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# Economic Rise of China and India: A Comparative Analysis.

**Abstract** *China and India have emerged as the world's leading economies in the last four decades. The remarkable economic rise of the once-dormant and fragile economies of both China and India is one of the astonishing stories in the recent past. Both have introduced robust and revolutionary reforms in their economic policies which effected fast and sustained economic growth. These reforms include liberalization of the economic policies, emphasis on attracting foreign direct investment, and focus on enhancing trade. China, which introduced the semi-capitalist economy after the 1978 reforms have already become the world's second-largest economy behind the USA, while India has emerged as the fastest-growing economy in South Asia. This study aims at comparing the economic trajectory of these two rising Asian economic giants. The research also focuses on those factors that played a decisive role in the economic rise of these countries.*

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## Introduction

Asia, again, is on the path of economic development and prosperity. It is regaining the economic strength it had lost about three centuries ago, probably after the war of Plessey in 1757. The largest continent of the world and the birthplace of different civilizations and religions, Asia has remained an epicenter of opportunities and resources. The region proved to be of great importance in the 17th century particularly after the arrival of colonial powers. The subsequent exploitative tools applied by the colonial masters, especially Britain, to sustain their industrial revolution and growth has replaced the glory and prosperity of Asia

But things changed for the Asian continent in the last few decades, particularly with the inception of the 21st century. Several countries in Asia emerged as great economic

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Powers due to which Asia is achieving the status of a dominant continent in the world. The "miracle of East Asian" states which include Malaysia, Singapore, Japan, and Indonesia as emerging markets, from the 1960s to 1990s, strengthened the global shift from west to east" (Walter R. M. The New York Times Magazine, May 31, 1991). Along with the Asian Tigers as economic powers, one of the other factors that played a crucial role in making the 21st century an Asian century, is the dramatic rise of China and India as the fastest-growing economies. The economic rise of both of the countries decided that "Asia is now on an irreversible path of prosperity and rising as the hub of the global economy" (Parag Khanna, 2019. P. 20).

For the experts and economists, the resurgence of China and India as economic giants is astonishing. Both countries have achieved high growth in the economic field owning to their novel policies and strategies and effected considerable results which include alleviation of poverty, an increase in trade, and an increase in the lifespan of the people. As per data available "China is now a bigger economy at PPP than the US, accounting for 19 percent of world output in 2018-2019, more than double recorded in 2000. On the other side, "India is ranked as the world's third-largest economy by Purchasing Power Parity (PPP) and the world's fifth-largest economy by nominal GDP with a GDP about double the size of either Germany or Japan, both of which had economies larger than India's on a PPP basis in 2000". As per 2019 statistical data, "Both countries share 19.18% and 27.19% of total global wealth in nominal and PPP terms, respectively (Parag Khanna, 2019. P. 20).

To conclude, it is pertinent to mention that the return of the once-weak and fragile economies of both China and India as the most dynamic and growing economies is remarkable. Until the 21st century, both countries have contributed less to the Asian economy. But now China and India contribute more than half of Asia's GDP" (IMF and World Bank Report, @8 August 2019).

## The Resurgence of China as Economic Giant

*"China is a sleeping giant. Let her sleep, for when she wakes up, the world will be sorry. (*Dawn, December 19, 2010)".

## Napoleon

It was 40 years ago that China has started its policy of liberalization. Before that China's economic policies were very centralized and controlled. Those policies were stagnant and isolated from the global liberal economy. But after its openness to foreign trade and investment in 1979, China has achieved milestones in the field of economy. Since the last four decades when reforms were introduced, China's GDP till 2018 "grew at an average annual growth rate of more than 9%" (China's economic reform, China's economic reform, 1979), and is considered to be one of the fastest-growing economies.

The surprise economic rise of China has been acknowledged throughout the globe by various countries. Once known to be one of the greatest civilizations in the past, China has always been highly innovative and creative as it is today. Centuries ago, it is one of the world's leading trade partners. China is a leader in the field of textile manufacturing, paper production, book printing, and production of steel in the 11th century. Although it remained backward and isolated for a few centuries, China has regained its past glory through peaceful ways particularly after the introduction of the economic reforms in 1979 by Deng Xiaoping. Now, China is seen as one of the most influential countries in the world and now has become the world's second-largest economy.

