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INDIA AND CHINA IN THE GLOBAL ECONOMY- A COMPARATIVE EVALUATION

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PURPOSE

China and India are going to be the economic superpower of future. Such words are echoed by one and all. However, which of the two countries is moving in right direction in this context remains a million dollar question. This study makes an endeavour to assess the present position of the two countries in global scenario. Further, an attempt shall also be made to give some practicable suggestion to the said countries, especially India so that no stone is left unturned in their march to the top.

FINDINGS

The study has revealed that China is having a definite edge over India if the present position of these two countries in global economy is concerned. Moreover, China is found to be having better plans for future as well. India, at present is not having too many things to boast of. The government machinery of the country, to a great extent, is found to be responsible for the same.

IMPLICATIONS OF THE STUDY

The study incorporates in it some practicable suggestions which can be gainfully considered by the Government of India to match China's magic and move ahead with its development planks in right earnest.

LIMITATIONS

Availability and authenticity of secondary data in a country like India acted as a handicap for the researchers in their endeavour. Inspite of the said limitations, the researchers are quite satisfied with the overall quality of the research.

KEY WORDS

Growth, Development, WTO

INTRODUCTION

The concept of International Product Life Cycle (Vernon 1966) indicates how the international trade pattern changes. In the first stage of this life cycle, USA tends to dominate the world trade in general and exports in particular. However, this situation has been explained to be changing in the next stages as other developed countries initially and developing countries subsequently emerge stronger in the said area. This cycle can be generalized to other economic aspects as well. After making such a generalization, we may conclude that at this juncture, perhaps, we are witnessing the later stages of the said cycle as developing countries like China, India and Brazil are heading towards the top of the ladder. The talks concerning India along with China ruling the global economy in coming years is echoed by one and all. Such views, as a matter of fact, are not emerging in vacuum. These are based on growth pattern witnessed by these two countries in recent years and future projections made thereon. At the time when most of the developed and influential countries of the world have witnessed negative or meager economic growth rate, China and India have managed a growth rate of 9.6 and 8.9 per cent respectively there by making these two countries the top two growing nations of the world. China's semi capitalist economy has already surpassed the economies of France, Germany and Japan to become the second largest economy behind USA. India, with the present growth rate is already at the threshold of entry into top ten economies of the world in terms of nominal GDP and top three in terms of purchasing power parity. Which of these two countries enjoy a definite edge over other on various economic fundamentals? What is lying in store for them? All these and similar others are emerging as billion dollar questions. The present paper makes an attempt to answer such questions.

OBJECTIVES

This paper makes an endeavour to accomplish following objectives:

- To assess the present status of India and China in the global economy.
- To know which of the two countries is enjoying an edge over the other on the various fundamentals of the economy.
- To give some practicable suggestions to the two countries especially India so that their policies pertaining to economic growth may become more focused hither-to-be.

RESEARCH METHODOLOGY

The researchers have primarily relied on published secondary data to draw necessary conclusions. All possible efforts have been made to ensure that gathered data is an authentic one. It is in this context that a deliberate attempt was made to collect the information supplied by various Government agencies. The collected data have been presented and analysed with the help of appropriate statistical tables.

SCOPE OF THE STUDY

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The present study is confined to two fastest growing economies of the world i.e China and India. The comparison of these two economies has been made on key economic variables only. All the secondary data collected in this regard is of the period 2010-11.

INDIA-CHINA ECONOMIC COMPARISON

'Future belongs to India and China.' Most of the experts around the globe don't hesitate in expressing such sentiments. However, just concentrating on future may jeopardize desired efforts at present. The researchers have tried to assess how the selected countries are fairing on key economic parameters at this juncture. The same have been discussed with the help of table 1.

