CHINA VERSUS INDIA: CURRENT TENDENCY OF THEIR ECONOMIC DEVELOPMENT

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Abstract

China and India are densely populous countries. Their economic growth will increasingly influence a global development of the world economy. The given report illustrates the economic development of these countries by using selected basic economic indicators. The comparison of China and India is interesting because of their different past and present historical, political and cultural development. It is necessary to mention that each third man in the world is an inhabitant of one of these countries. The own analytical view on their economics is based on proved accessible statistical data. This paper reflects a positive impact of the target countries' economy on poverty reduction, infant mortality, literacy etc. Currently, this paper also indicates an increasing competitive power of both countries in the area of international trade as for example an increasing influence in sub-Saharan Africa.

Key words: China, India, economic growth, foreign debt, international trade

INTRODUCTION

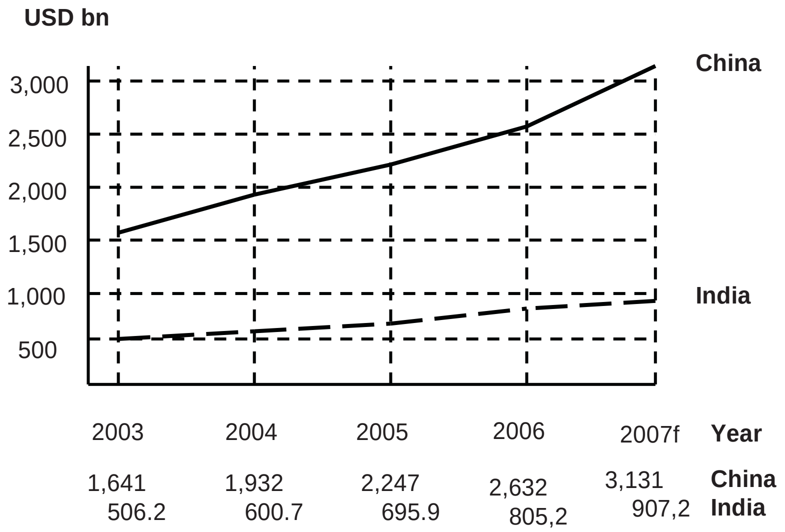
Chinese economy is a major player in the global economy. Reforms started in the late 1970s with the phasing out of collectivized agriculture, and expanded to include the gradual liberalization of prices, fiscal decentralization, increased autonomy for state enterprises, the foundation of a diversified banking system, the development of stock markets, the rapid growth of the non-state sector, and the opening to foreign trade and investment. The restructuring of the economy and resulting efficiency gains have contributed to a more than tenfold increase in GDP since 1978. Measured on a purchasing power parity (PPP) basis, China in 2006 stood as the second-largest economy in the world after the US, although in per capita terms the country is still lower middle-income and 130 million from 100 million to 150 million surplus rural workers are adrift between the villages and the cities, many subsisting through part-time, low-paying jobs. China continues to lose arable land because of erosion and economic development. Another long-term threat to economic growth is the deterioration in the environment – notably air pollution, soil erosion, and the steady fall of the water table, especially in the north. China has benefited from a huge expansion in computer and internet use, with more than 100 million users at the end of 2005 (World- fact books, 2007).

