Comparing the Economic Growth of China and India
Current Situation, Problems, and Prospects

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Abstract: With the rise of emerging economies, the topic of India catching up with China or the so-called dragon–elephant competition has raised increasing concerns in the past 10 years. Viewed from successful economic growth logic and comparison, the two countries have their own experience for reference as well as deficiencies to improve. Rather than being a zero-sum game, the competition between China and India is mutually complementary and win–win cooperative. There is hope that the takeoff of dragon and elephant will contribute to the new landscape of economic development in the 21st century. As members of Brazil, Russia, India, China, and South Africa (BRICS), the peaceful development of China and India will be major events of the 21st century. The two countries should enhance cooperation instead of confrontation. If India does not follow the example of the USA closely to contain China’s development, then India can change military expenditure into infrastructure investment to reduce domestic poverty, and can gain more benefits from the cooperation with China.

Key words: China and India’s economic growth; economic growth; economic cooperation

In the early stages following the foundation of the People’s Republic of China (PRC), the national economy of China and India were at similar levels. In 1950, India’s gross national product (GNP) was 49.5% higher than that of China, and as for the per capita GNP, India’s was 2.3 times higher than that of China, while the Chinese per capita gross domestic product (GDP) was only 43.5% of India’s. Since the establishment of the PRC, especially in the late 1970s, with the opening up and reform policy, the Chinese economy has made rapid progress and notable
achievements regarded as the “Chinese Miracle” (Lin and Zhou 2011). India has also attained sometimes fast and sometimes slow economic development through a series of economic reform policies since 1991. With the rise of emerging economies and BRICS, the topic of India and China—the so-called dragon–elephant competition—has raised increasing concerns worldwide over the past 10 years.

**China–India’s Economic Growth: Achievements in Recent Years**

Chinese economic reform and development have taken a traditional road of industrialization, in which manufacturing industry has been established as the core force to drive the development of other industries and to eventually accelerate the development of national economy and promote the adjustment, optimization, and upgrading of industrial structure. Chinese economic development has experienced a process of enhancing domestic manufacturing industry and accordingly the general industrialization of the country by considerably expanding investment demand (by domestic investment and foreign direct investment (FDI) entry) and export demand (with huge trade surplus). The developing mode adjusts to the global shifting trend of international industry (especially of manufacturing industry) and domestic conditions. McKinsey & Company claims that the development of the manufacturing industry has made Chinese mainland a “world factory” within a short period of 20 years, and China has found a sustainable developing pattern for manufacturing industry. China has gained great success in opening up as well. First, the introduction of foreign capital has gained notable achievements. By 2010, the Chinese FDI mounted up to US$105.7 billion, ranking the second in the world while the fourth in 2005, its proportion in the world raising from 7.3% in 2005 to 9.4% as well. China has already become one of the world’s most attractive FDI countries. Until now, with over 30 million foreign companies carrying out business activities in China, China has become the second FDI inflow country, ranking only second to the USA in the past 5 years. Almost all Fortune 500 companies, with a small exception of companies that are not allowed to invest in China due to Chinese restrictions on foreign access to certain industries, have invested in Chinese mainland. Second, Chinese foreign trade has maintained rapid development. At present, China’s volume of total imports and exports rank the second largest in the world. Third, China’s foreign investment has made considerable progress. By 2009, China’s FDI outflows had maintained steady and rapid growth for 8 consecutive years, with an average annual growth rate of over 50%, ranked fifth after America, France, Japan, and Germany in the world. Fourth, the national per capita income is also increasing rapidly. The gap of gross national income (GNI) per capita between China and the developed countries’ average level
has reduced significantly. China’s per capita GNI ratio to developed countries’ average level has increased from 24.8% in 2005 to 41.8% in 2009, narrowing the gap by 17% within 5 years. Fifth, the total scale taken in world economy has been increasing. Chinese GDP ranking in the world increased from fifth in 2005, to fourth in 2006, third in 2007, and surpassed Japan to be the world’s second largest economy for the first time in 2010. The proportion of China’s GDP in the world has increased year by year, from 5% in 2005 to 9.5% in 2010. Meanwhile, the gap between China and USA gradually reduced; the ratio of US GDP has risen from 17.9% in 2005 to 40.2% in 2010. If the total GDP in 2010 is taken as the base, the American economy develops at an average annual growth rate of 2%, while China’s GDP grows at an annual rate of 8%; without consideration of exchange rate changes, it is estimated that China’s GDP will reach nearly US$20 trillion by 2025. In other words, in 2025, China’s GDP will rank alongside or outpace America’s (Lin and Zhou 2011).

