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**Abstract:** Purpose: This paper attempts to compare development strategies and achievements of India and China in the last 50 years and analyse the challenges lying ahead if the trend continues. Design/methodology/approach: The paper critically evaluates the growth strategies of the two economies. Changes in approaches, achievements and failures are analysed using materials from past research and secondary data. Impacts of economic reform process and economic management capabilities have been evaluated. Critical analysis is the main approach of the paper. Findings: Based on the experiences of economic growth so far with reformed and open economies, India can learn several things from China. China has achieved better results based on investment-driven export-oriented policies that may not be sustainable in the long run. It has so far ignored the socio-political issues and that can have very serious consequences in the future. Relatively slower economic growth in India is based on stronger socio-economic foundations. Mutually-beneficial economic cooperation between the two economies and rising interdependence with regional and global powers should provide a better future. Originality/value: The paper provides a comprehensive picture of strategies, outcomes and possibilities. It links past development strategies to future challenges. It may be of value to researchers and policy makers in both economies while considering future directions.  

**Paper Type:** Research paper
Critical evaluation of growth strategies – India and China

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Key words:
Economic growth, economic system, strategies, economic cooperation
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I. Introduction

Rapid economic transformations in India and China in recent years have turned them into two of the world's most vigorous and eye-catching economic entities. Their prospects, possibilities of cooperation and rivalries are being discussed by academics, journalists, experts and politicians. Analysts believe that the two countries have lots to contribute to the world economy as they move forward. Although the two giant economies have potentialities to dominate the global economic scene in the current century, there are several challenges in the process of converting the potentialities into realities. The two most populous economies in the world have more differences than similarities in the process of economic growth. Most of the similarities are common to those of populous and developing economies in general. But, they had different economic systems in the past and that should significantly influence their economic achievements in the future. With different socio-economic-political set-ups China and India followed different development approaches so far. It is not possible to comment on superiority of one above the other as their backgrounds are different. It is certainly beneficial for both economies to cooperate rather than compete in the international market. In that case, China and India may well create economic, trade and export potential for their neighbours in Asia which may find the two countries to be lucrative markets instead of rivals.

India belongs to one of the most densely populated and poverty stricken regions in the world, i.e. South Asia. This region occupies only 3.8% of the world’s surface area and 22.6% of world population. None of the South Asian economies is resource rich and, except for Sri
Lanka, all are categorised as low income developing countries. South Asia is also a region of poverty. More than 40% of the world’s poor live in this region. As large majority of population live and work in rural areas in South Asia poverty is primarily a rural problem here. In contrast, China is surrounded by economies that have been experiencing booming economic growth since 1970s. In addition to mighty economic power like Japan, the ‘four tigers’ – South Korea, Singapore, Hong Kong and Taiwan grew from low levels of income per head to among the highest in the world within a few decades. The newly industrialised economies like Malaysia, Thailand and Indonesia also grew at very high rates during the period.

This paper attempts to compare development strategies and achievements of India and China in the last 50 years and analyse the challenges lying ahead if the trend continues. The paper critically evaluates the growth strategies of the two economies. Changes in approaches, achievements and failures are analysed using materials from past research and secondary data. Impacts of economic reform process and economic management capabilities have been evaluated. Critical analysis is the main approach of the paper. The paper concludes that the Chinese economy is growing at a much faster rate at present but its growth strategy in its present form is less likely to be sustainable. One way of achieving better results by both economies is economic and social cooperation and not rivalry. The two giant economies have several areas to complement each other. The paper provides a comprehensive picture of strategies, outcomes and possibilities. It links past development strategies to future challenges.

II. Overview of Economic Strategies

2.1 India
The Indian economy is potentially very strong with its large industrial output, technological knowledge and extensive reserve of skilled manpower. In recent years it is growing significantly in technology-related areas. In overall terms India is still predominantly an agricultural economy where about two-thirds of the population earns its livelihood from the land although the sector accounts for slightly more than one-thirds of national income (GOI, 2005).

