Comparison of the economies of india and china

The economies of India and China are among the largest economies in the world. However the differences in the size, composition and other quantitative and qualitative features stand in stark contrast when comparing China and India. India, has a much smaller economy, about only a fifth of China's. Its exports are a fraction of China's, as are its imports. India's economy is mostly dependent on its large internal market with external trade accounting for just 20% of the country's GDP. This is a huge difference from China, given just how large a part of Chinas economy is due to International trade. In fact, India's balance of payments (BoP) on its current account has been negative. However this is probably due to its ever increasing oil import bill and its overall Balance of Payments (BoP) was positive since the late 60s due to remittances from Non Resident Indians and increased foreign direct investment.

However, the darker side to blistering growth rates achieved by China is captured by indices of inequality. While the current Gini Index, a measure of inequality of income/wealth, of India is 36. 8, the same for China is 46. 9, which is remarkably high. However China has successfully reduced the proportion of population living below the poverty line to 10% while India has 22% of its population living below the poverty line. given the sizes of both populations, the difference is massive, and finding the causes of this difference is crucial.

A significant question that many economists have tried to answer is the reason behind China's superlative economic growth. Consensus is now broadly reached with the explanation that it was a combination of several factors, not least the proactive actions of the government, coupled with already favorable historical circumstances that are responsible. China's very strengths in these areas have been India's weaknesses.

Political Economy

The histories of China and India have been very different and critical in explaining the growth contrast. China has been by and large a stable, centrally run state through its history with limited periods of instability and lack of a single authority. India's history has been exactly the reverse.

Since 1949 the government, under China's socialist political and economic system, has been responsible for planning and managing national economy. Foreign trade is supervised by the Ministry of Commerce, customs, and the Bank of China, the foreign exchange arm of the Chinese banking system, which controls access to the foreign currency required for imports. Ever since restrictions on foreign trade were reduced, there have been broad opportunities for individual enterprises to engage in exchanges with foreign firms without much intervention from official agencies.

INFRASTRUCTURE

Compared to India, China has a well developed infrastructure. Some of the important factors that have created a stark difference between the economies of the two countries are manpower and labor development, water management, health care facilities and services, communication, civic amenities and so on.. Although India has become much developed than before, it is still plagued by problems such as lack of civic amenities. In fact unlike India, China is still investing in huge amounts towards manpower development and strengthening of infrastructure.

EDUCATION

In Education, 99. 1 % of Chinese children attend school for 9 years, ensuring a high level of literacy. In India, literacy is 50 to 60% . China and India face similar challenges in their higher education sector with intense competition for admission to the best institutions and universities. But China is far ahead on the supply side with nearly 100 high quality institutions and is investing heavily in creating many more, leaving India far behind. As a result China is turning out many more top quality students than India. China has opened up higher education for both private and foreign investment. Foreign investors can come in by tying up with local Chinese partners.

Unlike India, China is experiencing a great deal of two-way international student traffic. China has become one of the world's great study-abroad destinations. Currently more than 60, 000 foreigners study in Chinese universities, and that number is swelling each year. China is the number-one choice for U. S. students who want to study in Asia . China is active and aggressive about becoming a major player in international education.

HEALTH

In general, for both countries, infectious diseases of the past sit alongside emerging infectious diseases and chronic illnesses associated with ageing societies, although the burden of infectious diseases is much higher in India. Whilst globalisation contributes to widening inequalities in health and healthcare in both countries there is evidence that local circumstances are important, especially with respect to the structure and financing of health care and the implementation of health policy.

For example, India has huge problems providing even rudimentary health care to its large population of urban slum dwellers whilst China is struggling to re-establish universal rural health insurance. In terms of funding access to health care, the Chinese state has traditionally supported most costs, whereas private insurance has always played a major role in India, although recent changes in China have seen the burgeoning of private health care payments. China has, arguably, had more success than India in improving population health, although recent reforms have severely impacted upon the ability of the Chinese health care system to operate effectively. Both countries are experiencing a decline in the amount of government funding for health care and this is a major issue that must be addressed.