## China after the 1949 Revolution: Economic Policies

The successful journey of China, in the field of economy, starts with the Communist Revolution of 1949 under the leadership of Mao Ze Dong. During his era, the economy is centralized and planned. A huge share of "country's economic output is under the command of the state, which set production of the concerned good, their prices, and allocation of resources" (New York Times, December 15, 2010) in the era of 1960s and 1970s, China hugely invested in the physical and human resources to fuel the industrialization and to achieve high economic growth. Some of the major aims of the policies were: "to achieve planned economic objectives; to increase industrialization; to discourage foreign industries from investing in China: to make China economically self-sufficient" (Augus M, 2007).

## Economic Reforms in China: From 1979-to-Present

Where China stands today can be attributed to the reforms that were introduced at the end of the 1970s (1979 to be particular). The leadership of China at that time tried their level best to deviate from the economic policies of the past to solve the political and economic issues of the country. Subsequently, it was in 1978 when a tectonic shift was observed in the economic policies of China through the introduction of hard and revolutionary reforms by Deng Xiaoping, the father of modern China. Moving cautiously towards economic liberalism, Deng started to tighten the grip of the Communist party on political power. Hence, a policy of maintaining political stability under the tight grip of the Communist Party and a strong check and balance over the economic policies became a norm for three decades.

The Chinese state, in 1982, redirected huge public subsidies to enhance capitalist growth by abolishing the system of free education and health. They ended up providing shelter and houses to millions of factory workers and peasants" (James Petras, March 12, 2012).

Moreover, control over various enterprises is handed over to the provincial and local authorities and is allowed to operate on free-market principles rather than controlled policies of the state. Besides, special economic zones were established to attract foreign direct investment for the increase in export products and to achieve economic growth. New technological tools were imported to China for the modernization of the industry and innovation. Along with these policies, citizens were allowed to start their own business in different fields, and the tight control over the price products is gradually reduced and finally abolished.

There were five core areas where robust and long-term reforms are introduced. The first sector is Agriculture (1978-1984) in which reforms were carried out. Resultantly, it has increased the growth in the primary sector. The second category is the industrial sector (1985-1988). After the introduction of reforms, a hike in productivity is achieved that attracted the labor force. In the next two phases (1988-91, 19992-1997), the main focus is on the economy. The last phase, which lasted from 1998-2013, openness in the Chinese economy is introduced, particularly after 2001 following China's admission to the WTO regime. "It should be noted that a decisive role in favoring the current Chinese economic 'miracle' is usually attributed to the increasing degree of trade openness, especially regarding exports, while the liberalization of imports has been more Gradual. Moreover, huge FDI inflows probably engendered spillover effects and contributed to the transformation of the production specialization model" (Enrico M. and Marcello S., June 2011).

After coming into power, Xi Jinping, the current President of China, has released, in 2013, its plan of the Chinese economic reforms at the 3rd Plenum of the 18th Central Committee. It is called "China's New Economic Model" (Oberol, December 13, 2018). In the report, Xi's economic policy was based on certain characteristics which include: "focus on domestic consumption market; the explosion of China's private sector at the cost of the overall market share of China's state enterprises; emphasis on flourishing the service sector; competing for the west in the modern technological sectors such as biotechnology and artificial intelligence and work for sustainable environmental development" (Osamu Tanaka, March 2015).

The success story of China in the field of the economy can be attributed to the robust and revolutionary reforms that were carried out under the ambitious leadership of China. Resultantly, "China is now a bigger economy at PPP than the US because it accounts for 19 percent of world output in 2018-2019, more than double recorded in 2000. China's GDP till 2018 "grew at an average annual growth rate of more than 9 %"( China's economic reform, China's economic reform, 1979), and is considered to be one of the fastest-growing economies. Even amid the trade war with the USA, the country has achieved "6.1% annual growth in 2019, the slowest in 29 years, but still under the target of 6.6% set by the Chinese government" (Reuter, January 16, 2020).

## India's Economic Rise

India (subcontinent) is famous for its huge resources and opportunities. It is due to this that it is called the 'Golden Sparrow' because it is the land of wealth, abundant in resources, and rich in economic prosperity in the 17th and 18th centuries. An Indian politician and scholar, Shashi Tharoor mention in his book, titled as "The Inglorious Empire" that "the Sub-continent was contributing 23% to the world's GDP in 1800 and over two hundred years of exploitation, depredation, loot, and destruction, its GDP was reduced to only 2% when the British were departing in August 1947" (Shashi Tharoor, 2017). With the inception of colonialism and the arrival of the European powers, especially Britain, to extract and exploit its resources has transformed the "Golden-sparrow" (Ashok Malhotra, 2013) into an impoverished and poor hawk. Besides, their rule in the region led to underdevelopment and poverty.