Indian diverse economy encompasses traditional village farming, modern agriculture, handicrafts, a wide range of modern industries, and a multitude of services. Services are the major source of economic growth, accounting for more than half of Indian output with less than one third of its labor force. About three-fifths of the work force is in agriculture, leading the United Progressive Alliance (UPA) government to articulate an economic reform program that includes developing basic infrastructure to improve the livelihood of the rural poor and boost economic performance. Higher limits on foreign direct investment were permitted in a few key sectors, such as telecommunications. However, tariff spikes in sensitive categories, including agriculture, and incremental progress on economic reforms still hinder foreign access to Indian vast and growing market. Privatization of government-owned industries remained stalled in 2006, and continues to generate political debate; populist pressure from within the UPA government and from its Left Front allies continues to restrain needed initiatives. The economy has posted an average growth rate of more than 7% in the decade since 1996, reducing poverty by about 10 percentage points. India achieved 8.5% GDP growth in 2006, significantly expanding manufacturing. India is capitalizing on its large numbers of well-educated people skilled in the English language to become a major exporter of software services and software workers. Economic expansion has helped New Delhi continue to make progress in reducing its federal fiscal deficit. However, strong growth - more than 8% growth in each of the last three years - combined with easy consumer credit and a real estate boom is fuelling inflation concerns. The huge and growing population is the fundamental social, economic, and environmental problem (World- fact books, 2007).

CHINA, INDIA: ECONOMIC GROWTH – GDP

The economic growth is markedly increasing in both countries. This growth is proved by basic economic indicators; especially by GDP growth, debt reduction, international trade development and increasing standard of living. GDP growth in China is considerably faster than in India (See Graph 1.)

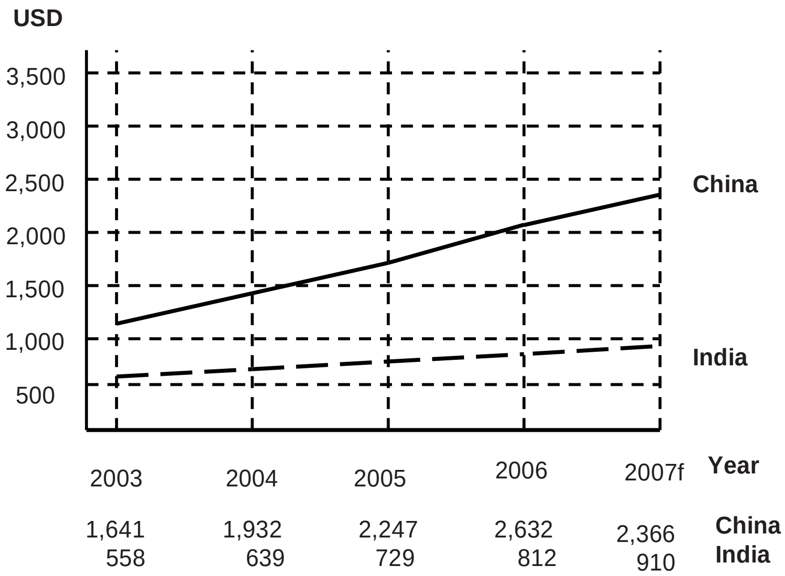
Graph 1: Nominal GDP, update: 24-Jul-2007



Source: Key economic indicators 2007– China, India

There is a similar situation in growth of GDP per capita. India is under more complicated conditions because the Chinese population is regulated. In China, during 1950–2050 the share of children in the population will decrease by 50% (from 33.6% VF. 1950 and 24.9% in 2000 to 16.3% in 2050), the number of old people in the population will be three times higher (from 7.2% to 23.3%) and the number of very old people will increase more than twenty times (from initiated 0.3% to final 6.6%) (Medicina 4, 2007). The advantage of the population regulation consists in accelerated GDP growth, poverty reduction and overpopulation limitation. On the other hand, the disadvantage is that the population of China is growing older and the share of people at productive age in the population is decreasing (Graph 2 shows the GDP development).

