

Can India Catch up with China?

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Can India Catch Up with China?

The real challenge is not catching up with China's growth rate, which must inevitably slow down, but whether India can come abreast of China in industrial growth and competitiveness and in expansion of the workforce.

MOHAN GURUSWAMY, ABHISHEK KAUL, VISHAL HANDA

A mood of great optimism is being stoked up. The spin-doctors are working overtime to whip up a sentiment that the facts do not support. We now have confirmation from Montek Singh Ahluwalia that India's GNP will grow at 7 per cent this year. India seems to be shining. A recent article 'Can India Overtake China', in the prestigious US journal *Foreign Policy*, co-authored by Yasheng Huang and Tarun Khanna accounts for a good bit of the gloss. The article couldn't have been timed better for the spin-doctors for it comes at a time when India's anticipated economic growth would come closest to that of China in more than a decade.

But we must not forget that 7 per cent comes after a year of 4.6 per cent, preceded by performances of 5.7 per cent and 3.9 per cent, which still shows the average growth rate to be in a low trajectory. But even if we accept that India is indeed shining, how good is that shine? Is it a burnish that reveals the quality of the metal beneath or is it a thin coat of varnish that just puts a superficial gloss? To understand that we must go into how good the years after the so-called reforms have been. Very simply the decade after the launch of the so-called reforms have not been very much better than the decade before it. The GNP growth for the post reform period (1992-01) crept up by a mere 0.2 per cent to 5.9 per cent. With a performance like that it would be extremely difficult to make a case that the

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economic reforms or liberalisation, call it what you wish, have made much of an impact on the nation as a whole.

Of course some have benefited. As Sushma Swaraj famously told the Lok Sabha recently there are no queues for telephones and gas connections. But India's teledensity a mere 3.2 per 100, and with just 58 million of the 180 million households with gas connections clearly suggesting that most households with an income less than Rs 80,000 pa are without cheap and subsidised energy, hardly indicates any great spread of happiness. Nevertheless no queues for phones, gas, and even for Maruti's and Bajaj's is still good news. But certainly not enough to warrant an outpouring of self-congratulations, for it is indices for infant mortality (69 per 1,000), life expectancy (63 years), literacy (65 per cent), as well as energy sufficiency (527 billion kWh) and consumption (a mere 379 kWh per capita) that make the reality (Tables 1(a) and 1(b)).

A comparison of the first 10 years of the economic performances of India and China after reforms (from 1992 for India and from 1979 for China) is instructive. China entered the first decade of the reforms as a fast developing and modernising country with an average decadal growth rate of 5.52 per cent. But more important than this was the performance (1980) of reducing infant mortality to 42 per 1,000, elevating life expectancy to 67 years, and raising adult literacy to 66 per cent. India by contrast had a better growth rate of 5.7 per cent in the 1980s but came burdened with an infant mortality of 119 per 1,000, life expectancy of 59.2 years,

and adult literacy of 48.41 per cent (Table 2). Many reasons have been advanced for China's stupendous performance. Few are as valid as what Amartya Sen wrote: "China's relative advantage over India is a product of its pre-reform (pre-1979) groundwork rather than its post-reform redirection".

Yet another comparison would be even more instructive. In 1978, at the inception of its reforms, China's per capita GDP (in constant 1995 US \$) was \$ 148, whereas that of India in the same year was \$ 236. Seven years after it began its reforms, in 1986, China caught up with India in per capita GDP terms (\$ 278 vs \$ 273) and a decade after reforms in 1988 was comfortably ahead of India with a per capita GDP of \$ 342 compared with India's \$ 312 (Figure 1). In the first post-reform decade the Chinese economy grew at 10.1 per cent while the Indian economy grew at 5.7 per cent in the corresponding decade (Figure 2 and Table 3). Quite clearly that was India's lost decade.

But what did we achieve in the first decade of our reforms? In 1992, the first year of its reforms, India's per capita GDP was \$ 331. This grew to \$ 477 in 2001. In the same period the Chinese per capita GDP surged from \$ 426 to \$ 878 in 2001.

Table 1(a): Demographic Indicators 2001

	China	India
Population (mn)	1272	1033
Birth rate (per 1000)	15	25
Death rate (per 1000)	7	9
Infant mortality rate (per 1000)	32	69
Life expectancy (years)	70	63

Source: World Development Indicators 2003.

