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Economic Rise of India and China: A Comparative Analysis

Yuthap Akash

MA Politics and International Relations

Pandit Deendayal Energy University

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Abstract: **Indian and Chinese economies are growing rapidly among Asian countries due to economic reforms. The prime objective of this study was to compare and analyse the economic status of both countries. This comparative study was conducted using a descriptive method from secondary sources of data. The study showed that China put greater focus on infrastructure development, removing tariff and non-tariff barriers, development of skilled labour, cost-effectiveness, and speedy decision-making ability. On the other hand, India's focal point was the service sector like the IT sector. The study also indicated that India had better financial, political, and legal practices as compared to China.**

Keywords: **Economy, Infrastructure, Unemployment, Growth, Resources.**

1. INTRODUCTION

Asia is once again on the road to economic development and prosperity. It is regaining the economic strength it lost some three centuries ago, probably after the War of Plassey in 1757. As the world's largest continent and the cradle of diverse civilizations and religions, Asia remains an epicentre of opportunity and resources. The region was of great importance in the 17th century, especially after the arrival of the colonial powers. The subsequent exploitative tools employed by the colonizers, particularly Britain, in to sustain their industrial revolution and growth replaced the glory and prosperity of Asia. But things have changed for the Asian continent in recent decades, particularly with the start of the 21st century.

Several Asian countries have emerged as major economic powerhouses, thanks to which Asia has achieved the status of the world's dominant continent. The "miracle of the East Asian countries" with Malaysia, Singapore, Japan, and Indonesia as emerging markets in the 1960s to 1990s intensified the global West-East shift. Alongside the Asian tigers as economic powerhouses, the spectacular rise of China and India as the fastest-growing economies played a crucial role in making the 21st century an Asian century. The economic boom in both countries has decided that "Asia is now on an irreversible path of prosperity and is becoming the centre of the world economy". For experts and economists, the resurgence of China and India as economic giants is overwhelming.

Both countries have achieved high economic growth due to their innovative policies and strategies and achieved remarkable results including alleviating poverty, increasing trade, and increasing people's life expectancy. Based on available data, “China is now a larger PPP economy than the US, which accounted for 19 percent of global production in 2018-2019, more than double what it was in 2000. On the other hand, India is ranked as the third largest economy in the world by Purchasing Power Parity (PPP) and the world's fifth largest economy by nominal GDP with a GDP about twice that of Germany or Japan, both of which had larger economies than India on a PPP basis in 2000. According to statistical data from the Year 2019 "both countries share 19.18% and 27%.19% of total world wealth in nominal or purchasing power parity. Finally, the once-weak economies of China and India have returned to become the most dynamic and fastest-growing economies. By 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.”

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2. INDIA'S ECONOMIC BOOM

India is famous for its vast resources and opportunities. For this reason, it is nicknamed the "Golden Sparrow" as it was the land of wealth, rich in resources, and rich in economic prosperity in the 17th and 18th centuries. An Indian politician and scholar, Shashi Tharoor, in his book entitled The Inglorious Empire, mentions that "the sub-continent contributed 23% of the world's GDP in 1800 and during two hundred years of exploitation, devastation, pillage and destruction contributed its GDP was reduced to just 2% when the British withdrew in August 1947". With the onset of colonialism and the arrival of European powers, particularly Britain, to extract and exploit its resources, the "Golden sparrow" was transformed into an impoverished world hawk. Moreover, its dominance 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 the eradication of poverty from the country. To achieve these objectives" India's strategy is to implement a mixed economy a mechanism where both public and private sectors co-exist and assist each other". In the first five-year plan (1951-1956), India's main focus is to stabilize the economy that is devastated by its colonial masters.

The second landmark five-year show heralds a major shift in India's economic strategy. The goal is the modernization of industry and the "industrialization strategy", which focuses on the development of the heavy industry. The increasing role of the state is reduced. The basic goals were: high economic growth; reduce foreign dominance, and encourage small industries. To this end, "a mild version of economic liberalization began in the mid-1980s. First, the license of thirty-two corporations from different industries is cancelled without an investment limit. Second, in 1988 all industries were exempt from licensing except for a specific negative list of 26 industries". From this, it can be concluded that the roots of a turning point in economic liberalization lie in the 1980s era, again in the 1990s era revolutionary and solid reforms were carried out.

"Let the whole world hear it loud and clear. India is now fully awake. We will prevail. We will win." Those were the words of former Indian finance minister Manmohan Singh as the country embarked on economic reforms in 1991. Its shift from restrictive and socialist policies in the first decades after its founding to liberalization in the 1990s has brought economic growth and prosperity. All "state-controlled industries regulated against foreign investment in technology and unfair business practices; In fact, India has set itself on the path to becoming the modern open economy it is today." These changes have resulted in a significant increase in economic growth – more than 6% from 1991 to 2004 and 8.5 between 2003 and 2007.

These figures shocked the world because India has become one of the fastest-growing economies in the world after China. Among the key factors that have led to economic growth are: Firstly, the liberalization of industries which gave India the freedom for companies to produce whatever they wanted. Second, the government's policy of devaluing the Indian rupee has made India's software and various other exports more attractive and competitive.

India replaced Japan in trade and Sri Lanka became India's largest trading partner in 1995-6 after six decades. Third, the competitive nature of the overseas market has also contributed to increased competitiveness in India. Trade deals with various countries including Sri Lanka, Singapore, and Thailand have made Indian companies more competitive. In addition, the liberalization of the customs sector has lowered the prices of Indian products. With the reforms that were introduced, India reached a milestone in the economy. Over the past two decades, "the country's nominal GDP has grown by more than 77%."IMF's 2022 GDP estimates -they take into account 2022-23 GDP data for India -- rank India the 5th place and by 2027, India is expected to become the 4th largest economy in the world overtaking Germany.

