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« Chasing the Dragon: Will India Catch Up with China? »

COMPTE RENDU DE LA TABLE RONDE DU 18 OCTOBRE 2010

Mohan Guruswamy is chairman and founder of the Centre for Policy Alternatives, a New Delhi-based think-tank (India). He has over three decades of experience in government, industry and academia. He is one of the few experts with a dual understanding of both China and India, and has written a series of articles on the Indo-Chinese relations, as well as the book “India-China Relations: the Border Issue and Beyond” in 2009. He is the co-author of “Chasing the Dragon: Will India Catch Up with India?” published in January 2010.

The emergence of China and India as two major world economies is the driving force behind the rise of Asia's share of world Growth Domestic Product (GDP) over the last decade. Since the 1980s, China GDP growth has been rising and leading world economic growth. Over the last decade, it has become the USA's primary trade partner, as well as the most prominent exporter to the European Union and could become the world's leading economic power by 2050. India's substantial economic growth is more recent, however over the last decade India's GDP growth has approached the same rate as China's. This statistic leads to the question at the center of Mohan Guruswamy and Zorawar Daulet Wingham's book, will India catch up with China?

1. Two very different countries

The first question raised concerns the differences that exist between the two countries. They are very distinct, in terms of economics, but also across the political and cultural spectrums. In quantitative terms, China has a much larger economy, representing 12% of world GDP in 2009

(PPA), whereas India represented 5%. Their level of development is also markedly different, with China coming out on top.

Indicators (2007 figures)	India	China
Population (in billion)	1.1	1.3
Population as a % of World	17.28	20.42
GDP (in \$ US billion)	1134	3460
GDP as a % of World	1.6	4.6
Per Capita GDP (in \$ US)	1000	2620
GDP in PPP (\$ bn.)	3100	7316
Population Density (persons per sq. Km)	328	135
Life Expectancy at birth (years) (2004)	63.5	71.4
Birth Rate (per 1000)	25	12
Death Rate (per 1000)	8	6
Infant Mortality Rate (per 1000 live births) (2004)	61.6	26.0
Human Development Index	0.602	0.755
Rank in HDI of all countries	127	85
Gini Coefficient	32.5	44.7
Poverty (% of population below \$ US 1)	34.7	16.6
Literacy Rate (% of people aged 15 years and above)	61.0	90.9

2. GDP growth and economic structure

In the 1950s the two countries' GDP started to rise again after a long period of economic decline. By 1970, China and India were very close in terms of GDP per capita. With its economic reform in the 1980s, China saw its share of world GDP rise substantially and GDP growth has since been very high (around 9-10% on

average per annum). By comparison, the Indian reform only started in the 1990s, with a more limited GDP growth (5% in the 1990s to 7% in the 2000s on average).

The important difference between China and India in terms of economic structure is the role of the manufacturing sector and its evolution over time.

GDP Structure of China & India

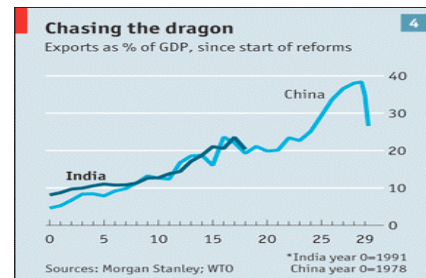
Sector (% shares)	1980	1990	2000
<i>Agriculture</i>			
China	39.2	27	18
India	42.8	31	28
<i>Industry</i>			
China	38.2	42	49
India	21.9	28	26
<i>Services</i>			
China	22.6	31	33
India	35.3	41	46

Due to the lack of jobs in the Indian manufacturing sector, focus has shifted to the retail sector (classified under *Services*) with an abundance of small retailers. Within the services sector, government accounts for the largest share, and has been growing rapidly (17% per annum) to represent 8% of Indian GDP. The importance of services and the lack of jobs in the manufacturing sector has directly resulted in a lack of value added in India's economy, in comparison to China.

3. World Integration

The volume of exports is an indicator of the globalization of an economy. Despite a rapid growth of exports, India remains a very insular country. The domestic market is still the main driver of its economic growth, although it is changing. By contrast, exports are very important in the more globalized China, although it has been recently trying to shift its "dependency" from the USA and European markets to those in Asia and Africa. It is also currently trying to boost domestic consumption to lower its reliance on export income. Chinese exports are driven by foreign-owned firms, which account for 80% of total exports. When comparing the

volume of exports as percentage of GDP between the two countries since the start of their reforms, one can see they are on similar paths, with India running 10 years behind China.



Foreign Direct Investment (FDI) is another indicator of evident globalization. For India, it was barely registered until the 1990s, and then grew rapidly to reach \$50 billion in 2008. FDI in China began to grow much earlier (around 1980) reaching three times the Indian volume in 2008 (\$150 billion). There is about 20 years difference between the evolutions of these two countries in terms of received FDI.

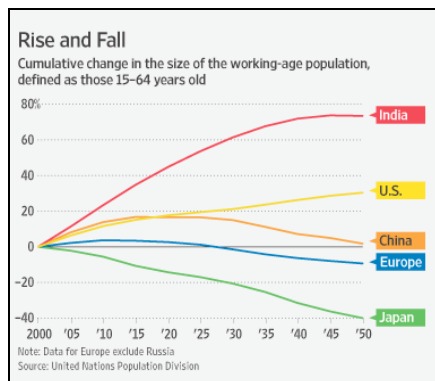
The majority of FDI in China are directed to the manufacturing sector (71%), as a consequence of an efficient and competitive labor market. The average labor cost in China was around \$729 per year during 1994-99, when it was much higher in India (\$1192). The share of FDI directed to the manufacturing sector in India is indeed lower (26.5%), but is still the largest receiving sector.