India’s economy performed poorly during 1950s–1970s, so India has got into the Hindu equilibrium with a low-speed economic development (3%–3.5%). In 1950, India’s per capita income was about 40% higher than China’s, while in 1978 the two countries almost had equal per capita income. In the 1980s, India’s economy began to speed up and the economic growth accelerated in the 1990s. In 1999, China’s per capita income increased to twice of India’s. India’s economic growth reached 6% during 1980–2002 and 7.5% during 2002–2010, while China’s average annual GDP grew by 10% in 1978–2010. Especially in the past 2 years, India’s economic growth has accelerated, and its pace of growth has made it one of the world’s most rapid growing economies after China and is signaling the trend of overtaking China (Lal 2008) (see Table 1).

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Sources: Data from International Monetary Fund (IMF) (http://www.imf.org/external/data.htm), National Data of National Bureau of Statistics of China (http://data.stats.gov.cn/index) and author’s calculation.

Overall, the economic developments of China and India show distinct differences. First, China is twice that of India both in total GDP and per capita GDP. Second, the Chinese foreign trade scale is 6 times that of India. Third, Chinese FDI is 10 times that of India. Fourth, the Chinese economy took 11.16%
and 17.66% in the world share in 2000 and 2010, respectively, while India took 5.46% and 6.2%, in the respective years, which was equivalent to the Chinese level in 1990. Thus, it will still take time for India to overtake China either in terms of total economic scale or per capita income levels. Martin Jacques (2010) remarked that even if India’s economic growth overtakes China, India will still take a long time to achieve the Chinese economic scale. In all, at least in a certain period of time, China’s economic strength will dwarf India’s. Taking the most rapid Indian economic growth rate of 9% in recent years and conservative Chinese economic growth rate of 7% together with a population growth rate of 0.7%, the current Chinese per capita income being 3 times that of India’s, into account, it will take 103 years for India to overtake China and catch up with the Chinese per capita income. Even taking other factors into account, with Chinese per capita being twice that of India’s, it will take 65 years for the two countries to reach a flat level in per capita GDP. As for the total economy, when taking the total GDP in 2010 as the base, if the Indian economy grows at an annual rate of 9% and Chinese economy grows at an annual rate of 8%, it will take 135 years for India to catch up or overtake Chinese total GDP.

Many scholars (Rong 2001) consider the economic reform implemented by the Rao government as the main cause for Indian economy’s growth in recent years. Actually, Indian economic growth began with its independence in 1947. The Nehru government policy reforms during the 1980s were sufficient to trigger the acceleration of economic growth; India’s average annual economic growth rate reached nearly 6% between 1980 and 2005. By the late 1980s, the overall labor productivity of India was nearly one-third higher than the expected results of the previous development trends before the 1980s. India’s reform focuses on three aspects: to encourage imports of capital goods and products, moderate relaxation of industrial control, and moderate tax reform. More mainstream scholars (Zhang 2011) believe that the prosperity created by the Indian reform is not sustainable. North (2009) emphasized that efficient economic organization is the key to economic growth. Impact of reform lies not only in which kind of policies the government implements but also in whether these policies could be effectively implemented in dealing with government bureaucracy and inefficient actions. For instance, there are many internal crossing barriers that remain in India—a truck running 500 miles may be subjected to internal tariffs at three different places. As a federal government, the elimination of bureaucracy takes more interstate efforts rather than national-level actions. It is by no means an easy task to enhance government efficiency and eliminate bureaucracy under a political institution such as India, a country which consists of many states and has a large population and lots of poor people.
Another factor that promotes the rapid economic development in India is the IT industry. Without any broad-based manufacturing industrial revolution, the economic growth of India depends largely on the services industry. There used to be only 80 IT companies in India, which increased to 150 in 1985. With the rise of the software industry after 1986, India witnessed a rapid increase in exports. The proportion that the services industry has taken in Indian GDP in the last 10 years accounts for over 50%, which is 12%–13% higher than that of China, while the modern software industry has developed extremely rapidly. In recent years, the average growth rate of Indian services industry reached 9%, among which software industry growth amounts to over 10%. The development of modern software industry has been a model for modern Indian services industry, which has maintained an annual growth rate of over 50% with the support of national policies, and advantage in human resource capital and language and rose in the 1990s. Such high value-added knowledge-intensive services industry is typical of the modern service industries, and a significant growth point for stimulating the development of tertiary industry in India. At present, Indian software exports to over 100 countries and regions in the world; 200 of the world’s top 500 enterprises have outsourced to Indian software developing services. The exports of Indian software service rank the second in the world and account for 10% to total exports of India (Zhang 2011).

