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'Dragon' vs 'Elephant': The Battle of Economic Supremacy

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Abstract

An effort is made in this article to compare the economies of two Asian giants, India and China. While China is world's second largest economy, India also appears to be a promising endeavor. The recent growth in the GDP of India has flabbergasted economist all around the globe. We would try to understand the two economies individually and then try to compare the two economies on some suitable parameters. We should bear the fact in our mind that the most crucial factor in a country's development is, whether the standard of living of its citizens has improved or not. The Chinese economy, owing to its four times larger size, can add more output to its economy at 6.5% GDP growth than what India would add at 40% GDP growth rate. Data points out that China's economy is in better condition than Indian economy in terms of HDI and GDP but still it will not be an exaggeration to say that China has also paid the price for economic growth in terms of civilian rights and Individual freedom. The Chinese government's communist mind and India's corruption at all tiers appears as big halts in achieving these objectives. At last we would also try to understand the few big challenges these economies face or will face in near future. This paper shall strengthen its conclusion by using mathematical tools such as graphics, charts, statistics, etc. The analysis could be helpful for not only understanding the economic structure of the two nations but also in resolving some of the budding problems which could turn into mammoth obstacles in near future.

Keywords: China; India; Economic comparison; Trade patterns; HDI Comparison; Investment comparison.

Introduction

The bilateral relationship between the People's Republic of China and Republic of India is termed as Sino- India relations or China- India relations. China and India are the emerging countries with the largest population and fastest growing economies. Both the Nations contribute 37% of the world population and 64% of the value of world output and income at current prices and exchange rates. Even though both the countries have similar characteristics of development yet there is a vast difference in the nature of economic development and the approaches opted by both countries in relation with each other and rest of the world. This has been attention-grabbing since many decades.

The rise in middle class consumer society has resulted in turning India and China into bigger market for western European world. The increasing marketing powers of these two emerging economies have made a great significance in rapidly globalizing world economy.

With the common resource i.e. the young working population as driving force to become an emerging economy in the world, India and China have become competitive about being more influential than other, in Asian and global markets. As in today China is superior to India in various sectors like manufacturing, trade and commerce in the international market. Whenever China and India are closely compared, the difference between the dragon and elephant is immediately noticeable.

Factors like social, economic, political, cultural etc. have been a constant source of influence for the economy of India and China. As in today China is much ahead of India and it is predicted that for several upcoming decades, China would

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stay at the top of Asian economic table. India's growth has not been able to outpace China over the past few decades but in the near future it is certainly expected to reach its potential capacity and give a stiff competition to Chinese economy. India needs to reform policies and increase investment in infrastructure, education and better government. India's GDP is estimated at around USD 1.537 trillion while China's average GDP is almost 5.87 trillion.

Since late 1970's China has been more market oriented other than being a closed centrally planned system. Reforms were slowly directed which resulted in increase in GDP since 1978. The beginning of the reforms marked removal of collectivist agriculture and gradual liberalization of prices, fiscal decentralization, rise in autonomy of state enterprises, significant growth of private sector development of stock market and banking system and introduction of FDI. On the other hand, India's economy revolves around traditional farming, agriculture, handicrafts and wide range of modern industries and a large number of services. More than half of the working population in India is in agriculture, but services have played vital role in the economic growth, estimating nearly two thirds of India's output but employing less than one third of its labor force. India is developing as an open market economy.

India has to achieve a lot in Economic sphere. The bigger question is whether India should stick to its own policies or Is there something that both the neighboring countries can learn from each other? We will try to derive some conclusions.

Objectives

India and China, two of the Asian giants have locked horns against one another to become world's biggest economic super power. While both countries are constantly adopting policies that would be helpful in their economic growth, China still has an upper hand in absolute measures but there is another side of the picture too, when we measure growth relatively. The aim of this article is to provide a comprehensive view of Indian and Chinese economy. It will also try to analyze the economic policies that both the countries adopted and the resulting economic structure from the same. We will take into account the fact that 200 years of colonization drained a lot of wealth out of India, whereas China has never faced any colonization and hence was developing on a planned economic model for very long. The historical and cultural policies not only mend the economic policies but also make the comparison multi-dimensional. While China was developing a communist model, India was trying to make its economy develop more on democratic lines. This study aims to do the comparison on various economic indices and it will also try to predict the future for both the nations based on some calculations.