Table 1: India-China Economic Comparison

PARAMETERS	INDIA	CHINA
Size of Economy	$ 1.31 Trillion	$ 5.88 Trillion (Second Largest)
Per-Capita GDP	$ 1124	$ 7518
Poverty	37 per cent of total population	08 per cent of total population
Unemployment	9.4 per cent	4.60 per cent
FDI Inflows	$ 34.6 billion a year	$ 108 billion a Year
FDI Direction	Capital Intensive (Job less Growth)	Labour Intensive (Creation of Jobs and higher exports)

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Foreign Exchange Reserves	$2.41 billion	$2.65 Trillion
Inflation Rate	8.23 per cent	4.2 per cent
World Prosperity Index	88th position	58th position
Export Ranking (World Factbook)	20th	1st
Expected Growth Rate (2011-12)	9 per cent	10 per cent
Overcoming Global Financial Crises	Successful	Successful
Key Strength	Services	Manufacturing

Source: Compiled from Various Published Sources

A glance at table 1 indicates that China, at present, is having a clear and decisive edge over India.

China's semi-capitalist economy has already surpassed the great France, Germany and Japan to become the second largest economy behind the United States of America.

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China's economy has been growing at an outstanding pace for years which has not escaped the attention of global investors. Needless to say, the country's stock market has gained 109 per cent since 2009. India, on the other hand, has not yet forayed into the top ten countries of the world in this context. The size of Chinese economy is 4.5 times more than that of Indian economy. Further, India's per-capita GDP is $1/7^{th}$ of that of China at this juncture.

China has done miraculously well to reduce its poverty to the level of 8 per cent. Not long back, like India, it was struggling on this front with a 30 plus per cent poverty. However, urgency in this regard has lead to a situation that its poverty rate has come down to one digit. The country is optimistic to bring the same to zero in near future. India, on the other hand, inspite of all hype has failed to curtail its poverty rate and the same stands at 37 per cent at this point of time. This obviously does not argue well for it. The difference perhaps lies in the attitude and policies of the two countries.

One of the major indicators of poverty is rate of unemployment. On this front too, India has failed to match its counterpart. An unemployment rate of 9.4 per cent in comparison to 4.6 per cent of China proves India's apathy on this front as well. There is no denying the fact that steps such as implementation of MNREGA may prove fruitful in reducing unemployment but to make any significant improvement on this front, the country will have to adopt a more proactive approach.

China has outshined India on Foreign Direct Investment (FDI) front as well. Estimated annual FDI inflow in China is $108 a year against $34.6 billion a year of India. More importantly, India has failed to attract desired kind of FDI. China has been getting FDI in labour intensive industries while India, on account of its poor policies has to content with capital intensive FDI. Needless to say, FDI in China has generated huge employment and has surged its exports as well. India, on the other hand has been made to wonder as to why inspite of attracting FDI, unemployment and poverty rate are not coming down.

Although foreign exchange reserves of India looks healthy at $2.41 billion, the same are negligible in front of China's $2.65 Trillion.

Inflation, especially food inflation has also rattled India in the recent past. The food inflation in India, for instance is persisting at 15 % plus level for some time now. The Government, on its part, is coming out rather funny arguments such as Indians consuming more or account of enhanced prosperity to justify such a hefty price increase of food items. In reality, however, ignorance of agricultural sector, cuts in subsidies and price hikes of inputs like diesel and fertilisers, hoarding and growing penetration of big corporates in the food economy are the reasons behind it. The comparative position of China is much better in this regard as well.

All this has culminated into rather sorry ranking of India on the various socio-economic health indicators. India's ranking in global exports is 20th. This is inspite of the fact that India is the seventh largest country of the world and nature has showered all kind of blessings on it. China is at the top on this front as well. On overall world prosperity index, the country's 88th ranking certainly creates lot of doubts about its future.

It is however, heartening to note that India is not far behind China when it comes to the growth rate these two countries are likely to achieve in the coming years and the way it has recovered over recent recession. A projected growth rate of 9 percent (second fastest) and that too on sustained basis for some years is likely to place India in the proximity of developed nations. This argument also sounds authentic keeping in view the growth projections of the advanced countries. All these countries are likely to witness negative or very low economic growth rates in the coming years. India's recovery over recession also was swifter in comparison to most of the other economies of the world. The recent recession shattered the economies of many might countries. However, its impact on India was marginal and short lived. Whatever negative impact was witnessed, that was marginalized by a very swift and smooth recovery - the recovery, which has not been replicated by even very strong economies of the world. Indian corporates, for instance, experienced some erosion in both gross and net profit margins in third quarter of 2008-09, relative to pre-crisis level. The erosion in case of manufacturing sector was more pronounced as its net profit margins dwindled to half of what the same was prior to pre-crisis level. However, within no time i.e by 2nd quarter of 2009-10 profit margins of manufacturing sector rebounded to pre-crisis level. Initially meager impact and subsequently extremely quick recovery by Indian corporate sector has surprised even the optimists.