Since independence in 1947, India has maintained an enviable political stability as compared to its neighbours in the region. India introduced centralised planning system in 1951 within the democratic set up. The core principle of economic planning was ‘democratic socialism’ – public-sector led growth with strong industrial licensing and controls and restrictive foreign trade (Basu, 1998). Major objectives of initial Five Year Plans were to achieve self-reliance and alleviation of poverty. The approach continued without any major deviation till mid-1980s. During this period India had seen series of nationalisations. Industrial, financial and foreign trade (including foreign investment) sectors were heavily controlled by the government. Agriculture sector was broadly kept outside the controls for political reasons (ibid). Results of these policies were mixed. After following economic planning continuously for 40 years, India achieved self-sufficiency in food-grain production and considerable increase in industrial production. But growth rates in its national income and per-capita income were very moderate as compared to its population growth rate. Targets set in most of the Five Year Plans were not achieved.

Direction of economic policies in India started changing from mid-1980s when the government started initiating industrial and trade deregulation measures. However, these unplanned and to a certain extent, random measures resulted fewer benefits and foreign exchange reserves gradually exhausted (ibid). The crisis reached its peak in 1990 when the
Indian government had to approach the IMF for assistance. As a loan condition, the IMF-World Bank prescribed the so-called stabilisation and structural adjustment programmes that resulted in India’s ‘New Economic Policies’ in 1991 (Dutta, 1998). Since then the Indian economy has undergone substantial changes with comprehensive liberalisation measures in every sector of the economy.

After experiencing very moderate growth till 1980s India largely liberalised its economy in the early 1990s. The reforms undertaken by the Indian government in 1991 have resulted in an increase in the economic growth rate as well as the inflow of FDI. Average annual rate of growth of real GNP jumped from 3.3% during 1990-92 to 6.8% during 1992-97. The growth rates were slowed down in the subsequent years to 5.6% during 1997-2002 and further to 4.2% during 2002-03. It jumped again to 8.5% in 2003-04 due to strong growth in agriculture and industry sectors (GOI, 2005). Per capita GDP also increased at much faster rate during 1990s as compared to the previous four decades (ibid). The crude indicator of overall average productivity, as measured by GDP per person employed in US dollars, had increased significantly in India since the late 1970s. Time series forecasting suggested that steep growth in productivity is likely to continue in India in the near future (Anwar & Basu, 2004a).

Although the pace of overall reform was slowed down in India in the second half of 1990s due to change in governments at the national level and in some of the states1, FDI inflows continued at a satisfactory pace. Foreign investments in general and FDI in particular primarily financed private sector units in India. The inflows of FDI have significant positive

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1 There have been two types of important political changes in India since mid-1990s. Rightist and more nationalist political parties have gained power and that slowed down the process of opening up of the economy. At the same time, coalition governments (of very large number of political parties in some cases) of diversified interest groups have become quite common in recent years. That also has slowed down the process of any active policy initiatives in every area.
impacts on growth of employment and productivity in the private sector (Anwar and Basu, 2004b). During the period 1980-90, annual rate of growth of employment in the private sector was about 0.4%. This rate went up to about 3% in the subsequent decade (1991-98).

Employment growth in the public sector remained more or less stable during the entire period (1.25% and 1.62% respectively in the two periods mentioned above). Using a crude measure of labour productivity (real wages per worker) it was observed that the private sector had improved its position since FDI flows started whereas the public sector’s position had remained unchanged. Using ASI data, it was estimated that the real wage in the private sector had grown at an annual rate of 4.7% during 1991-98 as against 2.3% during 1979-90. Growth in the public sector real wage rate remained unchanged at about 3.8% in both periods. (Datar and Basu, 2003)

Along with economic growth the export sector in India had also improved its performance in the 1990s. During the period 1991-92 to 2003-04, India’s total exports had grown at an annual average rate of 11.3%, from US$ 18,143 million to US$ 63,843 million. In recent years exports had grown at more than 20% rate annually. However, during the same period, imports also had grown at an annual rate of 15.8% (from US$ 24,075 million to US$ 78,149 million) and thus worsened the trade balance situation in recent years (GOI, 2005). India consistently has trade and current account deficits due to high imports of petroleum products (including crude oil). The export growth in recent period certainly looks promising as compared to the annual growth rates of 6.1% during 1980s and 6.8% during 1970s (Krueger & Chinoy 2002, pp. 13). However, share of India’s exports in world exports remained insignificant at around 0.5% during the last three decades (ibid).