Graph 2: GDP per capita, update: 24-Jul-2007



Source: Key economic indicators 2007– China, India

Minister of Finance P. Chidambaram said on Tuesday at economic council in New Delhi that he estimates the economic growth in India by 10% in a tax year 2008 – as long as there will occur a stimulation of agricultural sector. 'The achievement of GDP growth by 10% in the year 2007–2008 (April to March) will be difficult but it will be accessible in the year 2008–2009. This will be an exam and crowning of five-year duration of the current governmental term of office', said the Minister and added that 'current agricultural stagnation inhibits the Indian economy'. Nevertheless, the share of agricultural sector in GDP growth is one-fifth and it is the source of income for one-third of inhabitants. According to the statistical analysis the crop production/person has decreased from 207 kg in 1995 to 186 kg in the previous year. The year-on-year growth of agricultural sector decelerated during the last five years from 5% in 1980s to less than 2% in 2006. India as the third world producer of the wheat had to import the wheat for the first time after six years due to a weak harvest in the last year. The Indian economy growth in 2006–2007 (April to March) was 9.4% and that was faster than it was expected (+9.2%). In 2005–2006 GDP growth increased by 9.0% while the Chinese economy growth in 2006 was 10.7% (Indická ekonomika, 2007). 'The rate of Indian economy growth is not so bad as compared with China and if we assume that facts that in the case that India wants to go on, then, the country has to keep the democratic standards, create the political consensus and evolve the law', added Chidambaram. The year-on-year economic growth is shown in Graph 3.

There is also an interesting development of foreign trade balance in China and India. Democratic changes in China have expressed by disembarrassment and liberalization in the sphere of business and openness to the global world (e.g. since 2001 China is a member of WTO), next, the share of agricultural sector in GDP production is fast declining, while the industrial production is increasing etc. Chinese economy is the seventh strongest economy in the world and that is reflected in the international trade. But there appear a danger especially in fast raising consumption of natural resources, possible rising of unemployment, increasing the share of old people in the population and considerable dependence on the level of the foreign trade. The most important Chinese trade partners with a positive foreign trade balance are USA, Netherlands, Great Britain, Singapore and Japan, while with a negative foreign trade balance are Korea, Russia and Germany. The development of foreign trade balance is shown in Graph 4.

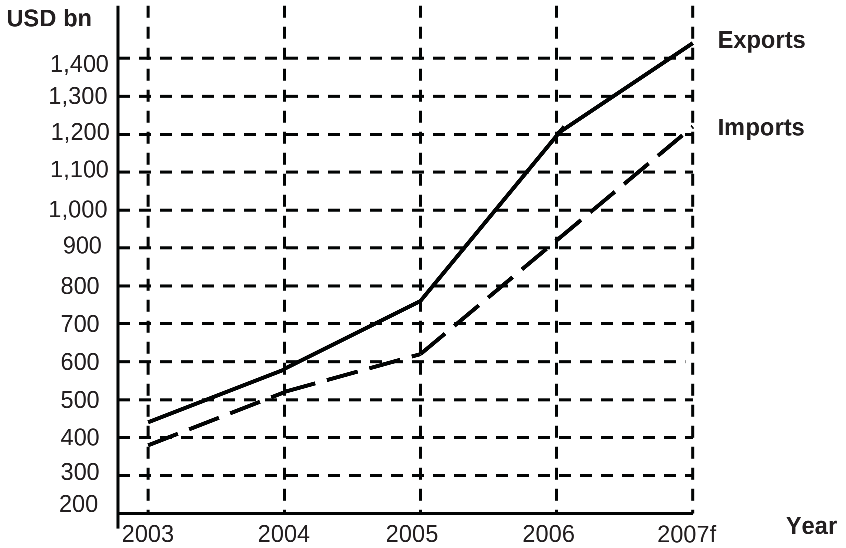
China, India: development of foreign trade balance

Indian imports were distributed among the following categories: Indian exports are dominated by textiles, followed by agricultural products, gems and jeweler, and engineering goods. Major imports include petroleum and petroleum products, gold and precious stones, machinery, chemicals, and fertilizers. The Indian foreign trade balance is negative. Among the most important Indian trade partners belong USA, China, UAE, Great Britain, Germany, Japan, Belgium and Saudi Arabia. From these partners just USA and China have a positive foreign trade balance. The increasing value of import is given mainly by raising need of energy and increasing population of the country (Graph 5).

