The Indian EXPRESS COLUMNISTS

N K SINGH

Friday , January 23, 2004

Great Mall of India vs Great Wall of China. First in a two-part series on Asia's prizefight

Watch out, India is only revving up

A horse never runs so fast as when he has other horses to catch up with and outpace.
— Ovid

Would it be reasonable to suggest that given China's spectacular growth achievements, India has been spurred to policy changes necessary for accelerating its own growth momentum? The India-China comparison has been made multiple times and almost ad nauseum. Nonetheless, it needs to be recognised that while India hesitatingly undertook tentative reforms in 1980, serious reforms only began in 1991. This process, however, has gathered momentum over the past five years.

On the other hand, China's serious reforms started at least a decade earlier, around 1977-78. Consequentially, with acceleration of its growth rate, rural poverty fell from 30.7 per cent in 1979 to 4.6 per cent in 1998. World Bank estimates of rural poverty changes from 40.8 per cent in 1990 to 24.2 per cent in 1997 show a similar trend (though very different level).

The gap between India and China widened significantly over the 1970s and early 1980s. While the Indian growth rate over 1950-1980 was around 3.5 per cent per year, China's economy is estimated to have grown at 4.5 per cent per year.

India has not yet caught up with China's ''headstart''. Nonetheless, India's reforms in the 1980s and 1990s did bring about significant improvement on social indicators: the incidence of poverty fell from 44.5 per cent in the 1980s to 26.1 per cent in 2000, while the literacy rate increased from 44 per cent to 65 per cent and life expectancy rose from 56 to 61 years over the same time period.

Policy changes also led to an increased growth rate, from the three per cent ''Hindu rate of growth'' to 5.6 per cent per year in the 1980s and an average 6.7 per cent in the five years following the acceleration of reforms in 1991.

The slowing pace of reforms in the mid 1990s was mirrored in a faltering growth rate in India (back down to 5.5 per cent per year from 1997-2002) while China continued to surge ahead with annual GDP growth of seven-eight per cent in 1997-2001.

The consequences of this difference in growth rates are apparent from just a few figures. Over the past three decades, average annual per capita income growth was about seven per cent in China, compared to 2.5 per cent in India.

India's manufacturing production was slightly lower than that of China in the 1950, but less than a quarter of China's manufacturing output in the late 1990s. Labour productivity, teledensity, and use of electricity underwent similar divergences.

At the turn of the century, China's share in world trade (imports plus exports) was 3.3 per cent compared to India's 0.7 per cent. China received 18 times the FDI India did.

A more discerning analysis of the historical record would, however, ameliorate this sharp contrast. Even while India's growth rates may have lagged behind China's, important progress was made in the laying the foundations for sustained growth in the future. Food security was achieved through the Green Revolution. Capital-intensive industries were built up. Some of India's world acclaimed centres of educational excellence, such as the IITs, were also founded in the 1950s and 1960s.

And what of the future? As Edmund Burke once said, ''You can never plan the future by the past.'' The question ''Will China or India become Asia's economic power?'' is essentially speculative. The answer depends on the future growth trajectories of the region's two largest economies.

I would argue that India has several advantages. China's growth remains higher than India's: official estimates place it at nine per cent this year, though unofficial estimates are as high as 11-12 per cent.

These kinds of growth rates, coupled with investment patterns are impressive, though some observers have raised the possibility of overheating.

Industrial production had risen 17 per cent over the previous year as of October. As of the same date, investment was 32 per cent higher than the previous year, despite signs of overinvestment in sectors such as cars, construction and coastal property.

A recent article in *Asia Times* alludes to fears of a real estate bubble. Strong capital inflows and a fixed exchange rate have contributed to a growing money supply, and expectations of a coming revaluation of the yuan may have attracted speculative investment flows.

Inflation rates of three per cent in the year up to November 2003 are low by international standards, but the highest since April 1997.

India, however, has clearly reached the critical mass to achieve a quantum shift in its future growth trajectory. Nearly all indicators of development in India are trending positively — poverty incidence and infant mortality continue to fall, while literacy rates, school enrollment, life expectancy, and access to electricity and sanitation infrastructure is rising.

The growth rate has recently picked up, particularly in industry and services. The World Bank predicted a growth rate of seven per cent over the 2003-04 fiscal year, but this figure may be too low given growth in the second quarter of this fiscal year has been 8.2 per cent.

Four unique features of the Indian economy will support growth in the coming years. First, the advantages of an unusual demographic profile: India will have one of the younger populations of the world, augmenting its workforce relative to other nations as well as providing a large base of workers freshly trained in use of the latest technologies.

Second, there will be an acceleration of consumption. Thirty to 40 million people are joining the middle class every year in India, representing a large and growing incremental increase in consumption spending. Improving infrastructure has also brought rural areas into the market and increased consumption spending from this source.

Third, India's growing knowledge reservoir and its already comparatively highly educated workforce and demonstrated capacity in biotech and software, will contribute to growth.

Finally, growth in India will be augmented by rapid productivity increases. Given recent technological improvements and the favourable ''incremental capital output ratio'', modest investments of capital will lead to significant increases in productivity.

Both countries face important challenges, but I would argue that India's decades of practice with multi-party democracy is an advantage in terms of its ability to carry out the essential reforms — both political and economic — to sustain high rates of growth in the future.

The author is member, Planning Commission. This is an edited version of his speech at the meeting of the World Economic Forum, Davos, January 22

Click here for part II