Many scholars believe the reason for the rapid development of Indian software industry lies in developed financial markets, energetic entrepreneurs, and sound higher education in India. In fact, that is only one of the main factors. Main factors guiding the rapid development of software industry are the following: The first is policy guidance. As a developing country, India is relatively weak in comprehensive national strength. The Indian government’s developing strategy is carried out from several key industries, to use limited resources and centralized support policy to related industries to achieve “Indian overtaking.” Since the Rajiv Gandhi era, India began to focus on the development of the IT industry and has established the information industry as economic growth poles. In the early 1980s, the Rajiv Gandhi government clearly proposed “to drive India to the 21st century by electronic revolution” (Lv 2013). The promotion and entry point for government policy lie in the software industry. The Vajpayee government has further established the goal of making India “a global IT superpower” and “pioneer in the era of information revolution,” and proposed IT and biotechnology as two key prospect knowledge-based industries for India. The second is the habitat and hatching role played by science and technology parks for the software industry. The first three established Indian science and technology parks, of which Bangalore is the center, extend along both sides of the southern Indian coast to Poona and Bhubaneswar, and form a large coastal triangle. One reason is that research team
and strength of the Indian Institute of Technology provide the development of the software industry in Bangalore with sound technology and talents support. Many world-class software engineers graduated from the Indian Institute of Technology. Another reason lies in the early introduction of multinational companies, such as the satellite ground station, which was set by Texas Instruments in 1986 in Bangalore and has solved the problem of high-speed data transmission. Nowadays, Bangalore has over 200 IT-based foreign companies and is known as the “Silicon Valley of India.” Third, multi-level software talents are fostered by multi-channel training, form multi-level human resource structure, and provide human support for the rapid development of the software industry. However, the Indian software industry has generally taken a shortcut for quick success. The rapid development of the Indian software industry mainly takes advantage of cheap labor force and promotes the domestic software industry by software outsourcing. The development of the Indian software industry is thus lacking a complete industrial chain, independent innovation, or intellectual property. The development of the Indian software industry itself tends to be controlled in resources. For the lack of brand advantage, the Indian software industry is short of a sound basis for long-term development.

**Growing Tendency and Problems in Long-Term Economic Growth of China and India**

China and India’s economic development is increasingly concerned about the long-term sustainable growth prospects. In the late 1990s, Dreze and Sen ([1999] 2006) predicted that Indian economy would be bound to experience rapid GDP growth similar with that of the 1980s. But they also pointed out that such economic growth would be driven from the rapid expansion of the industrial sector through preferential policies, and the central issue of India is not as simple as the overall growth rate. China and India are faced with the same problem of growing bottlenecks. Although the industrial sector and service sector used to be the engine of the economic growth for both countries, to maintain long-term sustainable development, China and India, especially China, must reduce dependence on trade sector and transform the economic growth pattern to be one based on a more broad-based growth, so as to avoid being locked in the downstream of international production chain. Therefore, technical upgrade will be the key to long-term sustainable growth for both China and India. As for the two different developing patterns of China (characterized by government-led, traditional industries and investment-driven economic growth) and India (penetration and reverse stimulus from service industries and information industry to traditional industry and agriculture), it may take 30 to 50 years to see which country is superior.
In maintaining long-term growth momentum, both China and India have noticeable strengths as well as weaknesses. Even though India has maintained a growth rate no less than that of newly industrialized countries in East Asia in recent years, Indian industrial sector remains “extremely weak”; while Chinese economic growth is fully reflected in various economic sectors of agriculture, industry, and services, the growth rate of the services sector has actually exceeded that of India. Compared with China, India has a younger labor force, yet is faced with a serious lack of education and training of the labor force. Although China and India are confronted with difficulties in absorbing surplus agricultural labor (manufacturing), the problem India is faced with is much more serious. As for such issues, the labor law does not have a notable influence on the industrial labor adjustment. If India is incapable of improving the labor quality or building a more free flow labor market, then the advantage of the young labor that India has been proud of is actually a misnomer. In addition, although Indian savings rate is high, most of the private savings are under the risk of being used to fill the public budget deficit gap. Poor infrastructure construction, agricultural stagnation, poverty, sectarian conflict, and nationalism caused social instability and political division will still plague India in the long run. But India also has its own outstanding advantages such as a younger labor force structure, sound financial system, dependence more on human capital advantage rather than resource advantages, free and more efficient enterprise system (and higher return on investment (ROI)), the knowledge of English and elite education. When it comes to innovation, the Indian policy has long stressed basic research in R&D investment, patent protection, and scientific research institutions. All these have brought up obvious advantages and higher efficiency of the economic growth engine compared with China in the conversion of research costs and the scientific research. However, the economic growth of China and India are also plagued by social equity between urban and rural areas, also between different regions, and social classes. This inequality which was once an economic growth incentive is about to destroy the sustainability of growth.