The higher macroeconomic growth since 1990s has created several unfavourable impacts in the Indian economy as well. Patnaik (2000) observed that the Indian economy had been
transformed into a demand–constrained system during the 1990s. “When this happens, then either the actual output falls short of potential output (as in a recession) or there are unwanted inventories of commodities, or a combination of the two” (ibid, pp. 193). The system has generated paradoxes and ultimately affected income distribution adversely. The head-count poverty ratio had increased in India during 1990s, particularly for the rural sector (ibid, Table 1, pp 199). The overall reform process had increased the inter-regional disparity as well in India. Ahluwalia (2002) showed that the Gini coefficient of inter-state inequality in India had gone up from 0.152 in 1980-81 to 0.175 in 1989-90 and then jumped to 0.233 in 1998-99 (pp. 93). Thus whatever was achieved at the macro level was not evenly distributed either among the people or among the regions. It was not entirely unexpected either. While commenting on the nature of political economy in India, Dutta (2002) commented, “It would, however, be naïve to believe that the Indian State could effectively function in the interest of the ‘society as a whole’ or more specifically in the interest of the vast majority of the poor people” (pp. 16). Jha (2001) also observed that even in the post-reform period the performance of the Indian economy was inadequate to reduce the level of poverty due to low savings and investments and low productivity in the public sector. India is facing a complex challenge in economic front. On the one hand it has a large number of highly qualified professionals as well as several internationally established industrial groups, but on the other hand, it has some of the lowest human development indicators in the world and abject poverty, particularly in rural areas (Economist Online).

While India is moving ahead with a moderate agenda of economic reforms, the political institutions are apparently getting weaker. Since mid-1980s the federal political leadership in India started loosing a strong national focus due to growth of regional political parties. Multi-party coalition governments have become common feature at federal and state levels in India in recent years. Ideological differences between political parties within the same government
had seriously affected their abilities to follow clear and strong economic policies in any particular direction in the recent past (Basu, 1998). Moreover, characteristics of the political leadership have not changed along with social and economic transformations. The emerging middle-class population of the post-reform period has not yet represented in the policy making area (Wadhva, 2000). India’s pace of future economic growth depends much on stable and representative political leadership.

2.2 China

The Peoples Republic of China (China) has several similarities as well as dissimilarities with India in the process of economic growth. India became independent from the British colonial control in 1947. China started journey in its present form in 1949 following the Communist Party’s accession to power. While India resorted to mixed-economy approach for economic growth, China followed the socialistic pattern from the very beginning. Thus China belonged to the ‘socialist’ second world category (also referred to in different places as ‘centrally planned’, ‘soviet type’ or ‘command’ economies) since 1949 while India remained as a democratic third world economy.

When the Communist Party came to power in China in 1949, it introduced a central planning system. Under that system production resources were allocated by central planners and not decided by market forces. Prices were administratively determined rather than by the market mechanism. All enterprises (agricultural, industrial and service sectors) were state owned. They were given target levels of output to achieve and were not motivated by the profit maximising objective. (Basu et al, 2002)

The system generally worked well. The economy did not face any serious economic crisis. During the period 1960-78, real GDP nearly doubled according to World Bank data (DX).
This was despite the adverse impact on economic growth during the Cultural Revolution of the early 1960s, which saw real GDP decline in 1961 and 1962 before recovering in 1963 and rising to the level first achieved in 1960 by 1965 (Pyle, 1997). During the period 1960-78, GDP per capita at constant prices in China increased by more than seven times (World Bank DX). Notwithstanding the strong growth in output over these years, inflation never appeared to be a problem. Although the GDP deflator rose by 12 percent in 1961, for the rest of the period through to 1978 it did not get above 3 percent per annum and in six of the thirteen years prices actually fell (ibid). However, during the period 1952-1978 the economy was fairly closed to the rest of the world. Total trade (exports plus imports) as a proportion of national income gradually declined during the period to its lowest level of 5.2 percent in 1973 (Pyle, 1997, pp. 4-5).