Review of Literature

Indian economy is developing at a growth rate of less than 8% in GDP per annum whereas GDP growth rate of China has been over 10% for last decade or so. This fact would pose a question shall we compare the Chinese and the Indian economy? Questions like these made such comparison, a subject of intense investigation. In his book 'India: Economic Development and Social Opportunity, Jean Dreze and Amartya Sen have highlighted some of the aspects which became determinant in the comparatively slower growth of Indian economy than Chinese economy. Some of the sectors like health care and education lack adequate provisions which could boost Indian economic growth. "Comparing ourselves with China in these really important matters would be a very good perspective, and they can both inspire us and give us illumination about what to do and what not to do Despite the interest in the subject (of comparing India's 8% growth to China's 10%) this is surely a silly focus." (Amartya Sen, 2011) The most significant works on this topic include both Bosworth and Colluns (2007), Huang and Khanna (2003), Srinivasan (2006), Wu Y. (2008), Kumari Deepika and Neena Malhotra, (2014) among others. TN Srinivasan in his work 'China and India: open this, trade and effect on economic growth' says, "China and India share some common elements: Geographically they share the same continent; demographically they are giant with population exceeding 1 billion". The main difference is that the two countries have different political systems". (2006) Yanrui Wu (2008) found that economic development in various regions of India and China are not balanced. While both the countries tend to move towards urbanization, both of them should try to maintain an optimal balance amongst various regions in their pursuit. In India, the major cause for such a regional disparity turns out to be difference in human resource development whereas in China it is the exports factors which have led to this unbalance. Although these findings are subject to authentication, but they point out the possible policy decision that Indian and China's government might take in future. The minor and major similarities and differences have made the difference in the overall economic growth via economic policies.

Data and Methodology

This project of the comparison of Indian and Chinese economy involves extensive study of various literatures. The data has been taken from secondary sources. It was collected from trustworthy secondary sources such as World Bank, UNESCO, World Economic Forum and Human Development Report (HDR), 2018. The data on GDP, mortality rate, tuberculosis cases and other indices affecting HDI were collected and analyzed by the authors in a comprehensive manner. The analysis has been presented by using various tables and graphical representations. Authors have tried to draw some conclusions based on these analysis and also tried to bring out some recommendations for both countries, which they shall implement in order to be a better economy altogether.

Results and Discussion

Comparison of 'The Elephant' and 'The Dragon'

India's GDP growth rate is around 7.5% while the growth rate estimated for China is around 6.5% (2018). This data might suggest that the Indian economy will overtake Chinese economy in coming few years but that would be hasty generalization of the data because even at a slower rate Beijing adds more to its economy than New Delhi owing to its 4-times larger economy.

Table 1: Increase in GDP of Various Countries in Billion dollars

Country	GDP Increase from 2017 to 2018 in Billion $
Canada	123
Italy	128
Japan	179
France	131
Germany	215
USA	838
China	1181
India	87

Source: World Economic Outlook 2018, IMF

This data is staggering for this analysis because it shows that India needs to grow by 40% to add to its economy what China adds to its economy at 6.5%. This not only shows the sheer size of the Chinese economy but also questions the futility of a comparative study of Indian and Chinese economy. The Bar graph highlights the gigantic growth that China's economy is achieving every year. In absolute numbers China's net output addition exceeds even highly developed countries like USA by a fair margin.

