Economical comparison: india and spain

Introduction

The economical factors in contemporary world play quite a significant role in characterization of the countries. This report would represent an economical overview of the two countries, examining the current state of their economical development. “ Economic growth is the increase in value of the goods and services produced by an economy. It is conventionally measured as the percent rate of increase in real gross domestic product, or GDP. Growth is usually calculated in real terms, i. e. inflation-adjusted terms, in order to net out the effect of inflation on the price of the goods and services produced. In economics, “ economic growth” or “ economic growth theory” typically refers to growth of potential output, i. e., production at “ full employment,” which is caused by growth in aggregate demand or observed output. As economic growth is measured as the annual percent change of National Income it has all the advantages and drawbacks of that level variable. But people tend to attach a particular value to the annual percentage change, perhaps since it tells them what happens to their pay check” (Trading Economics, 2010). This review would be based on the several main paragraphs, which became the main chapters of the analysis. These core characterizing factors are: GDP growth, inflation and unemployment rate. It goes without saying that in economical analysis these three factors play quite significant role. The two countries this report would compare are India and Spain they are located on one continent but in different part of the world: India is located in Asia and Spain in Europe. This factor also has an impact on their economical development. It also should be noted that India is considered to be one of the most quickly developing countries and Spain, which is the member of European Union has significant developmental problems.

Chapter One: Comparison of GDP of India and Spain.

Description of Indian GDP

Speaking about the Gross Domestic Product in economic characterization of the country plays one of the core roles, as it actually reflects the growth of manufacturing powers in the country (if we speak about real growth rate) but the increase of price. India is considered to be one of the most quickly developing countries and for the recent quarter the growth of GDP in India was 8. 8 percent according to the last reported quarter: “ GDP in India expanded at an annual rate of 8. 80 percent in the last reported quarter. From 2004 until 2010, India’s average quarterly GDP Growth was 8. 37 percent reaching an historical high of 10. 10 percent in September of 2006 and a record low of 5. 50 percent in December of 2004” (Trading Economics, 2010). It should be noted that the diversity of Indian economy unites wide variety of industries. Among them we should mention: contemporary agriculture, village farming, which is traditional for India, different handicrafts and wide variety of modern industries and services, which could be really called one of the major sources of the Indian economic development and growth: “ Accounting for more than half of India’s output with less than one third of its labor force. The economy has posted an average growth rate of more than 7% in the decade since 1997, reducing poverty by about 10 percentage points” (Trading Economics, 2010). The following chart would be a perfect illustration of Indian GDP growth.

It should be noted that analysts consider that the boost of Indian economy is closely connected with the development of the three sectors, which added to the growth of Indian economy: “ Agricultural output along with strong development in the Industrial and Mining sector has helped to boost the Indian economy. Agricultural output rose 2. 8 per cent y-o-y thanks to improved harvests. Industrial production increased by 12% and in the mining sector by 9%” (Trading Economics, 2010). Analyzing the graph we could see that the GDP rate, characterizing the development of Indian economics was actually rapidly falling with less or more success. But the year 2010 has become really shifting in economical development, agricultural sphere, which is not the strongest part in Indian economics rose significantly due to the harvest improvement and industrial and mining production has always been the strongest parts in Indian economy.

Brief Description of Spanish GDP

Comparing Spain to India it would be essential to note that there is no word about such a significant increase and growth of GDP observed in this country. It was just 0. 20 percent in the last reported quarter and this significantly differs from the Indian GDP: “ GDP in Spain expanded at an annual rate of 0. 20 percent in the last reported quarter. From 1995 until 2010, Spain’s average quarterly GDP Growth was 0. 67 percent reaching an historical high of 1. 53 percent in December of 1997 and a record low of -1. 70 percent in March of 2009. Spain’s economy is the fifth largest in Europe.” (Trading Economics, 2010). Characterizing economics of Spain we should take into consideration that Spain is the member of European Union and since 1986 it significantly impacts Spanish economical growth as the country is opened to trade and investment according to the Union agreement. The following graph illustrate the growth of Spanish GDP for the recent 4 years:

Comparison of the Two Countries: Examining Trends to Further Development

Comparing the GDP of these two countries we should take into consideration that India is an independent state, which has no so close economical connection to the other states in area and Spain, which the member of the European Union is economically strongly connected to the other members of the Union. Globalization is also one of the reasons, which impact the stro0ng growth of Indian economy and slower development of Spanish economy. It is a well known fact that all the manufacturing powers from the well developed countries (members of the European Union as well) as moved to the East: to India, China and other developing countries. The cheaper labor force and loyal legislation to the international investors create huge potential for the development. At Appendix 1 we would see how globalization impacted the real growth rate. The well developed countries manufacturing powers are significantly decreased for the recent years as all the manufacturing powers were replaced into the developing countries, which provided a huge developmental potential for such countries as India. According to the majority of the analysts the tendency to GDP growth in India and the other developing countries would remain in progressive stage for the recent years. And the growth of European GDP rate of Spain and other countries of the Union would be significantly less than Indian.

