Looking Into The Future: Which Economy Will Be Performing Better Circa 2060, India Or China?

Voronica Mufudza¹, Kumbirai, C. Ngwaru²

Abstract
Despite the politicization of Zimbabwe’s Look East Policy- which apparently has been also adopted by a number of African countries, this policy is bound to bring a lot of economic gains for Zimbabwe and the continent as a whole. India and China are the fastest growing and the two largest economies in today’s world, and they are in the East. This paper seeks to answer the question that as we ‘look east’, where should our focus be- India or China? By reviewing the literature available on the two countries, the paper attempts to predict the future of the two countries and the conclusion thereabout will be very useful as a guide to the decisions our policy makers make today.

1. Introduction
Apart from being the two largest fastest economies, with their total population accounting for more than 40% of the world’s total population, India and China have very little in common. India’s growth model is service-oriented whilst that of China’s relies more heavily on manufacturing and agriculture. Although India has been trailing behind China in terms of GDP, as shown in figure 1 below, in other areas of development, however, India is clearly ahead. Having established itself as a global software and IT services superpower, the country is sometimes called the ‘world’s back-office’. China, in contrast, with the help of massive FDI inflows from many sources, including its own Diaspora and an open trade regime has become the ‘world’s workshop’.

2. Discussion
India’s economic dynamism in recent years has been very impressive. Just like any other country in the world, it has been affected by the global recession yet statistics prove that its economy is still strong. We would like to agree with some analysts that have predicted that the Indian economy will eventually overtake China’s.

Circa 2060, India’s economy will be performing better than China because of the following;

India Has Better Corporate Governance and Rule of Law
Several recent business surveys rated corporate governance standards in India well above those in China. Similarly, the World Bank’s comparative governance indicators show that India ranks above China in three of six categories- Voice and Accountability, Rule of Law, and Control of Corruption.

India’s Prime Minister- Manmohan Singh (quoted in the Financial Times, March 31, 2009) said ‘democracies have a far better chance of sustaining economic reform than one party states. Although people like David Pong, Hong Kong industrialist, would want to argue that ‘democracy is messy and inefficient’ basing on the success of the non-democratic China, the truth is that India is a functioning democracy, committed to the rule of law-decisions may take long to reach but once taken they will be far more durable.

¹Zimbabwe Open University, Faculty of Applied Social Sciences).
²Zimbabwe Open University, Faculty of Applied Social Sciences).
India has a rule-of-law-culture. The democratic system and rule of law are more conducive to the development of globally competitive private companies. Moreover, its judiciary system, although partly dysfunctional because of the massive case backlog, is independent from the political system, which is not the case in China.

According to industry sources, owners of intellectual property feel better protected in India than in China.

**Vibrant Private Sector**

India has larger and more successful private corporations with strong R&D capability.

The country’s superior legal and financial market framework has created private firms with real international competitiveness, such as Infosys or the Tata Group conglomerate; despite the stifling bureaucracy and wide spread corruption. The private sector in India is innovating, growing, and competing in markets which were off limit just a few years ago.

**The Domestic Market and Labour Force**

India’s domestic market is growing fast and increasingly provides companies with the depth they need to benefit from economies of scale and scope. The outlook for the next 20 years makes India an attractive market to invest in.

China’s labour force is expected to peak around 2015, whereas India’s is projected to grow for several decades beyond that, both in absolute terms and as a percentage of the total population. From the statistics given in table 1 (see attached), the Indian workforce is projected to expand from 64% of the total population in 2008 to 69% by 2030 while that of China will fall from 71.5% to just above 30%.

More so, the country has better tertiary education than China and will even export its human resources to parts of an ageing world in need of talent in the future.

**Savings Rate**

The differential growth rates between the two countries can be explained by China’s higher savings rate, which is around 40 per cent of gross domestic product versus 20 per cent in India. Subsequently, the savings rate is dependent on agricultural productivity, which has consistently been about twice as high in China as in India since the 1970s, and demographics. A population dominated by a young workforce generates high savings; the savings rate falls as the population ages.

Demographics, however, favour India. Beginning in the next decade China’s population will begin to age rapidly and the savings rate will fall. India, however, is just entering an era of “demographic dividend”, driven by a young workforce that will probably last for about three decades.

**Investment and Sustainability of Growth**

For the period 2006–2008 investment rates exceed 30% of GDP in India, and 40% of GDP in China.

India’s position in international competitiveness rankings has improved in recent years relative to that of China. According to the World Economic Forum Global Competitiveness Report of 2006–2007 China is 54th position while India 48th. China’s relative position has deteriorated because of its removal of generous tax incentives for foreign investors, rampant disregard for intellectual property laws, rapidly rising real wages and other cost increases (e.g. for land), as well as the improving performance in India.

India’s economic performance and policy environment are improving as a result of ongoing liberalization and investment promotion by the central government and several state governments. Analysts have shown that average labor costs per unit of output in manufacturing in India are lower than in China, because the difference in average wage levels is larger than the difference in average productivity.

It has often been argued that although China’s growth rates have been higher, India’s use of investment resources has been more efficient, at least in recent years, because it has achieved more incremental output per dollar invested than China has. Clearly, this suggests greater efficiency of resource use in India.
If the high rates of savings and investment are not sustainable, and the efficiency of investment is doubtful, then Chinese growth rates will decline.

**India’s Stock Market Represents the Economy, China’s Not**

Indian policy makers use a variety of instruments to manage capital inflows. They prefer flexibility over nominal anchors and monetary policy rules, and have allowed greater exchange rate flexibility over the last two years. The country’s capital markets, especially equity markets, are highly developed and better integrated.

Entrepreneurs in India have better access to domestic capital markets for their financing which remains a dream to entrepreneurs in China who depend heavily on their own savings and informal capital markets.

The more diverse, highly developed domestic capital markets are a strong pillar for India’s relatively large and well-developed private corporate sector. These capital markets are also more open to foreign financial participation than those in China. In June 2006 India’s stock exchanges listed approximately 5000 companies, almost all of which are privately owned whereas the two Chinese stock exchanges together listed approximately 1400 companies, a large majority of which are wholly or majority government-owned.

**India’s Banking System Is Also in Better Shape and That of China Still Lags.**

(According to the World Bank report of October 2010, the Reserve Bank of India was among the first central banks in the world to embark on a staggered exit strategy to reverse a string of monetary easing measures introduced in 2008).

3. **Conclusion**

In the post crisis era, India is pursuing a fiscal policy which will do more to support growth. There are likely significant growth effects from a reallocation of spending, for example, from badly targeted subsidies to infrastructure investment.

![Figure 1: Annual Percentage Change in Real GDP](Source: OECD statistics)

China’s cheaper, more reliable power supply or the more rapid turnaround at its ports has made her an incalculably better environment for most manufacturing than India, which is slowly waking up to this. This environment and the bureaucratic obstacles at all levels of government in India, including the difficulty of obtaining land for investment projects in the country, in large part explain the huge flow of FDI to China.
relative to India. As India’s investment environment improves, however, capital will become more abundant and, rates of return will fall. In other words, to sustain higher rates of economic growth, India must paradoxically become a less efficient user of capital.

India is a huge, fast growing developing country whose plentiful cheap labor force will drive down the price of manufactured goods and whose demand for construction materials will drive up the prices of commodities. If it succeeds in providing better infrastructure, including reliable power, more flexible labor laws and reduced bureaucracy, it is entirely possible that it will become more competitive than China in a growing range of manufacturing industries, thereby, becoming the better performing economy around 2060.

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