One must know that around 35-40 years ago, Indian and Chinese economies were roughly of the same size. They both were having large population, but both of them chose different paths in their discourse to progress. India in 1947 embarked secular democratic way whereas China chose the road of communism with Chinese characteristics. After 70 years, it is undoubtedly accepted that

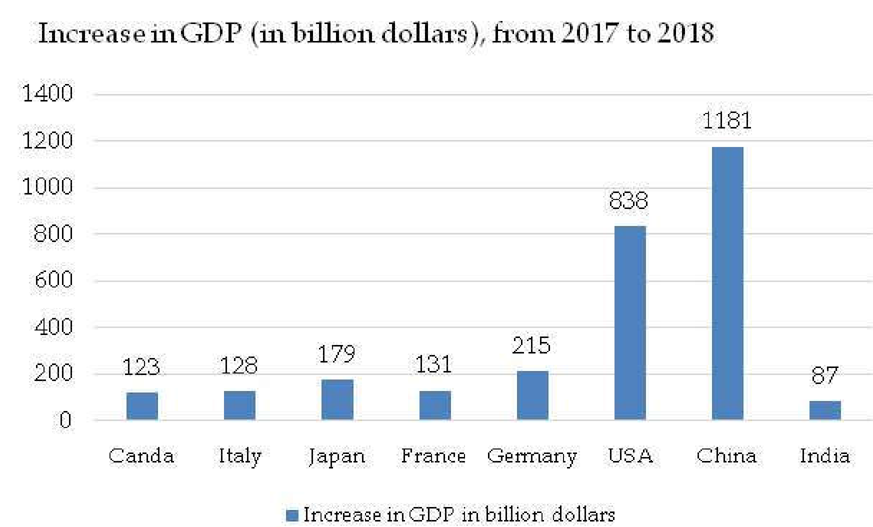

Fig. 1: Increase in GDP of Various Countries in Billion dollars
Source: Authors Graphical Representation of Table 1

Chinese economy is far more developed than Indian economy. Wecan also notdeny that, China has compromised on other values to focus on growth. Can we consider growth as a mark of progress? As former Prime Minister Manmohan Singh said there are, "Other values which are more important than the growth of GDP". The present differences in the economic output hail from the historical background of the two nations and the economic policies adopted by them. We shall look at both the countries and their policies:

Chinese Economy

Since the late 1970's China has moved from a closed, centrally planned system to a more market oriented economy, playing a major global role. The economy of China is the second largest in the world by Nominal GDP and largest by Purchasing Power Parity (PPP), according to IMF's World Economic Outlook Database, April 2018. China is ranked 71st by Nominal GDP and 78th by GDP (PPP) when measured on per capita income basis(2017). China slowly and steadily implemented reforms in various sectors of its economy resulting in almost 10 times increase in GDP since 1978.

China's public sector, account for a bigger share of the national economy than the burgeoning private sector. This can be accounted to socialist market economy of the People's Republic of China. China is world's largest manufacturing economy and exporter of goods. China became member of WTO in 2001 and since then have been one of the largest contributors in International trade. China is the second largest importer of goods owing to the fact that it has free trade agreements with ASEAN, Australia, New Zealand, Pakistan, South Korea and Switzerland.

The economic variation is quite significant in the coastal region; it has flourished more significantly the other region. By 2011, 250 million migrant workers and their dependents had relocated to urban areas to find work. Xi Jinping, a prominent leader of China gave two goals for Chinese economy which is as Jinping's Chinese dream. It is achieving 'Two 100s' namely the material goal of China becoming a "moderately well off society by 2021"which is the 100th anniversary of Chinese communist party and becoming a fully developed nation by 2049, the 100th anniversary of founding of People's Republic of China. For realizing such goals Chinese government has to face some obstacles such as low domestic demand, high domestic savings rate, maintaining the employment growth rate, restricting corruption, containing environmental damage, etc. In spite of these challenges, there is no denial of the fact that China is one of the largest and the fastest growing economy in the world.

Indian Economy

India liberalized its economy in 1991, after which it achieved 6-7% average GDP growth annually. It is the world's sixth largest economy by Nominal GDP and third largest economy by Purchasing Power Parity (PPP), according to IMF's World Economic Outlook Database, April 2018. India has capitalized on its large educated English-speaking population to become major exporter of information technology services, business, out sourcing services and software workers. However, the per capita incomes remain below the world's average.