Since its independence in 1947 from the colonial power, Great Britain, India's economic policies were based on increasing its percentage in the global economy. In the initial years after the creation of the country, India's economic growth is slow and fragile due to its socialist nature. The initial contours of the economic policies were self-reliance, social justice, and eradication of poverty from the country. To achieve these objectives "India's strategy is to implement a mixed economy mechanism where both public and private sectors co-exist and assist each other" (Ashok Malhotra, 2013).

In the first five-year plan (1951-1956), India's main focus is to stabilize the economy that is devastated by colonial masters. In the second five-year panning program, a major shift is brought in the economic strategy of India. The aim is to modernize industry and the "strategy of industrialization that is formulated by Professor Mahalanobis, placed focus on the development of the heavy industry. The increasing role of the state is decreased" (Shashi Tharoor, 2017). The core goals were: high economic growth; to reduce the dominance of the foreign countries; to encourage small scale industries and to reduce the concentration of the economic power among few hands.

Later on, some major changes were introduced in the economic architecture and the fifth plan (1974-1979) emphasis is to increase economic growth by enhancing the speed of the economy. For this purpose, "a mild version of economic liberalization is started in the mid-1980s. First, the license of thirty-two groups of different industries is canceled without any investment limit. Second, in 1988, all industries were exempted from licensing except for a specific negative list of twenty-six industries" (Ashok Malhotra, 2013). Hence, it can be concluded that the roots of a shift in economic liberalization lie in the era of the 1980s.

Again in the 1990s era, revolutionary and robust reforms were carried out. "Let the whole world hear it loud and clear. India is now wide awake. We shall prevail. We shall overcome" (Manmohan Singh interview, 1991). These were the words of the former Indian finance minister, Manmohan Singh when the country introduced economic reforms in 1991. Its departure from restrictive policies and socialist-based policies in the initial decades after the inception, to liberalization in the 1990s, has brought economic growth and prosperity. All "state-controlled industries to foreign technology investment and regulated unfair trade practices; in effect, it set India on the path of becoming the modern open economy that it is today" (Perryer, January 28, 2019). These changes have resulted in a significant rise in the economic growth "over 6% from 1991 to 2004 and 8.5% between 2003 and 2007. These figures have shocked the world because India became one of the fastest-growing economies in the world after China" (Mahul NA Mukherji, Indian Review, 2009. P.13).

The core factors that led to economic growth include: First, liberalization of the industries that gave companies in India the space to produce whatever they want. For example, "the Tatas have introduced the world's cheapest car-the Nano" (Mahul NA Mukherji, Indian Review, 2009. P.14). Second, the State policy of devaluation of the Indian rupee has made India's software and other different exports more attractive end competitive. India replaced Japan in the field of trade and Sri Lanka became the biggest trade partner of India in 1995-6 after six decades. Third, the competitive nature of the foreign market has also contributed to the increasing competitiveness in India. Trade agreements with several countries which include Sri Lanka, Singapore, and Thailand have made the Indian companies more competitive. Moreover, liberalization in the tariff sector has reduced the prices of Indian goods.

With the reforms introduced, India has achieved a milestone in the field of economy. Since the last two decades, "the country's nominal GDP has jumped more than 77o%" (Joe Myers, 19 February 2020).

Moreover, in 2017, the World Bank has declared India to be the sixth-largest economy with a GDP of 2.59 trillion US Dollars after surpassing France. India is considered to be the second-fastest-growing economy in Asia with "its GDP growth projected to gain increase by 7.5% in the coming years. The platform has already been set for India to become a 10 trillion dollar economy in the next 15 years" (Berge Brende, 3 October 2019).

The economic growth of India can be attributed to some other factors. The first one is that India has fully utilized the skills and innovative capabilities of its population. India has reached the 52nd spot when it comes to Global Innovative Index in 2019 which has consolidated the economic stability of the country. Secondly, India has also initiated reforms at home by prioritizing growth and development. India's presence at 65th place in the World Bank Ease of Doing Business Ranking shows that this country has worked hard to provide a peaceful and safe environment to the investors.

To conclude, it would be pertinent to mention that Asia has been transforming since the last four decades. From the poorest content in the world in the 1960s, Asia is now considered to be the region that has emerged as the most dominant region in the world. It is rational to argue that the in the years to come, and "probably by 2050 Asia will have great political, strategic and economic significance in the world that would have been difficult to think of 50 years ago, even if it was the reality in 1820" (Deepak Nayyar, 25 October 2019).

