

Comparative studies between china and india



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Introduction:

Comparative studies between China and India are becoming more popular now in the international level. China and India are among the largest economies in the world today. The Chinese economy has surpassed India by a wide margin over the past 15 years.

I am comparing the growth experiences of China and India at a broad level, explaining why China has grown faster than India by focusing on the comparison of GDP, Exchange rates policies, Monetary and Fiscal policies, and Unemployment in India and China.

In this study will analyze why per capita national income is so much higher in China than in India? And why China's GDP is growing so much faster? And why unemployment remains high in both the countries and how the Governments addressing the Unemployment factors?

Why GDP per capita national income is so much higher in China than in India?

In 1978, after years of state controlled productive assets, the Chinese government invests on a major economic reform program. In an effort to awaken the economic monster, it encouraged the development of private business, rural enterprise, liberalized foreign investment and trade. China also relaxed government control over some prices, indulged in industrial production and stressed on education of its workforce. The growth in the country is accumulated capital assets, like new factories, manufacturing machinery and communications systems.

Economic expansion has recommended a significant role for capital venture in economic growth, and a sizable portion of China's recent growth is in fact attributable to capital venture that has made the nation more productive. In other terms, new machinery, improved technology and added investment in infrastructure have helped to increase its output.

Being hospitable to overseas investment, China's open-door policy has supplemented power to the economic renovation. Growing foreign direct investment, negligible before 1978, touched nearly 100 billion US dollars in 1994. Annual inflows augmented from less than 1% of entire fixed investment in 1979 to 18% in 1994. The foreign money helped China construct factories, generates more jobs, connected China to global markets and led to vital transfers of technology. These trends are particularly apparent in the more than one dozen open coastal areas where overseas investors benefit from tax rewards. In addition to this economic liberalization has boosted exports which rise of 19% a year during 1981-1994. (Zuliu Hu, Mohin S. Khan, 1997)

GDP Per Capita (Current US\$)

2005

2006

2007

2008

2009

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China

1, 731

2, 072

2, 660

3, 422

3, 744

India

765

855

1, 096

1, 065

1, 134

(Adapted from The World Bank Group, 2010)

Why China's GDP is growing so much faster?

GDP: Comparative Analysis between China and India

China was the fourth largest economy of the world by nominal GDP in 2006 as per International Monetary Fund report, where as India was 12th. China registered GDP growth rate of 14. 2% in the first half of 2007, where as India

has registered a 9.6% GDP growth in June 2007. Chinese economy is worth \$4900 billion, whereas the India economy is worth of \$1300 billion.

GDP Growth (Annual %)

2005

2006

2007

2008

2009

China

11.3

12.7

14.2

9.6

9.1

India

9.3

10.1

9.6

5. 1

7. 7

(Adapted from The World Bank Group, 2010)

GDP (Current US\$)

2006

2007

2008

2009

China

2, 716, 870, 000, 000

3, 505, 530, 000, 000

4, 532, 790, 000, 000

4, 984, 730, 000, 000

India

949, 192, 000, 000

1, 232, 820, 000, 000

1, 214, 210, 000, 000

1, 310, 170, 000, 000

(Adapted from The World Bank Group, 2010)

China's economy seems to be a better bet, for unlike China; India is yet to prove that it can sustain high growth rates over a period of time. The general feeling is that despite having a boom in technology, services and IT sector, the Indian economy still eventually depends on good monsoons, meaning that agriculture continues to dominate the Indian economy more than it should. (Arvinder Singh, May/June 2005)

The main reason why China's GDP is higher than India is because of rapid growth in the manufacturing of high-tech goods under the large scale high-tech manufacturing firms.

Foreign Direct Investment (BoP, Current US\$)

The FDI flow depends on the market size, market growth rates, political stability, corruption, exchange rates, labor productivity, economic freedom, infrastructure, openness, human capital and taxes.

China got \$79 billion in 2005 in FDI and India did not even get \$ 7 billion in FDI. In 2009 there is slight change in China's FDI of about \$78 billion dollars but India made a good progress of raising \$34 billion in FDI compared to year 2005. The study tried to explore this phenomenon and to understand the drivers for attracting foreign investment in emerging economies.

India despite being the largest democracy in the world has lagged behind due to its focus on services and specialized skill based relatively small manufacturing model in contrast to China. India growth model has been <https://assignbuster.com/comparative-studies-between-china-and-india/>

based on IT, ITES and skilled manufacturing which are dependent on the availability of human skill and capital in an emerging market. (Swapna S Sinha, Apr-Sep 2008)

FDI, Net inflows (BoP, Current US\$)

2005

2006

2007

2008

2009

China

79, 126, 731, 413

78, 094, 665, 751

138, 413, 000, 000

147, 791, 000, 000

78, 192, 727, 413

India

7, 606, 425, 242

20, 335, 947, 448

25, 127, 155, 852

41, 168, 605, 242

34, 577, 000, 000

(Adapted from The World Bank Group, 2010)

China is regularly getting 10 to 12 times more foreign investment than India. In India foreign investment is penetrating, and the numbers will probably come up more. I think China has a more aggressive manufacturing sector than India and that is obtained mainly from China's greater level of openness than India. That does not imply that India does not have various world class manufacturing companies, it surely does, but on an average the viable environment in China is a lot stronger because of its excise being much lower. (Wanda Tseng, 2006)

Trade in Goods in China & India:

China exports were worth of USD 136 billion in 2010. Export growth has continued to be a major component supporting China's rapid economic growth. India exports were worth of USD 18023 millions in 2010 (Trading Economics, 2010).