The Indian economy is one of the most reliable economies in the world which has high growth prospective in future. Such a claim is usually based on various favorable factors such as its young population, English proficiency, investment rates, and international policies favoring trade (member of G-20 Economies and a member of BRICS).

The highest employment in the Indian economy is provided by Agriculture sector but the share of agriculture sector in GDP is merely 17%. The Indian Service Sector contributed 61.5% to GDP in 2018-19, which has made it one of the fastest growing service sectors in the world.

India after independence and before liberalization i.e. between 1947 and 1991 emphasized on Import Substitution, Protectionism, Fabian-socialism etc., which has led to have regulation and public ownership of large monopolies. Steel mining, machine tools, power plants among other industries were effectively nationalized by mid 1950s. The collapse of USSR, India's major trading partner, and the Gulf war forced India to do some economic reforms which ended the License Raj, reduced tariffs and interest rates, allowed FDI in some sectors etc. Before 1991 Indian economy was lumbering at a constant sluggish rate which was detrimental for Economic development but at the same time was trying to provide a basis on which all future endeavors of Indian Economy could be built upon. Since 1991, India continuously liberalized its economy. These reforms not only established India as a market based economy but also established India as one of the fastest growing economies.

GDP of India has grown exponentially doubling every 5 years. The recent growth can be credited to trade liberalization that has been intensified in gradual manner since 1991. India has initiated

Fig. 2: India's GDP Grows Exponentially, Almost Every Five Years; Source: Wikipedia

programs such as 'Make in India' which has further intensified the competition among local manufacturers and foreign companies and this has led to a rise in GDP growth, as shown Figure 2.

Comparison on Some Factors

1. Trade Patterns

China and India account for 37.5% of world population yet their GDP growth rates have outperformed world average growth rates. However, both the countries have achieved these high growth rates following different trade patterns.

1.(a) China: The integration of China's economy with world market has been one of the most significant economic development in the last few decades. Chinese average growth rates of trade are three times the world trade. China's share in world trade has risen over 1% in 1970 to 8% in 2006. The economic expansion of China's trade has impacted both its goods and services sector. It is notable that the service sector is growing but at a slower pace than the goods sector. The goods exports are 90% of its total exports, while its service sector account for less than 10%. China's three major trading partners are European Union, Japan and United States. These three accounted for 50% of China's total exports and made up 34% of its total imports. When it comes to imports, Japan and ASEAN are far more important partners for China. While China maintains a positive trade balance with EU & US, it is under negative balance of trade with ASEAN group.

1.(b) India: Recent economic development in Indian economy has led many economists to compare it with China. However, India has not yet met the expectations in the trade expansion. Its share in world trade has meagerly increased from 0.5% in 1990s to 1% in 2006 and up to 16% in 2017-18. The recent growth is accelerated by services rather than manufacturing sector. India's manufacturing trade relies heavily on low technology goods like furniture, textiles etc. rather than high technology goods. Mineral fuels and Gold are two of the largest goods traded by India. India's largest trade partners include China, United States and UAE. While India's largest destination for export is USA, its biggest import partner is China. Hence India maintains negative balance of trade with China.

2. HDI

China spend five times more in Health sector more than the Indian government. According to Human Development Report 2018, China and India have been ranked 86 and 130 respectively in Human Development Report. China is classified as 'High Development' Economy; Indian Economy on the other hand is 'Medium Human Development' Economy. Value of HDI for China (0.752) is higher than that of India (0.640).

Table 2: Factors Affecting HDI (Comparison between India and China)

	India	China
Life Expectancy	68 years	76.4 years
Infant Mortality Rate	34.7/1000	8.5/1000
Mortality Rate under 5	43/1000	9.9/1000

Source: Human Development Report 2018

India two of the major constituents of its population, i.e. women and children are often neglected in the policies, while China has female literacy rate of 99.59%, India has just over its 81.8% of its female population literate (2010-2017). Following the same trend, China is way ahead of India in children being nourished and vaccinated. In comparison to a small proportion in China, almost half of children in India are under