In spite of the satisfactory level of economic growth in absolute terms and without signs of any imminent economic crisis, the Chinese authorities felt the necessity to pursue economic reform. Several economic, political and social factors motivated the decision. Economically, the Chinese growth rate was often perceived as being much lower than neighbouring East Asian countries (e.g. Japan, South Korea, Singapore) (Pyle, 1997). In the socio-political field, Chinese society apparently “wanted a change from the Maoist dogma of the 1950s, 1960s and 1970s” (ibid, p. 6). Thus the popular mood was said to be in favour of some sort of less administered economic system and it was argued that the post-Mao political authority of China went for it.

Thus the decision was taken by the all-powerful Communist Party of China in December 1978 to initiate economic reform process in a planned manner. The process of implementing China’s economic reform was substantially different from the approach taken in most other reforming countries (Basu et al, 2002). To avoid major imbalance within the socio-economic-
political system China introduced reforms gradually following its own strategy. At the very beginning of the reform process it was made clear that the reforms would not deviate the economy from the principal objective of creating a socialist state and that reform must be carried out under the leadership of the Communist Party (Shen, 2000).

The economic reform process in China since 1979 can be broadly divided into three phases (Pyle, 1997; Shen, 2000). During the first five years (1979-84) the emphasis was mainly on agricultural reforms. Attempts were made to restore material incentives and private initiatives and thereby to improve allocative efficiency. The attempts were fairly successful without experiencing any major problems. The second period (1985-1990) was mainly concerned with urban and industrial reforms. During this period the introduction of the market mechanism was attempted. A dual pricing mechanism (administrative and market prices) and an enterprise contract responsibility system were introduced. In essence, private production was permitted and this saw the establishment of the first privately owned companies in China selling into an entirely free enterprise market. The Government gave up its monopoly over industrial production and this resulted in a flood of new entrants into the market in search of profits (Naughton, 1995). The new firms included cooperatives, privately owned firms, foreign firms and firms established or sponsored by local governments. In addition, the SOEs, whilst still required to satisfy the needs of the central plan (both in terms of production and the price at which that production was sold) could sell any excess production in the open market at market prices. The application of the process was, in the event, more complicated than initially thought. The development of a market sector exposed the inefficiency of the SOEs which began to stagnate and social unrest appeared as unemployment of disposed rural workers and, eventually laid-off SOE workers (Basu et al, 2002). Thus the reform process created imbalances between different sectors. In an effort to redress this situation, the early
The Chinese economy has witnessed some remarkable economic achievements since the market-oriented economic reform process began in 1978. During the period 1978-2004, China's GDP increased from US$ 147.3 billion to US$ 1.65 trillion with an average annual growth rate of 9.4 percent. Its foreign trade rose from US$ 20.6 billion to US$ 1.15 trillion, averaging an annual growth rate of over 16 percent. China's foreign exchange reserve increased from US$ 167 million to US$ 609.9 billion (NBSC Online). The growth rate slowed down slightly in recent years. During the period 1999-2003, China’s GDP grew at an annual rate of 8% (Economist online). During the period 1978-2000, despite increase in population by 306 million, real GDP per capita increased 5.5 times (World Bank online). By 2003, GDP per capita in China had risen to $US 1,100 (Economist Online). This is significant because it indicates that China, on the basis of World Bank definitions, had transformed itself from a “low income country” to a “middle income country” (World Bank Online, ‘Country Classification’).