The majority of Foreign Investment (50% or over), be it in China or India, originates from domestic sources, as the money is essentially round tripping. The primary sources of Chinese and Indian FDI are respectively Hong-Kong and Mauritius.

4. The power of demographics

Demographics usually partially influence economic development. The evolution of China and India's population pyramids highlight the different positions the two countries hold. On the one hand, China currently has its largest working population

in decades, and is seemingly on a transition towards a demographic structure similar to that of a developed country. On the other hand, the population structure of India is that of an emerging economy with an increasingly younger population as a direct result of a dynamic birthrate and the increase of life expectancy. According to Mohan Guruswamy, India is 20 years younger than China demographically.



Consequently, when China faces an increasingly older population and a declining working population, India will be at the top of its demographic dynamism and will benefit from a large, young, working population. Those two demographic changes could contribute to a decline of China's economic growth, when India's economy would continue to grow. The demographic growth will be mainly seen amongst the least educated population, when the number of children in the more educated population will stabilize.

The only exception among the developed nations will remain the United States due to an "active and smart immigration policy". According to Mohan Guruswamy, the USA will continue to be at the helm of the global economy, with China and India remaining as low cost product exporters and exporting massively to the USA (textile for China, software for India).

5. Economic projections

Today's economic projections are predicting that China will overcome the

USA as first world economy in GDP terms by 2020, with India in third position.

Ranking	2010		2020	
	Country	GDP (I\$ million)	Country	GDP (I\$ million)
1.	USA	14,802,081	China	28,124,970
2.	China	9,711,244	USA	22,644,910
3.	Japan	4,267,492	India	10,225,943
4.	India	3,912,991	Japan	6,196,979
5.	Germany	2,861,117	Russia	4,326,987
6.	Russia	2,211,755	Germany	3,981,033
7.	United Kingdom	2,183,277	Brazil	3,868,813
8.	France	2,154,399	United Kingdom	3,360,442
9.	Brazil	2,138,888	France	3,214,921
10.	Italy	1,767,120	Mexico	2,838,722

(in PPP)

He notes that those projections are already outdated, as both China and India are progressing faster than expected. For M. Guruswamy, based on projections of a stable Chinese annual growth of 4.6, it is possible for India to overcome China in GDP terms as early as 2040.

6. Back to reality: India's challenges

Despite its demographic dynamism, India faces many challenges, which need to be addressed rapidly: agriculture remains an important sector (64.8% of the total workers in 2001) but only 62% of agricultural land is rainfed; under new living norms, 40% of the population currently live below poverty line; inequalities in revenue are also increasing; regional imbalances are growing; and 34,6% of the population is illiterate.

Furthermore, 80% of Indians do not have access to public health facilities and 47% of Indian children under the age of 5 years are undernourished. There is no electricity in 57% of India and 38% of Indians do not have access to a nearby water source. India finds itself facing challenges of a developing country, which will need to be addressed before India can realistically think about the world economic competition.

Another reality is that most workers are employed by the government (69% of total employment). This is the result of a very "colonial type of economy", with lots of people willing to work for the government to be part of the elite.

As Indians become more aware of the economic competition with China, their expectations are rising. By contrast to China where changes are imposed by the authoritarian regime, change is likely to take more time in India. As the driving force behind national change, the government is insufficiently tackling the major challenges it faces. It has even reduced its expenditure for development to less than 15% of annual budget. Its priority should be to primarily cope with agricultural challenges such as the lack of irrigation or the fragmentation of land ownership, to ensure a better quality of life for its poorer citizens.

In contrast to India's centralization, power is based at a local level in China. Regional disparities in India are also increasing due

to a lack of government support. Indeed, the wealthiest regions are the one receiving the most subsidies.

Mohan Guruswamy recommends the following: increase industrialization to create jobs and educate youth in order to fill those jobs, invest in irrigation and increase farm productivity, build infrastructures, speed up reforms to increase the competitiveness and the development of India, address regional inequality issues, reform government and decentralize.

In the end, the biggest task for India is not to look too far ahead to 2050, but to see how it will cope with its internal challenges by 2020.

Excerpt from the debate

In your opinion, how is India going to be able to respond to the water challenge? What about the food distribution?

There is indeed a true water crisis in India. Because of the *Taj Mahal syndrome*, the government has built large dams in India, which slow down the pace of water. There is also a lack of recognition of small irrigation systems' utility. Almost no tanks have been built to retain water. Therefore, the government should really provide irrigation.

Concerning food production, it is not really problematic, as it will probably take care of itself. India is likely to become a net importer of food, considering that if the GDP grows at a rate of 8%, agriculture needs to grow at 4%, which is impossible considering the lack of water and fragmentation. The issue of lost food must also be taken into consideration. Indeed, in 2008, the Food Corporation of India admitted the loss of 1.3 million tonnes of food grain over the past decade, which rotted in their warehouses. The lack of proper storage is to be blamed. It was only then that the government announced a silo

policy. It has worked well, which proves the point that once resources are deployed, things move quickly.

Do you think the relations between Indus and Muslims could be problematic?

India is truly a multicultural country, with 16 major languages and 600 dialects. It is a multi-ethnic and multicultural state, where values are shared. The scenario of Muslims outnumbering Hindus is unlikely, as Hindus from a lower cast continue to have more children than Muslims.

Is India's economic growth sustainable?

The issue of sustainability and preservation of planet resources is not dealt with within the government, mainly because it would be too costly politically. Developed countries need to set the way and accept that developing countries need to develop.

Maxime Roclore