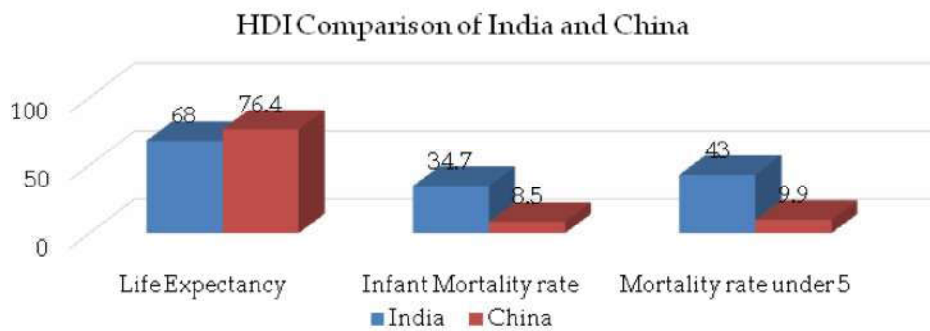

Fig. 3: Author's Graphical Presentation of Table 2 (Bar Graph)

nourished. In China, 97% of children are triple vaccinated (diphtheria/pertussis/tetanus) whereas in India this percentage is only of 66%. These numbers clearly highlight that India shall focus on the aspects of social life, as GNP growth won't suffice. Those who are fearful that India's growth performance would suffer if it paid more attention to "social objectives" such as education and health care should seriously consider not withstanding these social activities and achievements, China rate of GNP is still clearly higher than India's. (Sen Amartya, 2011) It is generally observed that People of the country that do not have proper sanitation facilities face lot of health problems. In India, 56% of population does not have improved sanitation facilities whereas in China it is only 23%.

Table 3: Comparison of Some Health Status Parameters between India and China

	Year	India	China
Per Capita Spending on Health	2014	74.99	49.73
Fertility Rate	2014	2.43	1.56
Tuberculosis Cases	2014	167	68
Population without access of improved water supply	2014	7.4	7

Source: WHO & UNICEF

China ranks 136 out of 189 countries in the Gender Inequality Index for 2017 way ahead of India whose rank is 36, according to latest Human Development Report published by UNDP, 2018. The Index is prepared with focus on maternal mortality ratio, Reservation for female in parliaments, Adolescents birth rate, Labor force participation rate. India's GII values has slightly improved from 0.563 (2014) to 0.524 (2017). China's per capita spending on health, which is much more than India's per capita spending on health, which in turn is well reflected in the data showing cases of tuberculosis in both nations. China emerges out to be healthier among the two countries.

3. Growth Investment

China's economy began its development 13 years (1979) before India could become relevant on the Global economic market (1991). Chinese economy from the very beginning has relied on foreign investment and this scenario has not been much altered. This extreme dependence has been detrimental to Chinese economy. The Chinese stock market crashed at one point and 70% of the country's banks have declared bankruptcy and

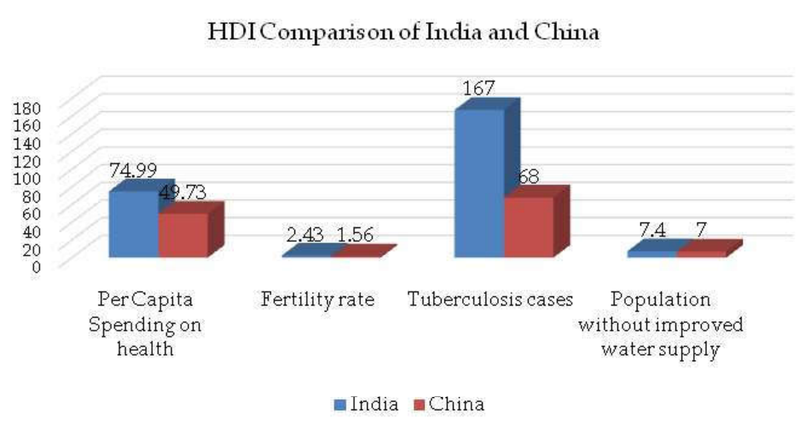

Fig. 4: Author's Graphical Presentation of Table 3 (Bar Graph)

now riding on foreign investments. All this shows the decaying state of Chinese financial/capital market. The government does not allow private enterprises to run due to its communist approach and fear of loss of Government's control over the economy. It will not be wrong to say that China is showing a mirage of growth while not considering long term consequences.

