

# India And China Vying For World Economic Supremacy

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## ABSTRACT

*Under Deng's liberalized economic policies, foreign direct investment (FDI) started pouring into China, and since then, the Chinese economy is rising at the dizzy annual rate of about 10%. In the early 1990s, India also embarked on a major economic reform policy, liberating the economy and opening it to foreign investors. Substantial foreign capital came into India during the last decade, but the amount of FDI that went into China during the same period can be compared to a tsunami. The world had never witnessed this rare phenomenon of two relatively poor countries that together consist of one third of the world's population, simultaneously taking off on a steep ascent in their economies. The unprecedented economic growth in these two countries is being noticed by the rest of the world with awe and disbelief. It is being widely predicted that these two countries would soon become the next world economic super powers. This paper presents the several factors of the phenomenal growth taking place in India and China and investigates the possibility of either country attaining world economic supremacy.*

**Keywords:** India, China, Foreign Direct Investment, economic reforms, GDP, economic superpower, growth rates

## INTRODUCTION

According to Bardhan (2006), the world media nowadays, specifically the financial press, are all agog over the rise of China and India in the international economy, and many commentators predict the inevitable ascendance of the world's next superpowers, India and China. Only a few years ago, both countries were just attractions as ancient cultures to curious tourists. But now, these two very poor Asian giants, with over one billion population each, are attracting visitors from all over the world to watch how and why these two economies are fast chugging along towards world's economic supremacy. As Smith (2007) points out, in the remote past, only India and China, in the entire world had exhibited the capacity to create wealth, economic development, intellectual curiosity and inventiveness. Chinese manufacturers invented porcelain (china!). Hindu mathematicians were the first to devise the zero and the use of negative numbers. Around the time William The Conqueror was taking over England, more than half of the world's GDP was being produced by India and China (Smith, 2007).

For the first 1,500 years of the past two millennia, India and China dominated the world's economy. Britain and the United States took a century each to attain similar primacy, while having much smaller populations to take care of (Ramesh, 2007). With their economies teetering on the brink of total collapse just as recently as in the early 1980s, both countries now expect to maintain growth rates nearing 10 percent annually for quite some years to come. For these two economies, their growth is on a scale that is more than 200 times larger than what Britain and the U S exhibited so far, something that never happened before anywhere in the world (Ramesh, 2007). A World Bank analysis predicts that both China and India could almost triple their economic output in the next 10 years or so. By the late 2020s, China can possibly overtake the U S as the world's largest economy, followed by India as a close second (Buruma, 2008). How did this unprecedented growth happen in these two countries?

## **THE CHINESE MIRACLE**

After having had a glorious past, China's economy started to deteriorate from the early 1800s. According to Borich (2005), China went through a series of natural and man-made disasters from about 1840 until about 1980. These included the Opium Wars, the Western colonization of certain prime Chinese land areas, The Taiping, Rebellion, the Boxer Rebellion, and WW II. China's economy suffered a deadly blow with the advent of Mao Tse Tung from his takeover of China in 1949 and establishment of the Peoples Republic of China, his Hundred Flower Campaign, the Great Leap Forward, and the Cultural Revolution (Borick, 2005). China's economy was on the verge of total collapse through the isolationist economic policies of Mao. His death in 1976 came as a blessing to the billion or so Chinese people. His successor, Deng Xiao Peng, took over the reins of the Chinese economy in 1979 and opened the doors of China to global markets. Foreign Direct Investment (FDI) started to pour into China. Deng brought sweeping economic reforms and modernized the sectors of agriculture, industry, science and technology. Deng is fabled to have famously declared that, "it is glorious to be rich" (Farrell, Gao and Orr, 2004). According to Lardy (2007), China's economy is now ten times larger than it was in 1978 and it continues to grow at a dizzy rate of about 10 per cent annually. Lardy (2007) goes on to state that, by contrast since 1980, roughly the beginning of economic reforms in China, until the end of 2005, the economies of Latin America, as a whole grew ten percent, not per year but cumulatively.