Graph 3: GDP growth (real update: 24-Jul-2007)

Source: Key economic indicators 2007– China, India

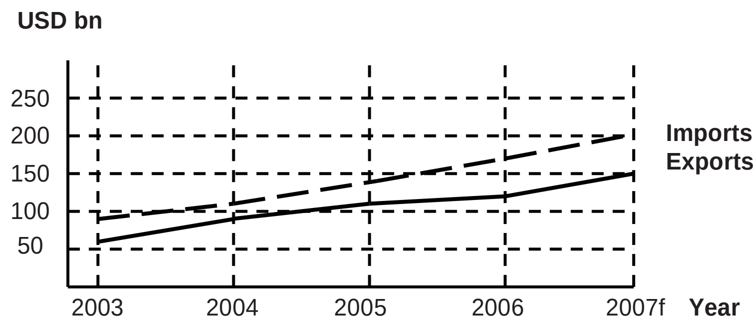
Graph 4: China – export – import cif: update: 24-Jul-2007



438.3	593.4	762.6	1,214,0	1,460	**Exports**
393.6	534.4	628.3	907.0	1,098.0	**Imports**

Source: Key economic indicators 2007– China, India

Graph 5: India –export – import cif.: update: 24-Jul-2007

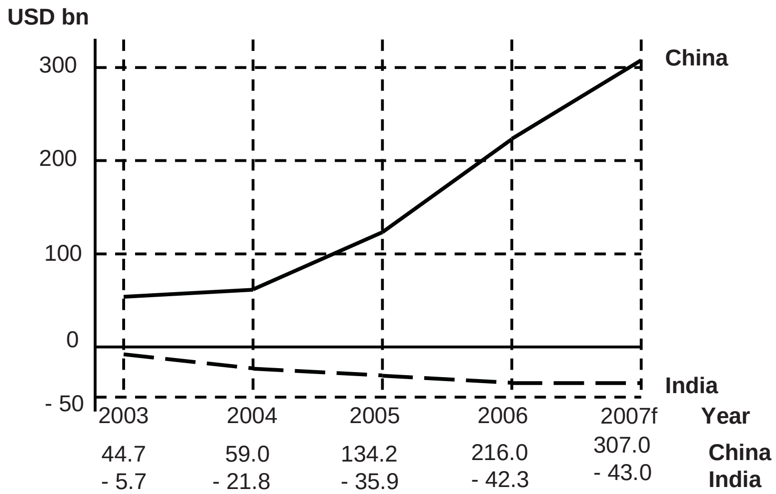


66.3	85.2	104.8	129.7	158	**Exports**
72.0	107.0	140.7	172.0	201	**Imports**

Source: Key economic indicators 2007– China, India

The foreign trade balance of China and India is completely different. China has a positive foreign trade balance while India has a negative one. That is caused by historical and demographical development (India has a faster population growth), different structure of commodities (Chinese commodities have a higher added value) and other distinctions. A special sense has also a different policy for fixing an exchange rate. Since 1990s, China has fixed its currency to US$ as 1$ = 8.28 CNY. Nevertheless, in 2006 China took it back due to the pressure of developed countries and liberalized its exchange rate – but not at all. The exchange rate of Yuan has strengthened and at the same time there was set a maximum deflection for the exchange rate. In the year 2007, the exchange rate was 1$ = 7.49 CNY (Key economic indicator, 2007). Chinese ability to sustain its competitive exchange today stems in part from a combination of financial repression and autocracy. Chinese interest rates are kept very low, even negative, which bears little relation to the real return of capital by at least 10% (Rupee apprecione, 2007). In recent years, the Indian exchange rate policy has been guided by the broad principles of careful monitoring and management of exchange rates with flexibility, without a fixed target or a pre-announced target or a band, coupled with the ability to intervene, if and when necessary. The overall approach to the management of Indian foreign exchange reserves takes into account the changing composition of the balance of payments and endeavour to reflect the 'liquidity risks' associated with different types of flows and other requirements (Indická ekonomika, 2007).