On the other hand, India is striving to develop its various sectors with the help of innovative private companies. Indian companies which started from home market are now emerging on the world market. For example- Tata Group, Reliance Corp., Mittal Steel, etc. have become some of the biggest MNC's in the world. This relative privatization had favorable impact on Indian stock market which has become very large. The Bombay stock market, for example has broken various domestic and international records. Japan, US and various other countries have made significant investments in India due to promising prospects of profit in India.

Key Challenges for India and China in Economic Development

China plays a crucial and pivotal role in world economy but in recent times it has faced lot of flak so the major issues that are decaying Chinese economy are:

1. *Falling Growth Rate:* From near 10% growth rate to a crumbling 6.5%, China's economy is progressing like a fairytale but in reverse direction. Chinese government's over ambitious projects has been funded via debts. Over years, these debts have accumulated to such large numbers that Chinese economy could face a huge setback in near future. For better growth prospects, China must restrict ambitious infrastructure development which are funded by debts or else find cheaper source of funds to fuel their growth.

2. *Relying on Exports:* China exports its products extensively to all nation but USA alone accounts for one third of it. The consumptive boom in US which was instigated by zero interest rate policies ended up by being the biggest market for Chinese exports. But now the rates are set to rise in USA which could reduce the demand by drastic amount. Such an upheaval could be disastrous for China. Thus it is high time that Chinese policy makers move to consumption driven economy from a export driven economy i.e. develop strong domestic demand if the Chinese fairytale of economic development has to continue.

India, due to its high percentage of young population, high annual growth rate, vast resource and liberal economic policies is set to become an economic superpower in coming years. But it is also facing some challenges which are obstacles in its path of development.

3. *Population growth:* Though China has higher population than India but still it is a bigger problem for India. India's population is growing by 20% intensifying already existing problems such as food deficits, sanitation deterioration, poverty and pollution etc. This increase in population is nowhere matched by measures for improvement of living standards. According to World Bank, one out of three Indian is living below poverty line and the employment rate is not high enough to provide any relief. Malnutrition and anemia, among other problems has clutched the Indian population by its throat.

Slow improvement in Capital formation, Inequality wealth distribution, low per capita income, poor quality of human capital, heavy reliance on agriculture are few of many problems that Indian economy is yet to overcome.

Conclusion

It is clear from the discussion that China as an economic entity is way ahead of India's economy. India growing at a faster rate than China does not imply that India is anywhere near the Chinese economy because even if India grows by 40% then also it cannot match China's 6.5% growth, owing to the sheer size of the Chinese economy. The data on GDP and analysis of various indices determining HDI such as life expectancy, Infant mortality rate, tuberculosis cases etc. reveal that China is way ahead in terms of output and its utilization for benefit of human development in the present scenario. The future prospects look great for India but not so enticing for China. India's economy is in early growth stage possessing excess resources which could be utilized in future with better technologies to reach the paramount of it development, whereas China's economy is in advanced growth stage, operating close to full capacity. Hence the future does not seem to be too promising unless there are rapid technology advancements in the world. China's stock market crash can be an initial signal of a catastrophic recession. Both the economies face loss of minor and major challenges which could become detrimental if not dealt with caution. It is very true that India and China were having same economic size at one time to begin with and both had huge population. The different path they chose decided their fates. India decided to become world's largest democracy and China became a communist party-state system. On absolute economic grounds, China has beaten India so far that we must also bear in mind that China has focused single-mindedly on 'growth' where it has sacrificed many things, which India has taken for granted. India was not willing to sacrifice free speech and democracy for just 'economic growth'. Both the countries were developing with their own set of pros' and cons. They must learn from each other but avoid imitation because apples cannot be oranges and Dragons cannot be elephants.

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