Chapter Two: Unemployment Rate Analysis. Comparison of Situation in India and Spain

Analyzing the Situation with Unemployment Rates in India and Spain.

It should be noted that current situation with the unemployment rates in the both countries is really threatening. According to the recent economical news the rate of unemployment in India reached its peak for the recent 4 years and now is rated by the specialists up to 10. 7 percent. The following graph illustrate, provided by the CIA World Fact Book illustrate the change of the unemployment rates during the past 7 years:

It goes without saying that the situation is now becoming critical for the Indian economics as according to the statistical data such high unemployment rate has never been observed in India before. It should be noted that the analysts, which examine the development of Indian economy noted that up to 2003 nearly 60% of Indians were employed in the agricultural sphere. Since then the situation has been changes. The agriculture is rapidly stagnated, hence the industries are rapidly developed due to the global impacts. “ Sixty per cent of India’s workforce is selfâˆ’employed, many of whom remain very poor. Nearly 30 per cent are casual workers (i. e. they work only when they are able to get jobs and remain unpaid for the rest of the days). Only about 10 per cent are regular employees, of which twoâˆ’fifths are employed by the public sector” (Iqbal, 2008, p. 1). It should be noted that every year Indian labor force grow on 2. 5 percent, hence the employment is increasing only at 2. 3 percent. It goes without saying that this cause such huge unemployment, which government problems are unable to overcome. The unemployment in India is generally characterized as disguised or chronic unemployment.

Compared to India the situation with unemployment in Spain is really much worse. The following graph, provided by CIA World Fact Book would be a perfect illustration of the current situation in Spain:

It would be obvious to focus on the fact that in 2010 the situation with unemployment in Spain really became critical: " Spain's unemployment rate has hit 20% for the first time in nearly 13 years, official figures have shown. There were 4, 612, 700 people unemployed in the country at the end of March, the national statistics agency INE said. Spain's jobless rate has risen sharply during the economic downturn and is the highest in the eurozone" (BBS News Business, 2010). A number of analysts connect such a significant increase of the unemployment rates with the global impacting factors. During the last decades the manufacturing powers were rapidly replaced to the third world countries. It should be noted that official representatives of Spanish government insist on the fact that the unemployment rate reached only 18. 9 per cent. The development of Spanish economics and the increasing of the unemployment rate have close connection with the intensive development of the third world countries such as India. That is why it would be essential to note that these countries are in close connection according to the impacting factors that provide economical growth of the one and employment decrease of the others.

The Unemployment Perspectives Evaluation of the Both Countries

The core problem of Indian employment realities is unorganized sector: " More than 90 per cent of the labor force is employed in the " unorganized sector", i. e. sectors which don't provide with the social security and other benefits of employment in the " organized sector." In the rural areas, agricultural workers form the bulk of the unorganized sector. In urban India, contract and subâˆ'contract as well as migratory agricultural laborers make up most of the unorganized labor force" (Iqbal, 2008, p. 1). It should be noted that such a situation on the working place and inability of the government to fulfill the workplace demands. The governmental programs assisting the private sector development could hardly maintain the needs of the increasing population of the country. Some analysts predict that up to the 2020 unemployment rates in India would reach 30 per cent: " India will have a prodigious 30 per cent unemployment rate in 2020 – a worrisome figure that suggests a country teeming with more than 21 crore jobless people. Characterizing the social catastrophe as the " coming unemployment explosion", the report says India's working population in 2020 will be equal to its total population of 1991, when India had kick-started economic reforms" (Sinha, 2007). The situation with increasing unemployment in India could be really called critical. The growth of economics with constantly increasing unemployment rate could not be called really stable and reliable factors of the prosperous economical future of the country

But the same time analysts, investigating unemployment situation in Spain do not make such long lasting analysis of the unemployment perspectives.