In addition, rational scholars do not necessarily show optimistic attitude toward prospects of Indian economic growth. Duvvuri Subbarao, the governor and chief economist of the Reserve Bank of India (RBI), said that although the growth rate of 9% was feasible, it would be unreachable in the near future. India’s economic development has made encouraging progress over the past decade, yet the challenges that India is faced with remain daunting: At present, only 12% of Indian residents have had higher education; however, the Government hopes to increase the ratio to 21% by 2017. Meanwhile, the implementation of Indian reforms has been quite slow, and business reforms remain half-finished; long-standing licensing system is still quite common; huge fiscal deficit, stubbornly high inflation, and ineffective
fiscal policy will all affect long-term Indian economic growth (Munshi 2013). India, which is the same as many capitalist countries in terms of private ownership (like Japan), can hardly retain rapid economic growth for a long period of time.

**China and India’s Economic Growth: Which One Is Superior?**

**Financial System Efficiency and Economic Growth Efficiency**

Several scholars unilaterally consider India’s economic growth efficiency to be higher than China’s based on the grounds of much higher financial system efficiency in India. As Huang Yasheng and Tarun Khanna (2003) put it in their paper published in *Foreign Policy*, “with highly efficient domestic banks and capital market, local Indian entrepreneurs may eventually promote India’s economy to outpace China’s in the long run.” However, the efficiency of the financial system does not equate with the efficiency of economic growth. The standards for measuring the efficiency of a country’s economic growth vary. As far as the two populous developing countries like China and India are concerned, an important criterion for economic growth efficiency lies in whether it allows more people to enjoy the products of economic growth, specifically, whether it promotes the increase in employment. Due to significant differences between China and India’s economic and industrial developing models, the two countries’ economic structures and the stimulating effects on employment are distinct from each other. In India, the tertiary industry, including services sector, accounts for up to 50%–60% proportion of GDP, while in China it is just the opposite—secondary industry, including manufacturing industry, accounts for 50%–60% proportion of GDP. Compared with Indian industrial structure, Chinese industrial structure and its changing trend are undoubtedly beneficial for its employment in the long run and can stimulate the increase in its national income (Li 2006b). Statistics show that India’s population burden rate (ratio of the number of people who are younger or older than the standard working age to the number of working-age population) is lower than China’s, and it may outpace China’s around 2030. Yet the present Chinese employment rate is nearly 20% higher than India’s. Compared with China, India is a typical country with rapid development and low employment. For instance, during 1993–1994 and 1999–2000, India’s economic growth rate reached 6.5%, while the employment growth was only 1% (Wolf 2006). As for the positive impact of the thriving IT industry on the socioeconomic development of India in the future, it can hardly be optimistic. Moreover, the increasing number of cases shows that the IT industry is strengthening features of “two India.” In fact, it is the rise and development of the Indian IT industry that leads the country to fall into the great trap of “two India.” All through India’s long history of development, there have been two Indias: one is
the highly developed India, and the other, largely underdeveloped India. The rapid economic development of South India, where the IT industry center of Bangalore is located, led to the development of real estate and commercial and financial services, forming a huge consumption boom that led to North–South disparity in consumption growth, which may further strengthen the “Matthew Effect” in economic development between the northern and southern parts of India, if such a situation is prolonged for long and cannot be timely reversed. Due to disparity between “two India,” Indian economic development tends to be a skill-intensive development model, while ignoring the development of labor-intensive industries in the long term. About 600–700 million of the 1 billion Indians are poor people, of which 250 million people are the poorest with about 80% of Indians living in rural areas, while nearly one-third are illiterate. Even though higher education in India is very advanced, the basic education remains rather backward, as a result of which only a very slim part of the elite, or the aristocracy, are able to receive sound education (Li 2006a). According to Myrdal (2000), the utilization of labor force in India is an awkward combination of “softening” and “hardening.” On one hand, the workload is dispersed by a variety of system pressures; on the other hand, lawful applicants are restricted by modern and traditional factors. As Bardhan (2008) puts it in his book—Awakening Giants, Feet of Clay—a major cause for India’s weakness is rooted in human factors: What people lack are not inherent abilities or technical specialties, but initiatives, motivation to improve their own economic status, and respect for workers. In addition, many people believe that India is becoming a “world office” driven by the development of the IT industry and may surpass China’s status of “world factory.” In fact, however, convergent lack of independent innovation capability and independent brands can be found at the bottom of the outsourcing production chain of multinational companies in developed countries in both China and India. Divergence can be found in a way that, although the two share similar status, the “world factory” status of China will promote economic growth in a more prolonged way than the alleged “world office” status of India. Relatively speaking, the former is more conducive to effective upgrading of industrial structure and increase in employment, while the latter tends to strengthen the economy to be more “aristocratic.” From such a perspective, it is reasonable to make a bold projection that it may be rather difficult for India’s economy to overtake China’s. However, Bardhan (2008) stressed that if the 1.5 million employers, self-employed, and employees of the Indian labor force have a sudden magical psychological change toward a modern industrial country model, India will certainly be brimming with modern mines, power plants, and highways, and per capita income is bound to grow by several times in 20 years. In short, although India has come to the gate of accelerating economic growth, it is sure that
it can barely cross the threshold of long-term sustained growth without large-scale increase in employment as well as fair sharing of economic growth by all citizens.