Table 1(b): Prosperity Indicators 2001

Availability per 1000	China	India
Telephones (landlines)	112	32
Cellular phones	66	4
Personal computer	15.9	4.5
Television sets	293	78

Source: World Development Indicators 2003.

Table 2: Social Indicators at Pre-Reform Stage

	China in 1980	India in 1991
IMR (per 1000)	42	119
Life expectancy (years)	67	59.2
Adult literacy (per cent)	66	48.41

Sources: India Health Report, UNESCO; World Development Indicators 2003, A Sen and J Dreze, 'India and China', chapter 4 in India: Economic Development and Social Opportunity.

Figure 1: Comparison of Per Capita Incomes

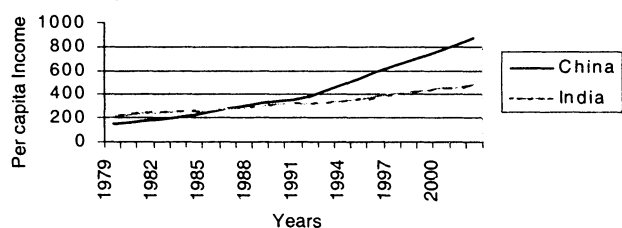


Figure 2: Growth Rate Comparison of First 10 Years of Reforms

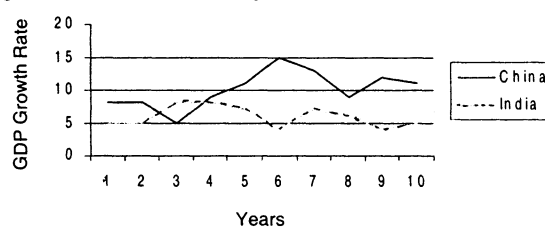
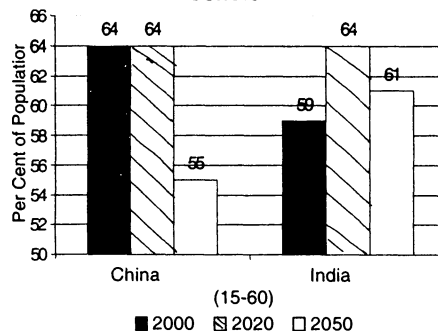


Figure 3: Population in Productive Cohort



In the 1990s China grew at the rate of 9.7 per cent while India grew at 5.9 per cent. Quite clearly far from beginning to catch up, we fell well behind.

China's GDP (1995 constant US \$) has grown eightfold since 1979 and stood at \$ 1.1 trillion in 2001. Chinese GDP was lower than that of India in absolute terms in 1978 but caught up with India in the very next year. Size of the Chinese economy now is twice that of India. In 2001 India's GDP stood at a mere \$ 492 billion with a population of 1.03 billion. We seem to be catching up with China on the population front but China's GDP still remains a distant and difficult target (Table 4).

Its true both countries have transformed themselves after they embarked on the path of economic reforms. But the transformations were entirely different. In 1980 the sectoral break-up of China's economy was as follows: agriculture 30 per cent, industry 49 per cent and services 21 per cent. In 1990 that changed to agriculture 27 per cent, industry 42 per cent and services 31 per cent. In 2000 that picture transformed further. Agriculture fell to 16 per cent; industry grew further to 51 per cent; while services steadied at 33 per cent. Note the growth in the share of industry now. This was primarily made possible by overseas investment, which amounted to \$ 290 billion (source: Ministry of Foreign Trade and Economic Cooperation) during the decade, which also created millions of new jobs.

Nothing manifests this better than the surge in China's R and D expenditure. The latest OECD science, technology and industry scoreboard has ranked China as the third largest R and D spender in the world. China's total R and D spending in 2001 stood at \$ 60 billion (PPP). Though India ranked among the top 10 spenders worldwide it spent only a third (\$19 billion) of what China invested in R and D in 2001. Such huge Chinese investments in furthering knowledge only suggests that India will only fall back further in terms of industrial growth rates and competitiveness.

The Indian sectoral picture makes for a study in contrasts. The share of agriculture fell somewhat from 31 per cent in 1990

Table 3: Growth Rates (Per cent)

	China	India
Pre-reform period	5.52	5.7
Post-reform period (First 10 years)	10.1	5.9

Source: Calculated from World Development Indicators 2003.

Table 4: GDP and Population

	1978	2001
China		
Population	962.6	1272
GDP (\$ bn)	141.06	1117
India		
Population	648	1033
GDP	155	492.5

Sources: World Development Indicators; National Account Statistics (India) and China Statistical Yearbook.