MATCHING CHINA- IMPERATIVES FOR INDIA

The above discussion leads us to the conclusion that although statistically speaking, India looks a struggler yet, the fundamentals of its economy and future growth projection makes it a dark horse in the global scenario. India, by addressing the below mentioned issues can not only match China but also enhanced its pace towards the tag of a developed nation.

At the outset, we need to pay special attention towards developing rather crippled infrastructure of the country. It is so because the same is a crucial fctor that influence growth of any country. We, at this juncture, lag behind developed and many developing countries of the world on this front. Inadequate infrastructure in the country can be made visible from the fact that over 40 percent of the fruit rots before reaching the final destination in the country. Government of India, in the budget of 2010-11 has rightly allocated lion's share of Rs. 1.73 lakh crore to infrastructure development in the country. This trend must follow for many more years.

An extremely high food inflation rate has dampened the growth rate euphoria in the country. The same must be checked to ensure that growth rate is not adversely hampered. In this context, we must stop ignoring agriculture on the pretext of developing industry and services. Besides it, hoarding must be dealt with severely, land mafia should be taken to the task, nature and extent of corporate involvement in agriculture must be defined and all possible support should be given to the farmers as they are prone to havoc of the nature. Agriculture will remain the crucial factor in the growth of the country.

India will have to have a re-look at its FDI policy. FDI inflows in the country are no-where near to that in China. More disturbing fact, as mentioned earlier, is kind of FDI inflows in the country. Perhaps we have succumbed to the pressure of MNCs and the countries of their origin and are allowing them to operate in the fields which are profitable to them only. Needless to say, foreign investment in the country has not lead to improvement in the areas such as poverty alleviation, employment generation etc. on account of the same being highly inclined towards capital intensive industries. We must learn from China which has made it crystal clear to MNCs investing in it to help the country or perish.

Corruption, black money and huge fiscal deficit are some other issues which will have to be addressed to in the right earnest by the country. How can the standard of living in the country be improved if more than 90 per cent of the money circulated for welfare activities finds a place in the pocket of the middlemen. Further, black money constituting more than 40 per cent of GDP (official estimates, unofficially the figure is much higher) make one wonder how powerful (economically) India could have been if black money was a productive resource. For all the mess, various governments at the central and state level are also responsible. Their spending on items such as security of the politicians, election campaigns and all other amenities provided to themselves and their near and dear ones has put India in a precarious situation as fiscal deficit has risen to 3.6 lac crores. India can never hope to grow if such issues are ignored by our politicians.

Indian business sector must also start spending more on Research and Development. It is a known fact that India's spending on R&D as a ratio of GDP is very low in comparison to other emerging economies. The research and development nexus is judged to be very weak, with little collaboration between business and academics, and little success in commercializing or adopting new technologies. Lack of initiative in this regard has lead to a situation that Indian corporate remains follower rather than innovator in product development. There is no denying the fact that innovator always enjoy privilege of customers. Indian corporate, in order to ensure that it is not lagging behind its counterparts, will have to reverse the trend by investing more in R&D.

In addition to the above challenges, we will have to serious look upon improving education rate and standards in the country; curtailing adverse balance of trade; making our laws especially labour laws simple and straight forward, making our financial markets more efficient and so on.

India by addressing the issues mentioned above can not only match China but also rise to the top in coming time. China has already attained rapid growth by technological leapfrogging and its potential for further leapfrogging has already starting diminishing. . India, on the other hand, precisely because it has lagged behind till now can maintain high growth rate for a much longer period by technological leapfrogging.

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