However, China’s rapid economic growth has not been shared equally by its entire population. As a result of rapid economic growth, the average income of the Chinese people of different segments rose significantly and differently. During 1978-2000, the annual average real income of urban residents had increased by 4.8 times, from 343.4 RMB to 1,636.7 RMB at1978 prices, while that of rural residents had increased by 3.5 times, from 133.6 RMB to 466.1 RMB (NBSC Online). Although large cities and towns are growing at unprecedented rates in recent years, in poverty-stricken rural communities and low-income urban neighbourhoods, seeing a doctor or supporting a school-age child is becoming an
unaffordable burden. In 2002, only 27 percent of China’s population lived in urban areas as against the world average of about 50 percent (Hyland, 2003).

One of the most amazing features of China’s economic reform is the volume of foreign direct investment that has been attracted into the country. Over the period 1983–2000, FDI grew at a staggering annual average rate of 22 percent. At present, China is second only to the US in attracting FDI (Yeung, 2001). As per the official statistics (NBSC Online), by the end of 2004, China had approved the establishment of more than 500,000 foreign-funded enterprises. These created an estimated imports demand of some US$ 560 billion annually. Over 400 firms out of the Fortune 500 have already made investments in China. The number of R&D centres set up by foreign investors in China has exceeded 700.

Foreign direct investment provided an important stimulus to the Chinese economy for a number of reasons. First it provided impetus to the development of China’s trade. Exports were encouraged because most of the firms established on the basis of FDI were export oriented. Because these same firms tended to import both their capital equipment and intermediate goods for further processing, imports were also stimulated. It is reported that by 1998 exports and imports of both joint venture and foreign-owned firms accounted for 44.1 percent of China’s exports and 54.7 percent of China’s imports (NSBC Online). Second, such an enormous inflow of foreign capital for direct investment purposes could not fail to stimulate significant jobs growth. Song (1999) reports that in 1997 there were over 300,000 overseas financed enterprises. These firms employed in excess of 17 million workers. Third, as is usually the case with direct capital inflow, the economy was boosted by the expertise and skill that flowed into China with the capital. This advanced knowledge was not only put to work in the new industries being established but flowed into the economy in general
through training and demonstration. This led to an enhancement of the competitive position of the Chinese economy. (Song, 1999)

Another significant feature of post-reform economic growth in China is its high growth in foreign trade. During the period 1979-2003, its total trade (exports plus imports) grew at an average annual rate of 16%. Exports grew at faster rate (16.4%) than imports (15.7%) during the period resulting comfortable trade and current account balance situations (NBSC 2004). It may be interesting to observe the reversal of its foreign trade structure over the period. With very low volume of trade with other countries, in 1978, only 46.5% of China’s tiny export basket of US$ 9.7 billion was of manufactured goods. In 2003, manufactured goods constituted about 92.1% of its massive exports of US$ 438 billion (ibid). Composition of imports however remained more or less similar over the years.

III. Challenges ahead

3.1 Similarities among diversities

India and China are compared and contrasted in terms of their size, past growth, political systems and development approaches in recent years. Apparent similarities in following closed models of economic growth in the initial years and then policies towards deregulation and openness to trade, foreign capital, and imported technologies are some of the widely discussed areas. The US government had recognised high economic potentialities of these two countries long back and included them in ‘big emerging’ markets list (Garten, 1996). However, led by significantly higher flow of foreign investments, China is marching ahead of India in economic growth in the recent years. As evident from Figure 1, growth of per-capita GDP in China since late 1980s was far higher than that of India and the gap is widening. It may continue for some time in the future.
Economic potentials of both economies have been recognised. Where China has been considered as a favoured destination by international investors, India is more popular among the multinational corporations (Turcq, 1995). Both economies have high rates of economic growth in recent years as they started from relatively low bases. Access to international markets and flow of investments always surge economic growth in the initial period, but it is a more difficult task to sustain it. Moreover, it is not just the macroeconomic growth that matters for an economy; the well-being of its entire population should be considered as the true yardstick of development. Both China and India have encountered problems in ensuring even distribution of economic benefits. One needs to understand the social objectives and values that the public policies promoted as part of the reform process. As Sen (2005) observed, three R's should be considered - reach, range, and reason. ‘The reach of the results to be achieved, the range of the ways and means to be used, and the reason for choosing the priorities we pursue’. He strongly recommended that along with achieving national economic growth it is essential the growth process does not ignore any group of people, particularly of those who are disadvantaged and downtrodden - at the bottom of the pyramid.