Graph 6: Trade balance, update 24-Jul-2007

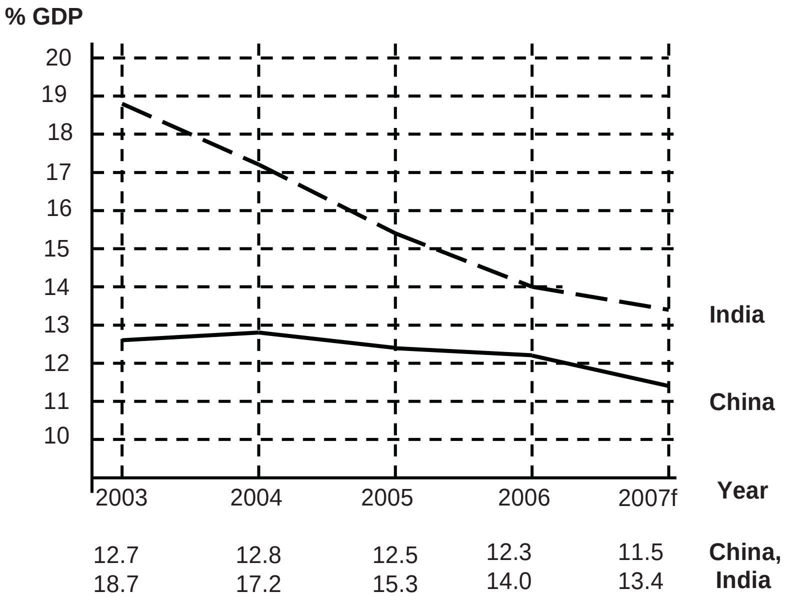


Source: Key economic indicators 2007– China, India

China, India: debt reduction

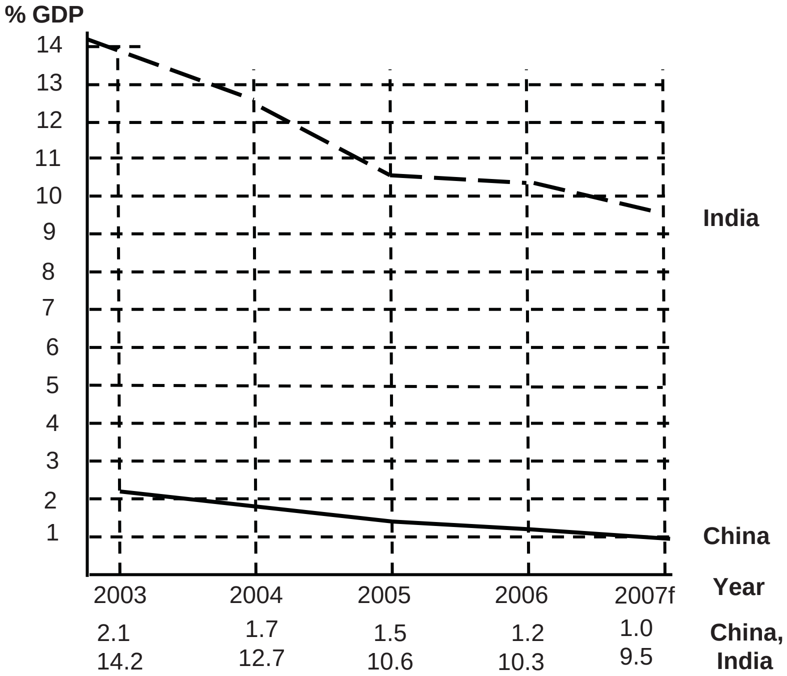
The debt of both countries has a decreasing tendency. This is given by an economic development of these countries which is characterized in previous chapters. Countries in the so-called tiger economies of East Asia, China and India dramatically cut their rates of poverty through the use of concessionary funds and did not suffer a debt crisis as a result of international economic events in the 1970s and 1980s. They used borrowed funds to diversify their exports away from a reliance on commodities. This insulated them from the commodity price slump of the early 1980s. Through improved investment climates, they were also able to attract significant investment and generate growth, which contributed toward poverty reduction (Indian economy rewiev, 2007). The development of debt reduction in China and India is shown in Graph 7, 8, 9.