By any measure, Chinese economic growth over the past three decades is nothing short of a miracle. Since the early 1980s, the Chinese economy has been doubling every seven years. As Koo (2008) states, nothing of this kind has ever happened before anywhere in the world. According to Zhixin (2008), China became the second largest economy in the world in 2007 with a GDP of US \$6.9 trillion when measured in Purchasing Power Parity (PPP), next only to the US. China's nominal GDP (measured in exchange rates) now is over US \$3 trillion, overtaking that of Germany (or will soon overtake Germany, subject to the prevailing exchange rates) to become the third largest economy in the world, after the US and Japan. (Koo, 2008). A small sample of China's surprising achievements in recent times includes the following (Koo, 2008):

- In 2006, China overtook the US as the second largest exporter of goods.
- Since the economic reforms in 1980s, 400 million people were lifted out of poverty.
- China is the fastest growing market for the British super luxury automobile, Bentley
- With zero FDI in the early 1980s, China now surpasses the US in attracting about US \$60 to 70 billion of FDI on the average, annually.
- China's foreign exchange reserves now total US \$1.9 trillion, the largest in the world.

## **THE INDIA STORY**

India is the largest democracy in the world with over 1 billion population. After attaining independence from the British in 1947, India, under the leadership of Nehru, adopted a centrally controlled, socialistic economic policy and isolated itself from global markets till the advent of Prime Minister P. V. Narasimha Rao in the early 1990s. He is referred to as the "father of Indian economic reforms" and is solely responsible for launching India's free market reforms that rescued the almost bankrupt nation from the brink of economic collapse. He successfully managed to bring about a paradigm shift from Nehru's failed socialistic economic philosophy to a liberalized, market-driven economy, opening the doors of India to the global markets, just as Deng Xiao Peng did in China (Wikipedia, PV Narasimha Rao, 2008).

According to Kohli (2007), India's economy is booming and is undeniably one of world's fastest growing economies with an annual growth rate of 8 percent since 2003, next only to China. The unique feature in India's growth is that it is happening within the framework of the largest democracy in the world, unlike China. As Ninian (2006) states, at the current growth rate, India would double its GDP in nine years. Some economists project that India could overtake China in about 20 years because of its greater population demographics. It is therefore not difficult to see why the US is now courting India as a counterweight to China (Ninian, 2006). India's main strong points, according to Ninian (2006), include:

- A new, burgeoning, English-speaking middle class of nearly 300 million, larger than the entire population of the US or two-thirds of the 25-nation EU.
- A large, efficient higher educational system producing annually over 2.5 million graduates of the Indian Institutes of Technology and the Indian Institutes of Management.
- A viable democracy of over one billion people
- An independent judiciary based on the English Common Law.
- A free press.
- A world's back-office with about 44 per cent of the global IT and BPO (Business Process Outsourcing) offshoring business services.
- A burgeoning KPO (Knowledge Process Outsourcing).

As Sappenfield (2006) states, since the economic reforms, India went through a rare phenomenon of sublimation by leapfrogging straight from an ancient agrarian economy into an IT-driven, white-collar economy, thus skipping over the usual intermediary phase of the industrial economy, which every country in the world followed so far. India was long dismissed as not being conducive for growth in the manufacturing sector because of its complex bureaucracy and lack of infrastructure. The manufacturing sector in India grew at 11.3 percent in the first quarter of 2006. The main reason is that over half of India's 1.2 billion people are under 25 years of age constituting a huge workforce, whereas China's long-standing one child policy is coming home to roost, resulting in a much older workforce (Sappenfield, 2006).

According to Chadda (2007), there is misconception about India linking it with only outsourcing of IT service jobs. Since 2002, tremendous amounts of FDI poured into India into several manufacturing sectors, such as technology, manufacturing, pharmaceuticals, infrastructure, energy, consumer goods, telecommunications, financial services, media, hospitality, etc. Companies such as HP, Hyundai, Honda, VW, BMW, Toyota, and Daihatsu are setting up plants in India, bringing in billions of US dollars of FDI into the Indian economy. A small sample of India's recent achievements, according to Cheddar (2007), is:

- Largest manufacturer of motorcycles in the world.
- Largest steel manufacturer.
- 2<sup>nd</sup> largest manufacturer of small cars.
- 2<sup>nd</sup> largest in steel exports.
- 2<sup>nd</sup> largest in CD-ROM manufacturing.
- 3<sup>rd</sup> largest in manufacturing auto parts.
- 4<sup>th</sup> largest in manufacturing pharmaceuticals.