Table 5: Sectoral Break-Up of GDP (Per cent)

	1980	1990	2000
Agriculture			
China	30.1	27.1	15.9
India	42.8	31	28
Industry			
China	48.5	41.6	50.9
India	21.9	28	26
Services			
China	21.4	31.3	33.2
India	35.3	41	46

Sources: China Statistical Year Book, 2001, India's National Accounts Statistics (various issues).

to 28 per cent in 2000. The share of industry too fell from 28 per cent to 26 per cent. Services grew from 41 per cent to 46 per cent. Software apart, the biggest contributing factor to the growth of India's services sector has been the growth of public administration, which has been bounding at an average rate of 32.5 per cent each year from 1993-94 onwards. In 2001 alone, central, state and local governmental salaries together topped Rs 1,67,715 crore. This kind of spending was not what Keynes had in mind when he advocated public spending to stimulate the economy (Tables 5, 6(a) and 6(b)).

Table 6(a): Sectoral Growth Rates in the 1980s (Per cent)

	China	India
Agriculture	5.9	3.1
Industry	11.1	6.9
Services	13.5	6.9

Source: World Development Indicators 2003.

Table 6(b): Sectoral Growth Rates in the 1990s (Per cent)

	China	India
Agriculture	4	3
Industry	13.1	6.1
Services	8.9	7.9

Source: World Development Indicators 2003.

Table 7: Sectorwise Employment (Per cent)

	China	India
Agriculture	50	60.5
Industry	22	16.8
Services	28	22.7

Sources: China Statistical Yearbook 2000, K Sundaram, 'Employment in the 1990s: Further Results from the NSS 55th Round Employment-Unemployment Survey, 1999-2000', July 2001.

Table 8: Population in Productive Cohort (Mn)

	2000	2020	2050
China	812	921	824
India	599	824	962

Sources: United Nations, World Bank.

The impact of these sectoral growth rates is reflected in the job creation patterns for the two nations. Today China's workforce is 705 million (1999). About half of this workforce or 353 million is employed in agriculture, 28 per cent or 190 million in services, and 22 per cent or 162 million in industry. By contrast India's total workforce is 397 million (1999). The major employer is still the agricultural sector with 60.5 per cent or 240 million, industry is a relatively small 16.8 per cent or 67 million, services seems rising but employs only 22.7 per cent or 90 million (of this government alone accounts for 19.42 millions). Quite clearly in terms of employment we are still an agrarian society (Table 7).

But there is something else we must also understand here. China's population in terms of age break-up is passing through a phase of great demographic advantage. The cohort in the productive phase (15-60 years) of the life cycle is at its peak, whereas the dependency ratio in India is, relatively speaking, somewhat adverse (Figure 3). While 64 per cent of China's population

currently falls in the productive cohort, the corresponding figure for India is 59 per cent. However in 20 years from now, while China's productive population will stagnate at 64 per cent India's productive cohort will rise to 64 per cent and hence catch up with China. Moreover the picture will further change by 2050 with India (61 per cent) overtaking China (55 per cent). This transformation is, however, not just limited to percentage terms but is more importantly also palpable in absolute terms as India would have become the most populous country in the world with 1.5 billion. Thus while at present China's productive population stands at a whopping 812 millions, and India's seemingly way behind at 599 million, by 2050 India's productive population will be a huge 962 million and China would be way behind at 824 million (Table 8). Whether India will be able to convert this into economic advantage is still to be seen. That entails that India tool up to create a more productive and able workforce, stimulate investments and create a much bigger market for goods and services.

From the inter-sectoral picture we have now it is quite clear that China is a fast industrialising country whereas India seems to be entering the post-industrial phase without having industrialised. We need to reverse this trend by stimulating industrialisation, especially since it creates more jobs and has greater multiplier effects on the economy.

The challenge ahead of us is not catching up with China's growth rate, which inevitably must slow down. When nations compete, growth rates matter little if one is already well ahead. Can we do what China did to us in 1986? Can we come abreast with it? To do that in 2020 we need to grow at 11.6 per cent and to do that long after most of us are gone in 2050, India must grow at 8.9 per cent every year. Catching up with growth rates is not good enough. If that were the game we are already doing much better than the US, Europe and Japan! So if Montek Singh Ahluwalia says we will do 7 per cent, that's very good. But that's just one swallow and that doesn't mean that our season in the sun is at hand. **EW**

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