High population pressure is one of the obvious challenges the two giant economies have been facing. Although total population in China is higher than India, concentration of population was much higher in India at 333 persons per square kilometre against 135 for China (World Bank online) in 2003 (Table I). High concentration of population certainly adds pressure to India’s already scarce natural resources and overburdened infrastructure. Moreover, while China with its unique political-economic system could introduce and manage ‘one-child policy’, it may be impossible for India to follow such a drastic measure in population control (Basu, 1998). During 1999-2003, average annual growth rates of population in India and China were 1.5% and 0.7% respectively (Economist online). At this rate, India is most likely become the most populous country in the world by the year 2030.
Both economies are still predominantly rural. So a sustainable development should ideally target rural areas. Both Chinese and Indian government policies towards rural development brought certain improvements. According to an IFPRI study (2002), government expenditures in three areas, R&D on agriculture, education and infrastructure had particularly benefited the two nations in recent years. R&D expenditures benefited both the countries in reducing rural poverty and achieving agricultural growth. Investments in education benefited Chinese rural population more whereas infrastructure investments improved India’s rural sector more. But, as per the indications, growth is becoming more and more urban oriented and widening economic gaps between rural and urban areas (Thapa, 2004).

Prompted by high economic growths both economies are facing high pressure for infrastructure development. With quicker growth, the intensity of the problem is likely to be more in China in the coming years. Demand for resources to keep pace with economic growth is on the rise as well. Recent rise in oil prices to record high has been blamed partly due to excessive rise in demand from China, in particular. As per the U.S. Energy Department estimates, demand for oil was about 7.4 million barrels per day for China and about 2.2 million barrels per day for India in 2003 (China Daily reports, May 18, 2005).

As already indicated, with rapid macroeconomic growth both India and China are facing the problem of rising regional and personal inequalities of income. Inequality of spatial income in China had declined in the early years of reform & then went up significantly in recent years. In India, inequality was consistently on the rise during the reform period (Kanbur et al, 2005). The first phase of reforms in China resulted in rapid increase in rural production and incomes. But the focus of growth during the second phase shifted more towards urban areas. As a result, vast sections of rural population were largely kept out of the benefits of fast growth.
economic growth (Sen, 2005). Policy shifts in two major areas of social life also contributed towards increasing the rich-poor gap in China in recent years. During the pre-reform period, health and education were practically free and universal in China, provided by the state, collectives or cooperatives. Now people need to buy such basic facilities and costs are prohibitive for large sections of population. Denial of such social facilities can lead to slow down the progress of the economy in the long run (ibid). Conditions of primary amenities of life such as availability of drinking water, sanitation facilities, basic infrastructure such as road and electricity, healthcare and education are still deplorable in rural India (Anwar & Basu, 2004a).

A controversial area of commonality between China and India appears to be in the area of corruption. High levels of government controls and strong bureaucratic systems in both economies had given rise to high levels of corruption. As per the ‘Corruption Perception Index’ (CPI), China ranked 71 in 2004 as against 90th position for India. Both ranks indicated very high levels of perceptions of corruption2. However, structures of corruption are different in two economies. The nature and impacts of ‘top-down’ structure of corruption in China may be quite different from the ‘bottom-up’ structure in India (Waller et al, 2002)3. However, it is difficult to argue in favour of either structure. Both can be equally harmful. According to Bardhan (1997), the structure of corruption had changed from top-down level in former USSR to bottom-up level in present Russia, and the problem had become much more acute.