On the other hand, the financial system has been the central nervous system for modern economy, especially for developed market economies; a perfect functional financial network with wide coverage also provides important conditions for capital aggregation and allocation. However, the development of the financial industry and financial market calls for high conditions on all aspects with the full development of the real economy as a prerequisite, which in turn promotes the development and improvement of the real economy; developing countries usually do not have comparative advantages in this regard. After World War II, among countries or regions of relatively successful economic development, except for Hong Kong and Singapore, other countries or regions barely showed anything spectacular in the development of the financial sector and financial markets. We should pay due attention to the role of the financial industry and financial markets in economic development, not mechanically adopt the standards of developed countries to measure developing countries in such levels of development like China and India. Moreover, India’s financial industry and financial markets had been more advanced than China’s even before the 1990s, but its economic development has never overtaken China’s. Thus, simple comparison of economic development potential between the two countries by financial industry and financial market development level of the two countries is far more than insufficient.

**Enterprise Efficiency**

With highly efficient economic growth, India has taken a more sustainable mode that mainly relies on internal accumulation of investment-driven economic growth than China’s developing mode which relies on direct foreign investment–driven economic growth. In 2010, foreign investment in China exceeded US$100 billion for the first time, which keeps China the global dominating place in attracting foreign investment; although the foreign investment that India introduced has been increasing fast in recent years, it has been hovering around US$20–US$30 billion and only reached US$25 billion in 2010. The rapid economic growth of India should attribute to the highly efficient allocation of Indian capital. In terms of labor productivity in the manufacturing industry, China’s was US$853 per person higher than India’s from 1980 to 1994, while from 1995 to 1999 China’s was US$233 per person lower than India’s. In the early 1990s, China’s economic growth rate reached double digits; this can be partly attributed to the huge investment in state-owned enterprises. In the commercial sense, most of the investment in state-owned enterprises by the Chinese government were not feasible, which led to the proportion of non-performing loans of the Chinese banking sector accounting for about 50% of total bank assets (United Nations Conference on
Trade and Development (UNCTAD) 2012). This may somewhat constrain China’s future economic growth. Meanwhile, prosperous private economy in India presents to be a significant factor to maintain its economic vitality and worthy for China’s reference. In India, a number of world-class private enterprises have been established not only in the IT field but also in the pharmaceutical field and auto parts manufacturing. Since the 15th National Congress of the Communist Party of China (CPC) in 1997, Chinese policy has attached great importance to the development of private economy, which accounts for nearly one-third of the national economy. China and India are both striving to improve market and policy environment for the development of private economy. Even in private property protection, which has been frequently mentioned by many people, India may not really do a better job than China. How good the real effects of property protection are depends not only on the literal provisions of the Constitution but also on the implementation of the constitutional provisions. Fairly speaking, neither of the two countries is superior to the other in the development of private economy.