## Economic Rise of China and India: Comparative Analysis

During the last few decades, there has been appeared a tectonic shift in the global economy. Rising from the socio-economic problems such as poverty, unemployment, and corruption, both countries have emerged as the economic giants. They are the countries which cover about "40% of the world population. They are also contributing about 20 % of the global economy. As per 2019 data, issued by world Bank, China is at number 2nd and India at 5th in nominal basis" (World Bank, 28 August 2019).

According to the figures available, the Nominal GDP of both China and India is almost the same in 1887. But, after the economic rise of China, "in 2019, the GDP of China is 4.79 times greater than that of India" (World Bank, 28 August 2019). Based on per capita terms, both countries remained close competitors. In the era of 1990s, India was richer than China on both nominal and per capita terms. However, in 2019, China achieved remarkable economic growth and surpassed India in both of the methods. "China is 4.61 times richer than India in a nominal term, and 2.30 times in power purchasing parity method" (World Bank, 28 August 2019).

The emergence of globalization and its worldwide impacts forced both China and India to introduced robust and revolutionary reforms in its economic policies. These reforms have played a decisive role in the economic growth of both countries. China's economic strategy of achieving fast economic growth is based on improving human resources, achieving a high rate of domestic savings, and increasing FDI by attracting foreign investors. On the contrary, India's strategy is based on institutional building, a robust financial system with a strong check and balance system, and giving more space to foreign investors.

Analyzing the economic trajectory of China and India, it is pertinent to mention that there is a remarkable difference in the economic rise of both countries. The growth policy that is implemented by China is different from that of India. After the implementation of reforms in the 1970s decade, China transformed itself from a centralized economy to a market economy that played a vital role in its economic rise.

## Human Capital/ Population

The very first and important thing that China focused on, is its human development. This emphasis on human development prepared Chinese society for the subsequent reforms and utilized the human capital for economic growth. Another important factor related to the population is urbanization. In the 1970s, about 17.5 percent of the Chinese people were living in the cities, while 19.5% of that Indian population lived in the urban centers. But over time, the process of urbanization has increased in China, and, today, about 58% of the pollution live in the cities. In China, millions of people have stopped working in agriculture and are employed in the industrial sector. This has increased economic growth and enhanced productivity in China.

On the other hand, India remained poor at the Human Development Index. In the 1980s, when India went for economic reforms, health and education areas were of great concern for India. An average Indian citizen died at the age of not more than 55 years, and about 44% of the population is illiterate. The life expectancy of the people in China is higher than those of the Indian population. Moreover, India failed to relocate its population from agriculture to the industry by investing in human capital.

### Industrial policy

The second important difference between the two countries is that of the industrial policy. China's policy remains more labor-oriented because of the availability of cheap labor force. Resultantly, various industries like textile and electronics attracted investment. "Moreover, China established special economic zones in the 1980s which boosted up economic growth and export" (Amit Kapoor, October 06, 2019). On the contrary, India's industrial policy is different from that of China. India's reliance is on heavy industry that required more capital than cheap labor. Furthermore, the policy to attract foreign investment is implemented much later. It is for this reason that "China's FDI investment was $183 per capita, while India had $14 per capita at the end of the 1990s decade". Due to its less focus on labor-intensive industrial growth, the manufacturing sector in India never developed and the country remained dependent on "service-led economy" (Amit Kapoor, October 06, 2019). On the other side, China came out to be the powerhouse of the world in the field of manufacturing.

### Political system

The third difference is in the realm of politics. China is an authoritarian state. There is a single political party, the Chinese Communist Party, which governs all the affairs of the state including the economy. The government faces very few hurdles in the way of implementing economic reforms. This authoritarian nature of China has played a vital role in the economic growth and development of the country. On the other hand, India is a democratic country where there exist multiple assemblies at the federal and state level. This democratic nature of the country created hurdles for the economic development because sometimes it becomes very difficult for a government to implement its economic agenda due to the vital role of opposition parties and multiple interests of various interest groups. For example, "it consumed almost 16 years to pass tax reforms bill in the parliament" (Garth Friesen, March 21, 2019).

Politics in India stop various infrastructural development projects and it is estimated that bad infrastructure "reduces the economic growth of India by about 1-2% of the GDP" (Garth Friesen, March 21, 2019).

## Conclusion

It can be concluded from the above discussion that the economic rise of both China and India can be attributed to multiple factors that resulted in sustained economic development. Though, the two countries are the largest economies in Asia; China is leading in the race. China's focus is on human development (health and education), its authoritarian political system, and equitable distribution of resources that have made the country, the fastest-growing economy in the world. On the contrary, India's failure of focusing on increasing literacy rate, investing in human development, and democratic system has left the country behind China.

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