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2 The most widely known relative indicator of national level corruption is the ‘Corruption Perception Index’ (CPI) prepared by the Transparency International (TI). Although it doesn’t measure the actual extent of corruption (that may be impossible as well) the CPI provides comparative picture of corruption levels in a wide range of countries in the world annually. This Index indicates the ‘perceptions of corruption among public officials and politicians as seen by business people, academics and risk analysts’. As per the latest reports, China ranked 71 in 2004 with a score of 3.4 (out of a maximum of 10); and India was ranked 90 with 2.8 score. The perception of corruption in India seems to be more uniform than China as reflected in standard deviation of scores (0.5 for India and 1.0 for China).

3 Under the top-down structure, decisions are made at the highest level of the hierarchy and lower-level officials get whatever is given to them. The other structure is decentralised. Lower-level officials collect corruption rents (e.g. bribes) and the highest ranking official is just one of the recipients. The first structure was mostly prevalent in former socialist economies, whereas a freer economy tends to have a decentralised system.
The situation may be similar in China. It is generally accepted that the economic costs of corruption are high. It is virtually impossible for individuals to remove or even to reduce the level of corruption when it is widespread in the economy (Mauro, 2004).

3.2 Differences in approaches

There are strong and clear differences in development approaches and economic management systems between China and India and that can make all the differences in future. Foreign investment dependant and export-oriented growth approach of China is quite different from domestic demand driven approach followed by India. Judging by the results achieved so far, the authoritarian control of the economy in China enabled it to have a better and efficient economic management than the multi-party democratic system in India. Again, the underlying policy of maintaining clear distinctions between economic, socio-cultural and political sectors may be unique in China, but may not be feasible for India.

One of the major features of the Chinese growth approach in recent years was its high dependence on investments, more specifically on foreign investments (Lal, 1995). China is the second highest recipient of FDI in the world at present, only behind the US. During the period 1999-2003, inflows of FDI as percentage of GDP for China stood at 3.9% against a meagre 0.9% for India (Economist online). The attractiveness of China as a destination of FDI inflows is attributed to its huge domestic market; increased wages of consumers; political pragmatism to liberalise China’s regulatory framework (making foreign investment easier); and membership of the World Trade Organisation (Sajid & Basu, 2004a). The investment-led model does have its advantages as it could quickly accumulate large amounts of capital and by using cheaper resources like land and labour can produce very high economic growth in the short run. This is what is happening in China. However, it can have serious consequences. The economy is more likely to face instabilities. As international flow...
of funds is subjected to swings, the national economy over-dependent on such flows is also subjected to economic cycles more frequently. Thus the government would always face policy dilemma (Tianyong, 2004). Moreover, the investment-led development structure could underutilise labour causing a high unemployment rate and thereby leading to a widening income gap between rich and poor. With easy flow of capital heavy investments have been made in capital-intensive industries in China and that had dramatically increased production (ibid). As compared to investments and production, domestic consumption growth was very moderate due to limited increase in income of the massive farming sector and growing unemployment. This imbalance in growths of investments and consumption has made the economy automatically over-dependent on exports.

As an automatic consequence of investment-driven growth process, China has become significantly dependent on foreign trade (Nageswaran, 2004). China’s openness indicator (trade in goods as a share of GDP) reached to 49% in 2003, within 25 years of opening up (World Bank online). For India the ratio was 20.8% in the same year although India was always involved in international trade in the past. During the period 1979-2003, China’s average annual growth rate of foreign trade was 16% as against GDP growth rate of 9.4% (NBSC 2004). The applicability of an external demand driven growth process for a large economy like China can very well be questioned. High trade dependence could make the national economy vulnerable to global fluctuations. The exchange rate system in China is one of the most controversial issues at present. There have been regular claims that existing system is providing undue advantage for Chinese exporters although there was no conclusive evidence to prove or disprove such claims. The export-focused strategy was successful for smaller East and South-East Asian economies in the past, but they ended up in a crisis. Nageswaran (2004) reminded that China was in the same situation in 2003-04 as the East
(and South-East) Asian countries were in the 1990s - high investment ratio, improving but low productivity, high FDI and high degree of export reliance for a large economy.

