequent but small explosions

Dangers: China

- The biggest threat that China faces is inequality:
 - Between persons: in 1978, average income for the top quintile was 2.8 times that for the lowest quintile; in 2001, it was 6.6 times
 - Between urban and rural: average urban income is 2.65 times average rural income
 - Regional inequality between the interior and the coastal regions has increased

Dangers: China

- Misallocation of Capital
 - Private companies and collectives account for half of China's output but receive only 20% of loans
- Unemployment
 - Thousands of workers have been laid off after the SOEs were restructured

Dangers China

- Banking sector is weak (and technically insolvent)
 - it has a much value of nonperforming loans than equity
 - 2% of households control half of all bank deposits
- Capital markets and foreign exchange markets are non-existent and need to be built from scratch

Dangers: India

- Lack of infrastructure:
 - Roads, Water, and Electricity
- Low savings rate
 - The savings rate is too low to generate the infrastructural investments needed
 - This is not helped by large government deficits and poor public finances
- Restrictive labour practices and unproductive public enterprises
- Unemployment
 - India's growth has been service led which is not labour intensive
- Slow Pace of Economic Reform