

What India has to Learn from China

Siddhartha Mitra and Vishal Handa*

In 1970 China had a per capita income which was half that of India. In around thirty years the position has been reversed with the Chinese per capita income becoming eighty per cent higher than that of India. The remarkable turn around can be explained by a much higher rate of growth of GDP in China combined with greater restraints on population growth. The former has been facilitated by an investment rate, which greatly exceeds the Indian rate and faster growth in human capital stock. Governance is not a significant explanatory variable of the difference in economic performance as the Indian performance in governance has been marginally better than that of China. However, it must be remembered that the Chinese have paid for their better economic performance in terms of a more polluted environment.

I Introduction

The comparison between India and China in the second half of the twentieth century is very apt. Both countries started modern economic development around 1950. Both countries had a large, impoverished and largely illiterate population. Both countries followed the strategy of planned development. However, while India's strategy was embedded in a democratic political system the Chinese system was characterized by the domination of the state over the individual.

Both economies are being considered as part of the group of more dynamic economies in the world (For details look at Bery and Singh, 2003). In the period 1991-95 China had the highest growth rate of GDP in the world (12 per cent per annum). During 1996-2001 it was in second place with a growth rate of 8.1 per cent per annum. On the other hand, India was a much lower but respectable twelfth (5.3 per cent per annum) in the first period. Subsequently, it continued to make steady progress and leapfrogged to fourth position in the next period (growth rate of 5.6 per cent per annum). The dynamism of these two economies makes their comparison a worthwhile subject of study. But it is also the immense size of these economies, which makes the study significant. Together they comprise around one-third of the world's population. In 1980 China was only the ninth largest economy in the world with GDP Purchasing Power Parity (PPP) of 421 billion dollars. By 2001 it had climbed up seven positions to second place with a GDP PPP of 5111 billion dollars. India also made steady progress during this period. In 1980 it was the fifth largest economy in the world with a GDP PPP of 529 billion dollars. By 2001 it had graduated to fourth position with a GDP PPP of 2930 billion dollars. However, it must be said that economic growth in India in the recent past, though significant, has not been even nearly as spectacular as that in China. In 1960 Chinese per capita income was only half that of Indian per capita income. Yet by 2000 there had occurred a sea change in the relative fortunes of the two countries. Chinese per capita income was now 79 per cent higher than the corresponding Indian figure¹.

* The authors are affiliated to the Gokhale Institute of Politics and Economics and National Council of Applied Economic Research (New Delhi) respectively.

¹ The difference in the rate of growth of per capita income has narrowed in the recent past and fallen from 3.5 per cent p.a. in the 1965-99 period to 2.1 per cent p.a. in the post 1997 period. However, it still remains significant.