Differences in political systems between the two countries can have significant impacts on their future developments. The Communist Party of China has the complete control over the Chinese economy. It can direct the economy towards its ‘socialistic’ targets by means of economic policies that could be implemented with little opposition. Questioning the appropriateness of policies initiated by official authorities is still extremely unlikely under the Chinese system of management. It has its own benefits in the short-run as exemplified by the experience of China’s economic growth. But, in the long-run, for overall development of a nation, the informational and incentive roles of open democracy cannot be denied. For effective implementation of public policies that generates maximum social welfare, open public discussions are extremely important (Sen, 2005). The strong democratic set-up in India involving public opinion in every strategic issue can be of enormous value for a sustainable development process. Open and multiparty democratic system has its own problems, particularly in countries like India where the number of political parties are innumerable and the level of political corruption is arguably extremely high (Basu, 1998). Thus, both the countries have to improve efficiencies in their respective systems. China has a controlled set-up that may not survive in the long-run with growing socio-cultural pressures. India has an efficient system on paper but too inefficient and loose while applying in the practical context.

Where China’s long term growth perspective is based on expansion of manufacturing activities, India’s emphasis so far is on new technology in the information sector and other ventures in the broad service sector (Klein, 2004). World-class businesses that have emerged in knowledge-based industries are transforming India into a key global player. Exports of IT software services were equivalent to about 20% of export values in India in 2003 (GOI, CSU Research Output http://researchoutput.csu.edu.au
However, India needs to develop the high potential IT activities as a mainstream industry, not just as supplier to a handful of major producers in the world (Saxenian, 2002).

IV. Conclusions

With economic globalization, China and India are becoming new global growth engines in the current century. Mutually-beneficial economic cooperation between the two economies and rising interdependence with regional and global powers will provide an even better future. The rising giants in Asia may challenge the existing world domination by the trans-Atlantic community in the coming years. Although China and India are considered as predominantly manufacturer and consumer economies respectively, both are developing the areas they are lacking. With huge domestic markets and abundance of skilled manpower the nations have potentialities to pose a serious challenge to the global economy. But they need cooperation and not competition among themselves. That would enable them to compete more effectively with the existing superpowers. After long periods of indifference, positive beginnings have been initiated by the two economies very recently to open up areas of economic cooperation. The knowledge-based industries are emerging as the focus of world business for the current century, and India and China can have tremendous scope of supporting each other in this particular area. The strong growth of software activities in India can match very well with hardware production facilities in China.

Based on the experiences of economic growth so far with reformed and open economies, India can learn several things from China. China has so far managed the economy very well and utilised its resources and skills to the best possible manner. It has achieved better results based on investment-driven export-oriented policies that may not be sustainable in the long run. But it has ignored the socio-political issues and that can have very serious consequences in the process of future economic developments. India has its strength in this particular area.
Its relatively slower growth rate is based on stronger socio-economic foundations. On mutually beneficial terms, development could be fastened in both economies and they can become true economic powerhouses in terms of manufacturing and consumption capacities.

List of References


World Bank, “DX Econ Data”, World Bank Tables.


Figure 1
GDP per-capita: 1962-2000

Source: World Bank DX Tables

Table I
China & India – 2003: At a glance

<table>
<thead>
<tr>
<th></th>
<th>China</th>
<th>India</th>
</tr>
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<tbody>
<tr>
<td>Population</td>
<td>1.3 billion</td>
<td>1.1 billion</td>
</tr>
<tr>
<td>Population per sq. km.</td>
<td>135.4</td>
<td>333.3</td>
</tr>
<tr>
<td>GDP per capita</td>
<td>US$ 1,100</td>
<td>US$ 530</td>
</tr>
<tr>
<td>GDP per capita – PPP</td>
<td>US$ 5,225</td>
<td>US$ 2,834</td>
</tr>
<tr>
<td>Trade as % of GDP</td>
<td>49%</td>
<td>20.8%</td>
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