Motive Force for Economic Growth
The motive force to promote economic growth has been a popular topic repeatedly discussed in development economics and institutional economics. Economic growth depends on the level and quantity of the software infrastructure and hardware infrastructure. Hardware infrastructure refers to highways, airports, ports, and the like, while software infrastructure refers to the legal system, rules and regulations, and the financial system of a country. It is acknowledged that both the hardware and the software infrastructure contribute to economic growth. The two only differ in their way of contrition. The hardware infrastructure plays a fundamental role in economic growth. Infrastructure construction is a prerequisite for the economic takeoff of developing countries. Meanwhile, investments in infrastructure have an immediate effect for economic development. Some economists hold that software conditions like institution and system are a prerequisite or motive force for economic growth. However, when seeing from the practice of the post-war economic development in developing countries, even though some countries have more effective institutional arrangements and have implemented the political system of Western democratic system (like India), the conditions of the poor hard infrastructure and lack of other hardwares have become major obstacles to promote economic growth; while in countries with advanced hardwares, though their systems may not be perfect and even be bureaucratic, their economic growth tends to be very quick in a fairly long period of time. For developing countries, economic development lies in the selection of the most appropriate institution rather than the most experienced institution. In recent years, the World Bank reports have presented consensus on the backwardness of the infrastructure as the
most important factor hindering economic growth in developing countries. For a rather long period of time, an important reason for India’s economic downturn has been the fact that the electricity and rail and road infrastructure development are seriously lagging behind. In fact, although the Indian IT industry quickly developed and has become the leader of India’s economic growth, its sustainable development is also constrained by seriously lagging infrastructure. On one hand, even in Bangalore, the famous software center and the “Indian Silicon Valley,” the software industry suffers not only from the terrible road conditions but also from frequent power outages; the plight of “two India” is particularly distinct there. Although the Indians are often proud of the development of the IT industry, in China, where there is as large a population as India, the electricity production is 3 times that of India, and telephone and mobile phone ownership is 6 times that of India. On the other hand, a more serious problem is the shortage of talent. Although Indians enjoy two advantages, English proficiency and mathematical talent, only 5% of the population have higher education and are fluent in English, and those active Indian talents in the Silicon Valley in the USA are just part of the elite, and this to a certain extent also reflects on the “two India.” The development of India’s IT industry faces the problem of insufficient personnel. Therefore, overcoming the plight of lack of infrastructure (education), to a large extent, determines the future of the Indian economy. Otherwise, advanced industries like the IT industry will be the new enclave in Indian economy (Li 2006b).

Which Type of Government Is More Favorable to Late Developing Countries’ Economic Growth?

What kind of role should the government play in economic development or how government can possibly play its role in promoting economic development has been a protracted topic in economic theory and policy discussion. Lewis (1983) proposed that progress in national economy cannot possibly be made without the positive role of a wise government. There are many examples of government bringing disaster to the economic life, so it is easy to talk a lot about warning government to intervene in economic life. To put it more specifically, the reason why government fails may be because of doing too little or doing too much. Therefore, the economic development of a country, whether with sufficient software conditions or hardware conditions, lies more in how these conditions can be effectively oriented so as to be conducive to economic growth. The economic takeoff practice of developing countries after World War II has proven that economic development is primarily a typical political process; the government’s role is necessary and important. Joseph Stiglitz and Shahid Yusuf (2003) suggest in their research that failure in organization is a persistent ailment that may impede economic growth in developing countries; the importance of organizational
efficiency will be inevitably enhanced with the increasing information flow and complex regulatory responsibilities taken by national institutions. Experience has shown that developing countries are faced with a market of no developing or incomplete initial conditions; thus, to have a “strong government” is critical to initiate and promote economic growth. One thing that must be pointed out is “government strength” is not necessarily the only connotation of “strong government.” The more important point lies in whether it has relatively high “government quality,” namely, government rationality, government efficiency, and government self-discipline. Although some countries like East Asian used to have rather high “government strength,” their economic growth performs well due to the higher “government quality” for a certain period of time. On the contrary, when it comes to the role the democratic institution in India plays in accelerating economic growth, it is obvious that not only is the government strength inadequate, “government quality,” especially its efficiency, is also quite low. For instance, when faced with a shortage of funds and the important task of industrialization, it is essential to ensure a long-term, stable supply of funds. Thus, almost all the East Asian countries rely on high “government strength” and “government quality,” to promote the rapid development of infrastructure construction.