China imports were worth of USD 109 billion in 2010 and India imports were worth of USD 27141 millions in 2010 (Trading Economics, 2010).

With in manufacturing, China has a significant share of world markets for iron and steel, office machines and telecommunications equipment and

textiles and clothing. Other than textiles and clothing, India is not a major exporter to the world.

Exchange Rate Policies in two countries:

China policy - The question over the exchange rate involving the Renminbi (RMB) and the Dollar is generally framed in terms of global imbalance, extreme US consumption ahead of its savings on one hand, and disproportionate Chinese production and savings beyond its own expenditure on the other. This quickly leads to a conclusion that the United States must export and save more and China should import and pay out more.

In US, the leaders would like the renminbi to appreciate considerably and rapidly to encourage growth of US exports and employment. The argument for a constant appreciation of the renmibi is embedded not only in short term concerns about China's vast current account surplus, but also in long term trends of China's economic nitty-gritty, including high growth rate, industrialization and rapid urbanization, low fiscal deficits and low national debts. These trends are the outcome of three decades of development in China that have opened the nation to trade with the rest of the world and lead to sturdy productivity gains. Based on the understanding of other quick growing industrializing economies, these forces will add to Chinese income, the value of the renminbi and China's price level over time. (Steven Dunaway, 2010) (Geng Xiao, 2010)

Indian Policy - With appreciation in rupee/dollar exchange rate in early May and the anticipation of interest rate hike, there was a little appreciation of

the rupee and that could harm exports. In particular, it would harm the low value added exports from medium and small enterprises.

The recent recuperation in exports happens to be the major factor for a quick rise in industrial output development; this impending rate hike was opposite. There were calls for the Reserve Bank of India to arbitrate in the forex market to control the strength of the rupee mainly to support the export sector revival. There are suggestions to continue the export incentives that were branch of the overall incentive packages of 2009.

These suggestions are based on the supposition that in India, a weak rupee would support exports and thus, help the overall growth recovery.

Economists have argued for interference in the forex market, and a few Asian economies, notable China keep artificially undervalued exchange rates to sustain international competitiveness. (N R Bhanumurthy, 2010)

Monetary and Fiscal Policies in two countries:

Indian Monetary & Fiscal Policies - The Reserve bank continues its tightening cycle as inflation pressures are building, by raising reserve requirements and its main interest rates since the beginning of the year.

The budget for the 2010-11 fiscal year projects improvements for the deficit after the fiscal stimulus of last year and the large one off expenditures of the year before. As a share of GDP, the deficit is expected to reach 7. 8% of GDP from 9. 6% last year and 11. 8% in 2008-09. The improvement will come from a combination of weaker expenditure growth from reduced subsidies and greater revenues from the acceleration of economic growth. The reversal of indirect tax cuts that were part of the fiscal stimulus package, the <https://assignbuster.com/comparative-studies-between-china-and-india/>

expansion of the tax base and the revival of the privatization program, which generated over US\$ 15 billion. Solvency indicators will improve again, but are expected to remain above comfortable levels, with public debt to GDP reaching 68% by 2014-15. (Jerome Bourque, 2010)

China Monetary & Fiscal Policies - The monetary policy used by the PBC include open market operations, the rediscount rate and reserve requirements. There are 3 major factors that have complicated the implementation of monetary policy of China, they are include the exchange rate regime, institutional weaknesses in the financial and corporate sectors, and the large stock of excess reserves that banks maintain at the PBC. (Marvin Goodfriend, Eswar Prasad, 2006)

In facial policies, customs tariffs were reduced from 15. 3% to 12% in line with China's WTO commitment. The increase in expenditures is caused by the continued investment in projects funded by government bonds, western region development and technical innovation. More resources directed to the social safety net. Wage increases for civil servants and increased investment in agriculture, science and education.

Unemployment in China & India and Remedial Measures by the Government:

Causes of Unemployment in China - China is the most populated country in the world. The work force accessible is too large. New generation is added to the already existing work force every year. It is very hard for any government to get jobs for millions of young aspirants entering in the market. The estimation was that 15 million young people will come into the

job market and only about 8 million jobs were likely to be created in year 2004. The other key reason behind the unemployment is the kind of jobs offered. I feel that the increase in population and lack of the English speaking workforce are the two major causes of unemployment in China.

Causes of Unemployment in India - There are individual factors like age, slow pace of development, high growth rate of population, slow industrialization, slow growth rate of agriculture etc. Every year Indian population increases manifold. More than this every year about 5 million people become eligible for securing jobs. Self employment field is subject to ups and downs of trade cycle and globalization. Technological expansion contributes to economic development, but unexpected and uncontrolled development of technology is causing havoc on job opportunities.

The Chinese & Indian government is addressing the unemployment issues by promoting growth of tertiary industries, by increasing financial support and implementing favorable policy for non state sector especially small & medium companies in private sector. It is also readjusting the employment concept and is preparing laborers with practical job training and education.

Conclusion:

This study analytically detects the advantages and disadvantages of India economy comparing to China.

At present China is moving to the manufacturing division which has double its share of labor force. India has been moved mainly from agriculture to services in contribute to output, with no considerable increase in manufacturing. India in the coming years will have bigger investor returns

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than China. This is because of the improved institutional development in India which is advanced and more resourceful than that of China. India has to improve infrastructure, increase in agricultural productivity, and control inflation for their better economic growth.

Increase in population growth is also the major reason for unemployment. We must try to reduce population growth by propagate family planning program. The workers and other classes of the masses that are uneducated should be motivated to adopt family planning methods.