In China earlier extensive public provision of health and education: universal education until Class X, and public services to ensure nutrition, health and sanitation. In India the public provision of all of these has been extremely inadequate throughout this period and has deteriorated in per capita terms since the early 1990s

A Close Look: Special Economic Zones (or SEZs) in India and China

China pursued an inward-looking developmental strategy from the 1960s to the late 1970s.

From late 1978 onward, Deng started to exert a critical role in Chinese politics and the opening of China. In May, fourteen coastal cities became " open cities." Deng and other top leaders approved the setting up of the first SEZs in Guangdong and Fujian; they enjoyed geographic proximity to neighboring advanced economies and are coastal cities with access to sea-ports.

In addition to picking the right locations for SEZs, Deng and other reformists also carefully appointed leaders to head the major SEZs. In general, these leaders tended to be open minded and possessed a wealth of political experience. Their dedication to work and their upright and honest styles helped them to avoid scandals that could tarnish the reputation of reform. Liang also cracked down hard on official corruption to defuse accusations against the SEZ.

Under Liang's leadership Shenzhen created a number of benchmarks in China's economic reform in the early 1980s. One was the so-called " Shenzhen efficiency," exemplified by the completion of one floor of a high-rise office building within only three days. In addition three new offices responsible for economic policies in the SEZ were placed under the jurisdiction of the Mayor's Office: the General Office of the city government, the SEZ Development Company, and the SEZ Construction Company. This centralized and efficient economic decision process in the hand of local leaders paved the way for rapid formation and operation of the SEZ, which was much needed for the newly established zone in its very early years.

First, joint ventures and foreign-owned enterprises were allowed in the SEZs, but needed special approval outside them. Second, prices and distribution of goods were not regulated by the market within the SEZs, but by central plans outside the zones Third, SEZs had jurisdiction in approving much larger investment projects than non-zone localities. Fourth, SEZs enjoyed preferential treatment in tax and tariff reductions and exemptions. For example, the corporate income tax at the SEZs was set at a preferential rate of 15 percent, even lower than the 18. 5 percent in Hong Kong. 25 Finally, SEZs were granted preferential fiscal arrangements.

Fiscal autonomy generated tremendous fiscal incentives and exerted heavy pressure for Shenzhen to reform and develop. These privileges enabled investors to enjoy the lowest corporate income tax rates and tariffs on imports and exports, as well as a freer play of markets in SEZs. SEZs become the premier place in China for attracting FDI.

Initially, Shenzhen was short of funds necessary for building streets and urban infrastructure. However, within four years, the city accomplished urban development worth 100 million yuan with only 18 million yuan of loans. It built two industrial districts as well as fifty-five streets of a total length of 100 kilometers. In comparison to India we find that Indian SEZs lack in precisely the areas in which Chinese SEZs seem to have an advantage, such as infrastructure, tackling bureaucracy, corruption, etc.

While SEZs in India are generally set up all around the country SEZs in China are mostly on the coast, along one side of the country due to better connectivity to the outside world and advantages in exports.

Conclusion

Popular opinion is that India cannot catch up with China in the near future, at least in the next few years. China leads India in foreign investment, a key contributor to economic growth, by a margin of 10 to 1, because foreign investors, who can place their money anywhere, see more opportunities and fewer obstacles in China. Ironically, Indian democracy is viewed as a hindrance vis-a-vis the stability of China’s authoritarian regime on its liberalizing market and docile unions. India also lacks a Hong Kong and a Taiwan, next-door technology, and capital hubs that when combined with the mainland’s abundant, cheap, and productive human resources create powerful complements. China dominates in manufacturing and has the market size and spending power domestically The constraints on the growth of India’s GDP appear to be insufficient investments according to most economists, including FDI and investments in infrastructure. The most commonly cited constraints on investments is the confusion and slowness of policy change as well as confusion and tardiness at the bureaucratic levels, as contrasted with the “ single mindedness” of the Chinese state.

However, changes are gradually being seen in these areas, and political reform could strengthen the role of the government and combat inefficiency. Also the provision of high quality and long lasting infrastructure is beginning to occur. If government initiates these reforms and provides the requisite infrastructure to attracts investment, the possibility that India catches up with China in terms of economic growth does not look so impossible.