Review of India’s economic development after independence shows that the low efficiency of the Indian government to a large extent has been a key factor that hinders the socioeconomic development. Myrdal (2000) once pointed out in *Asian Drama* that even in South Asian countries like India, the government had formulated a detailed economic plan, yet the ability to implement the plan remained very weak because their government was a “soft government.” For one thing, determined things cannot be implemented; for another, the government is reluctant to take the responsibility for its people. The caste system, religions, various crony relationships, and a set of social taboos in Indian society have made separation in social and economic life everlasting. Simultaneously, typical Indian “groups of interests” are formed as well, which will definitely erode overall interests and cause government functions to be “fragile.” In fact, as early as the second election, Indira Gandhi had clearly proposed the slogan that India needs a “workable government”; however, the low work efficiency at all government levels in India is still mind-boggling. A research report on the investment environment in India released by the World Bank has revealed the low efficiency of Indian government: In India, one has to apply for 10 licenses to open a company, while in China, only 6 will be enough; in India, it takes an average time of 90 days to issue formalities required, while in China, it takes only 30 days; if any foreign company wants to enter India, then they should follow 43 central government and 57 local government approval procedures, while in China, it is much lesser; it takes an average of 10.6 days to issue customs formalities in
India, while it takes only 7.8 days in China (Li 2006a). The World Bank has also issued China and India’s “governance indicators” data in 2004 for comparison. Due to different political institutions, India has a distinct advantage in terms of “voice and accountability” over China; India has enjoyed a higher rating than China in two indicators of “corruption prevention” and “lawful administration.” Yet when it comes to the two indicators of “regulatory quality” and “government efficiency,” China has significantly higher scores than India. Another factor that impacts India’s future long-term development is private ownership, which reflects on India’s weak political base and universal social contradictions. The first is private land ownership. In India, large population and limited land lead to serious land annexation; a large number of landless peasants pour into the cities, yet the unsynchronized industrialization and urbanization in India lead to a large number of poor people in the city; in turn, private ownership cannot free the constraints on industrialization imposed by infrastructure and the Indian caste system, resulting in the extremely weak Indian industry. Second, corporate private ownership aggravates the serious polarization and the extreme disparity of rich and poor in India. Thus, in India, various contradictions intertwined, and no consensus to promote the development of India can be formed between the government and people of all walks of life.

One of the most significant roles the Chinese government plays in economic development is the ability to concentrate superior resources and decisive decision making; the core lies in executive ability and high efficiency. Sound government executive ability provides a variety of superior investment policies and investment environment for economic development to attract more foreign companies to invest in China. Meanwhile, since the reform and opening up, the Chinese government has been laying emphasis on administrative reform. The central government with “authority” and local governments form “joint efforts” to promote economic development by implementing gradual incremental reform, such as decentralization of power and transferring of benefits to local governments to encourage them to participate in economic development like “competition for championship.” In India, it is rare to find such kind of incentive. In addition, the promotion of Chinese officials mainly depends on economic development indicators as performance. Thus, there are fierce regional competitions for economic growth; the fiercer the regional competition, the more dynamic the market. Many scholars call the Chinese local government “governmentalism,” “growth-oriented government,” or “project-oriented government.” Therefore, the Chinese government’s function on economic development retains insufficiency or problems of excessive dual improvement. There exist gravely insufficient supervision of forged and fake commodities such as food and medicine, while over-supervised examination and approval in government persists.
Conclusions and Prospects