Finally, it would be important to mention that Asia has changed over the last four decades. From the poorest content in the world in the 1960s, Asia is now considered the region that has emerged as the most dominant region in the world. It is reasonable to argue that in the next few years and "probably by 2050, Asia will have great political, strategic and economic importance in the world that would have been difficult to imagine 50 years ago."

In the past few decades, a tectonic shift has taken place in the global economy. Starting from the socio-economic problems such as poverty, unemployment, and corruption, both countries have developed into economic giants. They are the countries that cover about "40% of the world population. They also contribute about 20% to the global economy. According to the available figures, the nominal GDP of China and India in 1887 is almost equal. But after China's economic boom, "China's

GDP in 2019 is 4.79 times greater than India". On a per capita basis, both countries remained close competitors. In the 1990s, India was richer than China both nominally and per capita. In 2019, however, China delivered remarkable economic growth, outperforming India by both methods. "China is nominally 4.61 times richer than India and 2.30 times by Power Purchasing Parity (PPP) method." The shocks forced both China and India to introduce robust and revolutionary reforms in their economic policies.

These reforms have made a significant contribution to the economic growth of both countries. China's economic strategy to achieve rapid economic growth is based on improving human resources, achieving a high domestic saving rate, and increasing foreign direct investment by attracting foreign investors. In contrast, India's strategy is based on institution building, a robust financial system with strong checks and balances, and allowing more space for foreign investors. When analysing the economic development of China and India, it must be mentioned that there is a notable difference in the economic growth of both countries. China's growth policy differs from that of India. After implementing reforms in the 1970s, China transitioned from a command economy to a market economy, which played a crucial role in its economic growth.

Table 1

Rank	Country	Total GDP (USD, Trillion)	GDP per capita (USD)	Share of World GDP
1	United States	19.5	59,939	24.08%
2	China	12.2	8,612	15.12%
3	Japan	4.9	38,214	6.02%
4	Germany	3.7	44,680	4.56%
5	India	2.7	1,980	3.28%
6	United Kingdom	2.6	39,532	3.26%
7	France	2.6	39,827	3.19%
8	Brazil	2.1	9,881	2.54%
9	Italy	1.9	32,038	2.40%
10	Canada	1.6	44,841	2.04%
11	Russia	1.6	10,846	1.95%
12	South Korea	1.5	29,958	1.89%
13	Australia	1.3	53,831	1.64%
14	Spain	1.3	28,175	1.62%
15	Mexico	1.2	9,224	1.42%

Source - IMF

3. HUMAN CAPITAL

China has primarily focused on its human development. This emphasis on human development prepared Chinese society for later reforms and harnessed human capital for economic growth. Another important factor related to population is urbanization. In the 1970s, about 17.5 percent of the Chinese lived in cities, while 19.5% of the Indian population lived in urban centres. But over time, the urbanization process in China has increased, and today about 58% of the pollution lives in cities. In China, millions of people have stopped working in agriculture and are employed in the industry. This has boosted economic growth and improved productivity in China. On the other hand, India remained poor on the Human Development Index.

In the 1980s, when India began economic reforms, the areas of health and education were of great importance to India. An average Indian die before the age of 55 and about 44% of the population is illiterate. The life expectancy of the residents of China is higher than that of the Indian population. Furthermore, India has failed to shift its population from agriculture to the industry through investment in human capital.

4. INDUSTRIAL POLICY

The second important difference between the two countries is that of industrial policy. China's policies remain more labour-oriented due to the availability of cheap labour. As a result, various industries such as textiles and electronics attracted investment. "In addition, China established special economic zones in the 1980s, which boosted economic growth and exports." In contrast, India's industrial policy differs from that of China. India relies on heavy industry, which requires more capital than cheap labour. In addition, the policy of attracting foreign investment is implemented much later. Because of this, “China's FDI investment was $183 per capita, while India was $14 per capita in the late 1990s”. Due to its lesser focus on labour-intensive industrial growth, the manufacturing sector in India never developed and the country remained dependent on the" service-oriented economy". On the other hand, China emerged as a world power in manufacturing.

5. POLITICAL SYSTEM

The third difference lies in the realm of politics. China is an authoritarian state. There is a single political party, the Chinese Communist Party, which governs all state affairs, including the economy. The government faces very few obstacles in implementing economic reforms. This authoritarian nature of China has played a crucial role in the country's economic growth and development.

On the other hand, India is a democratic country with multiple assemblies at the federal and state levels. This democratic nature of the country made economic development difficult as it sometimes becomes very difficult for a government to implement its economic agenda due to the important role of opposition parties and the diverse interests of various interest groups. It took "almost 16 years for the tax reform law to pass through parliament." Politicians in India halted different infrastructure development projects and poor infrastructure is estimated to "reduce India's economic growth by about 1-2% of GDP".

6. CONCLUSION

From the above discussion, it can be concluded that the economic rise of both China and India can be attributed to several factors that led to sustainable economic development. However, the two countries are the largest economies in Asia; China is leading the race. China's focus on human development (health and education), its authoritarian political system, and the equitable distribution of resources have made the country the fastest-growing economy in the world. In contrast, India's failure to focus on increasing literacy rates, investing in human development, and a democratic system has left the country behind in China

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