Graph 7: External debt, update 24-Jul-2007



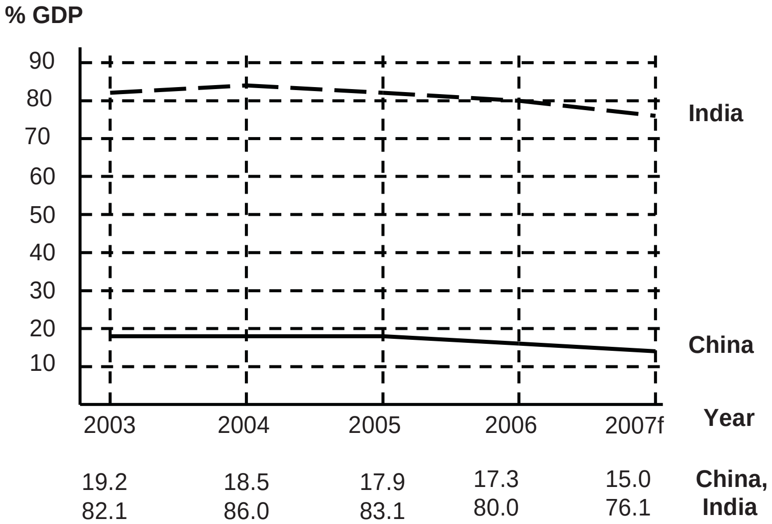
Source: Key economic indicators 2007– China, India

Graph 8: External debt – government, update 24-Jul-2007



Source: Key economic indicators 2007– China, India

Graph 9: Total public debt, update 24-Jul-2007

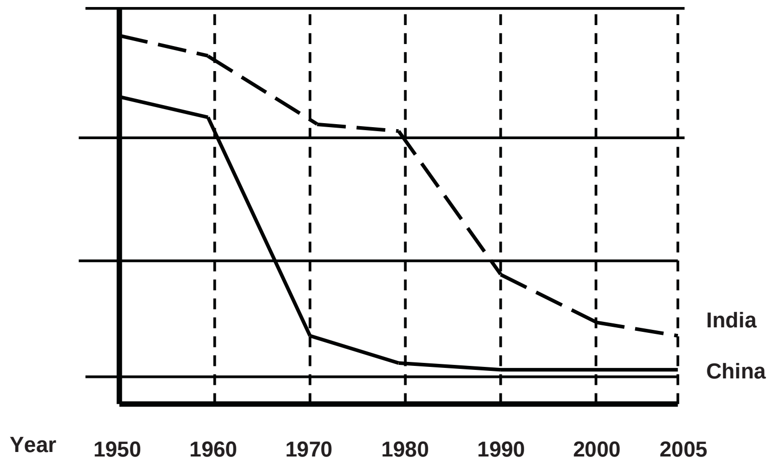


Source: Key economic indicators 2007– China, India

CONCLUSIONS

China and India are the so-called tiger economics in East-Asia. Both countries indicate such an increasing economic growth and debt declining in the past few years. GDP growth in China is close related with the fact that the share of agricultural sector in GDP is decreasing while the industrial production is quite increasing. There are two most significant differences between these countries; first, both countries belong to the most densely populations in the world but in the case of China, there is the population regulated, second great difference between them is their foreign trade balance; in India it is negative while in China positive and in addition since 2001, China is a member of WTO. During the last few years, both countries started to expand in the area of their international trade to other parts of the world, especially to the sub-Saharan countries. This could be the first step to enter a global commodity and financial market.

Graph 10: Income and mortality India and China



Source: Key economic indicators 2007– China, India

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