### **WHO WILL WIN THE RACE FOR WORLD ECONOMIC SUPREMACY?**

China is presently ahead of the race for world's economic supremacy, with a dizzy average annual growth rate of about 10 percent for the past 25 years, and apparently with no stops in sight. However, there are signs of some rough weather looming ahead for China, which may contribute toward slowing down its growth rate.

1. Waldman (2005) reported that a UN project predicted a looming demographic time bomb awaiting China in the future. The UN study projected that the share of Chinese population aged 60 years and above will increase from 11 percent in 2004 to nearly 28 percent by the year 2040, which amounts to nearly 400 million who will be 60 years or older. Chinese workforce would be drastically reduced with no remedy in sight. According to Zhao and Guo (2007), the world may notice that "China has become old before it has become rich." As Arunachalam (2008) states, India will experience a demographic dividend for a longer period than China. Around the middle of the 21<sup>st</sup> Century, India is likely to have more working people than China, which is likely to give some demographic advantage over China (Arunachalam, 2008).
2. Presently, China may have a comparative advantage of cheap labor in the manufacturing sector, but wages are increasing and China could soon lose its advantage to India, which has nearly half a billion young workforce ready to enter the manufacturing sector (Kotwal, 2008).

3. China's rapid growth is gradually coming into conflict with its authoritarian, centrally controlled political system. According to Emmott (2008), President Bush did at least one thing right in his years at the White House; that is, establishing close ties with India, because they have the resources and the population strength to rival China and neutralize its power in the future. According to Emmott (2008), China's economic growth would probably level off in about 15 years and continue to grow at a steady 5 percent annually, while India would continue to get ahead, growing at annual growth rate of about 10 percent.
4. Tan and Tan (2008) reported that competitive provinces for China are concentrated along the eastern coastal regions only, whereas more competitive states in India are well distributed all across the continent. Their study indicated that India is ahead of China in competitiveness in economics, government and institutions, and social environment.
5. Sheridan (2006) stresses the fact that India showed to the rest of the world that, contrary to the Chinese arguments, economic development is compatible with democracy, even in huge, diverse, multi-racial, and poor countries. This fact explains the keen interest of western countries, especially of the US, in India. India's achievements cast a standing rebuke to China's human-rights record and its authoritarian political climate (Sheridan, 2006).
6. According to Biggs (2006), India will prevail over China because, in addition to many other assets, India possesses two immense advantages over China; namely, its viable, democratic political system and the mature and transparent state of its financial markets. Biggs emphasizes that lacking these two essential ingredients to achieve the status of a great nation, China's social stability will always be questionable and its capital allocation process will be flawed, and a smooth and quick remediation will not be possible under a communist regime.

## **CONCLUSION**

China has consistently grown much faster than India for the past 30 years and it will probably continue to grow faster than India for a few more years. But, in all probability, eventually, India would continue to grow fast for a lot longer time than China because of India's huge population which is far younger than that of China. China will run out of steam, with its millions of aging population and without enough younger people to replenish the depleted workforce. China's misguided one-child policy would come back to haunt as its nemesis. India has no such problem. Barring any unexpected natural or man-made calamities, India will eventually overtake China and become the world's economic super power even though it may take a long time.

## **NEED FOR FUTURE RESEARCH**

As the recent upheavals in the financial markets of the US indicate, it is impossible to foresee the economic trends of any country into the distant future. The conclusion in this paper is based on the existing trends in the economies of India and China. But these trends can turn on a dime and therefore, frequent studies are needed to track the economic progress of these two Asian giants to forecast any of their future trends.

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