But for 2011 they predict rapid increase of unemployment rate: “ The unemployment rate in Spain will rise to 19. 4 percent this year and 19. 7 percent in 2011, the country’s central bank has said. Job creation will not start until the ‘ final quarters’ of 2011, the Banco de Espana said Tuesday in a report on the economic outlook for the country” (Barcelona Reporter, 2010). But Spanish government does not actually share the same perspectives with the central bank of the country. They expect that the new job creation would start in the end of the 2010 nd beginning of 2011, which ease current crisis: “ The central bank’s job creation forecast, however, differs from the one issued by the government, which expects news jobs to be created between late 2010 and early 2011” (Barcelona Reporter, 2010). Another interesting factor that characterizes Spanish unemployment is that the immigrants are leaving the country because the unemployment crisis which outburst at the times of global financial crisis: “ The number of legal immigrants arriving in Spain fell in 2008 for the first time in a decade, the secretary of state for immigration and emigration said Wednesday in presenting a report drafted for her office. According to Consuelo Rumi, the amount of employed work and residence authorizations was down by 50, 000 relative to 2007, while the number of family reunification visas that were issued declined by 30, 000” (Chaos, 2009). This factor characterize the situation with employment in Spain as really catastrophic and such a downfall would undoubtedly have a negative impact the economics of the country

It would be essential to note that both countries faced severe unemployment problems and the forecasts for the both are not really optimistic, especially for India, where the unemployment problem is really one of the sharpest.

Chapter Three: Analysis of Inflation Rates in India Comparatively to Spain

Brief Description of Inflation Rate during the Recent Years in India

The core factor that impacts the inflation rate increase and decrease in India is its unstable economics. It is obvious to note that Indian economic is considered to be quite perspective and attracts a number of foreign investors. But analyzing the realities and development of the country's economics should be considered unstable, which is the main reason for inflation: " The inflation rate in India was last reported at 11. 25 percent in July of 2010. From 1969 until 2010, the average inflation rate in India was 7. 99 percent reaching an historical high of 34. 68 percent in September of 1974 and a record low of -11. 31 percent in May of 1976. Inflation rate refers to a general rise in prices measured against a standard level of purchasing power. The most well known measures of Inflation are the CPI which measures consumer prices, and the GDP deflator, which measures inflation in the whole of the domestic economy" (Trading Economics, 2010). The following graph would illustrate the inflation rate rippling

The rippling of inflation could be called really high and as it was mention earlier such destabilization is happening due the constant unpredictable development of Indian economy. The unstable agricultural and rural sectors negatively impact the economic development and despite the strong industrial sector the inflation rates grow higher. It should be noted that the vast majority of Indian population is living beyond the poverty level so the increase of inflation rate in 2009 dramatically impacted them: “ In times of rising inflation, this also means that the cost of living increases are much higher for the populace. Cooking gas prices, for example, have increased by around 20% in 2008. With most of India’s vast population living close to or below the poverty line, inflation acts as a ‘ Poor Man’s Tax’. This effect is amplified when food prices rise, since food represents more than half of the expenditure of this group” (Stanley St Labs, 2010). The increase of inflation rate significantly damages all the spheres of life in India. It should be noted that political situation in the country is strongly depending on the economical situation. Experts and analysts came to the conclusion that the increase of food inflation impacted the government and the industry development as well: “ India’s 2009-10 Economic Survey Report suggests a high double-digit increase in food inflation, with signs of inflation spreading to various other sectors as well. The Deputy Governor of the Reserve Bank of India, however, expressed his optimism in March 2010 about an imminent easing of Indian wholesale price index-based inflation, on the back of falling oil and food prices. The dramatic increase in inflation will have both economic and political implications for the government, with an election due within the year” (Stanley St Labs, 2010).