Another point is that it is far more than enough to take the GDP growth rate, the infrastructure, numbers of foreign investment attracted, the volume of total import and export, national savings rate, and other indicators into account when comparing the economic development potential of China and India. With regard to these indicators, China would definitely be much superior to India. However, when a country’s economy develops to a certain level, the developing pace is not the sooner the better. GDP is not the sole target of a country’s economic development; the blind pursuit of GDP growth is just like “single bowling” of government. At present, problems confronted by China and India are different in terms of economic development. For India, poor infrastructure, agricultural stagnation, sectarian conflict, social instability, and political division caused by nationalism will continue to plague and are destroying sustainable development of India. While Chinese economic growth has stepped into a new stage, the per capita income has reached US$5,000 and it has thus become one of the medium-income countries. Therefore, the most urgent task China is facing is to avoid irrational prosperity and falling into the “medium-income trap” and “new liberalism trap,” to enhance the quality of economic growth to reach inclusive growth and scientific development, to restructure the economic structure to increase economic efficiency, and to avoid the concurrence of “wealthy Islands” and “ocean of poverty” to achieve fair wealth and income distribution.

Meanwhile, how to better intervene in economic globalization is also a common issue that affects the future development of both China and India. As two big developing countries, both China and India call for the reform and opening up to utilize the global division of labor to promote economic development for a long period of time. India’s opening up is not as thorough and deep as China’s, but Indian companies have higher internationalized levels, and there are some local enterprises with relatively strong international competitiveness. The chief achievements of China’s opening up mainly reflect on the import and export trade as well as large-scale attraction of overseas investment. India needs to expand opening up under the premise of maintaining the local competitive advantage and gradually increase foreign trade and attract more foreign investment, while China needs to increase the quality of opening up on the basis of expanding scales of foreign economies. Both China and India are at the bottom of the global labor division chain and lack independent brands and core technologies. Under the current domestic and international economic conditions, the two countries should focus on the introduction of foreign advanced technology and management experience. Either in import and export or attracting foreign investment, the two countries should lay emphasis on strengthening their technological innovation.
capacity and optimizing the national labor division system, rather than merely carrying out the labor division and cooperation among foreign enterprises.

At present, a pattern that is not conducive to Chinese economic development to a certain extent has formed in the process of China’s opening up: with “two keys” abroad. The key technology and key equipment largely rely on imports. Domestic enterprises just simply introduce foreign technology or production lines, and the core technology and key technique are controlled by overseas. At present, local enterprises rarely carry out labor division or cooperation with each other. So relatively integrated inner link of national economy established in the past actually has been fragmented. Such a pattern is not conducive to the long-term development of China and also restricts the access to optimal interests of opening up. An important consequence is shown in export products with low added value and low independent innovation capability of local enterprises. Shortly after the reform and opening up, the primary path for China’s opening up is to introduce and then develop, draw, and absorb the advanced technology and experience of developed countries. To further improve the opening up to a deeper level, the Chinese must strive to enhance the independent technological innovation and develop independent brands.

Samuel Huntington (2010) remarks in *The Clash of Civilizations and the Remaking of World Order* that if the Chinese economy develops at the current rate over the next 10 or 20 years, it will be possible for China to rebuild its hegemony in East Asia before 1842. Recently, economists at home and abroad have basically formed a consensus: If there is no major unrest in the next 20 years, then the Chinese economic scale will overtake America’s and become the world’s largest economy again. Nandan Nilekani, known as the Indian Bill Gates, once said that the total volume of GDP in India and China was about half of the world in 1830; both India and China had missed the ship of industrialization. The two countries now see a new ship: information technology (Imhasly 2009). The rise of China and India will be one of the leading forces to change the world order in 2010–2025. By 2025, the total GDP of China and India will reach about US$20 trillion and nearly US$7 trillion, respectively; the total GDP of the two countries will account for one-fourth of global GDP. It will be a significant event in the 21st century that China and India, both as members of BRICS, share peaceful development hand by hand.

The two countries should enhance cooperation instead of confrontation. If India does not follow the example of the USA closely to contain China’s development, then India can change military expenditure into infrastructure investment to reduce domestic poverty, and can gain more benefits from the cooperation with China. Amartya Sen, an Indian winner of Nobel Prize in Economics, insightfully appealed to India to learn more experience from China. In November 2012, some Marxist economists in India and economists like Enfu Cheng in China shared
unanimous views at a seminar that these years India has carried out new liberalism and has also slowed down economic growth and improvement of livelihood issues. Compared to socialism with Chinese characteristics, India’s level and quality of economic and social development cannot surpass China’s.

But, as a Chinese scholar, we hope that the takeoff of dragon and elephant will play a greater role in co-prosperity and peaceful development for people in our country and the world.

References