Brief Description of Inflation Rate during the Recent Years in Spain

Comparatively to India Spain already has well developed stable economy. It participates in very strong economical alliance European Union and this adds to stabilization of inflation rate in the country. Despite the significantly lower GDP and severely growing unemployment problem, the inflation rate in the well developed country is much lower than in India: “ The inflation rate in Spain was last reported at 1. 90 percent in July of 2010. From 2002 until 2010, the average inflation rate in Spain was 2. 78 percent reaching an historical high of 5. 30 percent in July of 2008 and a record low of -1. 40 percent in July of 2009. Inflation rate refers to a general rise in prices measured against a standard level of purchasing power. The most well known measures of Inflation are the CPI which measures consumer prices, and the GDP deflator, which measures inflation in the whole of the domestic economy. This page includes: Spain Inflation Rate chart, historical data and news” (Trading Economics, 2010). The analytical investigation revealed that such a stable situation with the inflation is due to the fact that Spain is the member of Euro Union, which provide a significant support to it. But the same time it should be noted that Global Financial crisis and unemployment crisis impacted the growth of inflation in this country too: “ Spain’s underlying inflation rate rose in July after a sales tax was increased to help cut the third-largest budget deficit in the euro region. Core consumer prices, which exclude energy and fresh food, gained 0. 8 percent from a year earlier, compared with an increase of 0. 4 percent in June, the National Statistics Institute said today. The headline rate, based on European Union calculations, was 1. 9 percent, in line with an initial estimate published on July 29” (Ross-Thomas, 2010). The Spain economics could not be really considered to be the strongest in the Eurozone, but comparatively to developing countries , where people live under the level of poverty the inflation rate increase in Spain does not hit the population so much as it was in India. The following graph would illustrate the changes in Inflation rate for the recent years:

After the first half of 2009 we could observe rapid inflation growth and analytical investigation reveals that the core reasons for that are the budget deficit, which occurred during global financial crisis and unemployment crisis in Spain.

Comparatively to the other countries of European community situation with the inflation rate in Spain: " Spanish inflation generally had been above the EU average in the last decade. Its core inflation rate, which turned negative in April for the first time on record, compares with a euro-region average of 0. 9 percent in June. As households pay down debt accumulated during a 10-year housing boom, Spain's economy will contract 0. 4 percent this year, while the euro area and the U. S. expand, according to the International Monetary Fund. The government cut its growth forecast for next year to 1. 3 percent from 1. 8 percent because of the impact of austerity measures. That's still twice the IMF's forecast of 0. 6 percent for next year" (Ross-Thomas, 2010). The analytical investigations now forecast rapid growth of inflation for Spain and only stabilization with unemployment crisis and development of effective economic tactics by the government would be able to improve the situation. The same time it should be noted that the situation is far from critical right now.

Comparison of the Two Countries: Examining Trends to Further Development

From the very beginning I would like to focus on the fact the economics of these two countries are pretty different. India is considered to be a developing country and Spain is well developed, even it is not top rated. These factors make a significant difference in the inflation rate rippling for these countries are pretty different and they differently hit the development of these countries. The Indian population and economics is strongly depending from the inflation rate. It impacts all the industries and even politics. The inflation rate increase hit the country development severely. The situation with the Spain is not so critical. Even the inflation rate is higher than the average in eurozone the country's economy is stable and inflation rate does not impact the development as severely as it occurs in India. That makes comparison between these two countries really difficult. Another important factor is that Spain is the member of the European Union, which subjects the country to the certain norms of agreement and the same time provides certain support in the scrutinized situation.

It would be essential to note that the differential between Spain and India could be explained mainly by the difference in the structural elements. Income convergence, higher wage growth, coupled with lower productivity growth than in the euro area, and the presence of non-competitive behavior and market rigidities in some sectors seem to be the key elements behind persistently higher inflation in India. A number of economical factors are providing the difference between the countries and identify their specific peculiarities. The similarity is also present, – the rapid inflation growth is forecasted for the both countries in the first quarter of 2011, but the effects this fact would have on the economical development of these two countries would differ significantly as they are on the different stages of the economical development.

Conclusion

In the end it would be essential to summarize the research provided. It would be essential to focus on the similarities and differences of the both countries. Both India and Spain severely suffered from increased unemployment rates. The reasons of these increases were different but it significantly impacted economical development of the both countries. Both of them are seeking for effective way for decreasing unemployment rates. The perspective development of India according to its GDP is higher than the one for Spain. But this intensive growth is also quite predictable occurring due the global factors that caused the removal of manufacturing powers into the countries of the third world. This gave India so significant perspective for further GDP growth. But India could be characterized by the stable economics. It is a developing country and still has a lot of things to fix in its economical developing. Comparative graphs, illustrating GDP and Inflation rippling, which is observed in Appendix 1 and Appendix 4 gives a perfect illustration of stabilization description. The higher GDP, but the same time significant unemployment rates accompanied by huge inflation are making the economics of India weaker than the Spanish. The Same time Spain was severely damaged by the unemployment crisis and its unemployment rate is twice as higher than Indian, but assisted by the European Union it develops effective solution to struggle this problem. And even GDP of this country is significantly lower than Indian, its inflation rate is quite stable and does not hit the economical development of the country so much. It would be essential to note that Indian economical growth requires precise attention and effective solutions to reach even the current Spanish level, which actually not really high.