

**COMPARATIVE ECONOMIC GROWTH IN CHINA AND INDIA IN
THE POST-MAO ERA**

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Chinese Economic Reform since 1978
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INTRODUCTION

India and China are the two nations with the largest populations on the planet. They are similar in many ways as both have diverse ethnic minorities, well-educated segments of their populations, and relatively stable governments. Nevertheless since 1978 China's gross GDP and GDP per capita have grown at high levels while India has had a mixed record of economic growth. This has led to many people in India to call for its government to emulate Chinese economic reforms in the post-Mao period in an effort to increase growth. However, what works in one country rarely works in another; whereas India is a democratic nation, China is not and the basis from which each country has pursued economic growth over the past quarter century was significantly different.

This paper will examine briefly the major engines for economic growth and China and India's experience and reforms in these areas over the last 25 years. After a recent economic history of the two countries, it will look at key statistics that highlight growth, provision of basic social services, the impact of the government on the economy, economic openness, and the banking system. We will examine China's and India's records in each area and seek to draw any lessons from the Chinese experience that may be applied to India. Finally, we will look at some of the fundamental differences between the two countries, and the challenges that they face in the future. It should be noted that this subject could easily be addressed in a paper double or treble in length of this one but the brief analysis provided here should help to shed some light on an important comparison.

After the establishment of the People's Republic of China in 1949, it experienced uneven and sometimes negative growth rates in the pre-reform period up until 1978. The Great Leap Forward in particular was disastrous to the Chinese economy. Nevertheless, there were significant advances made in decreasing poverty and increasing life expectancy and literacy rates. Significant growth did occur, although it was below the average of the last half century¹

India gained independence from England in 1947 and Prime Minister Nehru set out a path of self-sufficiency along the lines of Maoist China. As a result, there was strong government control over the economy.³ India had solid growth during its first three decades, but it lagged behind its neighbor to the northeast in overall and per capita terms as shown at right. Although both countries had periods of negative growth, India was able to avoid the massive famines that plagued China as a result of the Great Leap Forward.⁴

	GNP Growth		GNP per Capita Growth	
	India	China	India	China
1950-60	3.8% ²	7.9	1.8%	5.6
1960-70	3.7	5.6	1.3	3.3
1970-80	3.3	6.7	1.3	4.6
1950-80	3.6	6.7	1.5	4.5

China launched on a path to economic reform in 1978. At the Third Plenum of the Eleventh Party Congress in December 1978, Deng's reforms were introduced. The five major points were Incrementalism, a dual-track system of reform where elements of the private sector were introduced to an economy that was and still largely is state controlled, spurring dynamic internal changes, seeking foreign technical assistance as rapidly as possible, and learning by doing.⁵ The post 1978 period shifted the drivers of economic growth away from inputs and labor towards productivity.⁶

India has continued to set out government policy for the economy and is currently in its ninth five year plan. It achieved slow and uneven growth during the 1980s (GDP actually

declined in 1985), but notably, in 1991 India had a massive budget deficit crisis where it was almost bankrupt of foreign reserves and running a budget deficit of 8.4% of GDP.⁷ This emergency spurred a move toward major reform aimed at driving economic growth. These measures began to be implemented during the mid and late 1990s, leading to higher and more even GDP growth.⁸

TOWARDS AN ANALYTICAL FRAMEWORK

	PRC			India		
Year ⁺	1978	1990	2001	1978	1990	2001
GDP (billions)	228 ⁹	403 ¹⁰	1,159 ¹¹	189 ¹²	266 ¹³	478 ¹⁴
GDP Growth over Previous Decade	N/A	10.0% ¹⁵	9.7% ¹⁶	N/A	5.6% ¹⁷	6.1% ¹⁸
GDP per Capita	\$254 ¹⁹	\$355 ²⁰	\$890* ²¹	\$246 ²²	\$244 ²³	\$460* ²⁴

In 1978, China and India were both developing countries that had poor track records of sustaining economic growth. China had been more successful than India in building a social foundation for its people by being better at increasing literacy rates, providing good basic healthcare in order to increase life expectancy, and increasing agricultural production and distribution so as to bring down poverty rates after recovering from the disastrous Great Leap Forward.²⁵

The introduction of China's dual track system of reform satisfied a key desire in any reform process by minimizing social upheaval and improving efficiency. Local provinces in China retained the bulk of increased fiscal revenues after the introduction of the dual track approach, keeping the bureaucracy on board for economic reform.²⁶ Additional reforms have followed in most sectors. In addition to creating strong growth, the reforms have been notable for their consistency. The tenth five year plan, which covers 2001-2005, is focused on building a 'well-off society.'²⁷ Overall, China's economic growth has moved it up to number six in the world in GDP,²⁸ or number two by PPP.²⁹

India has also seen steady and strong growth during the 1990s, and is now the twelfth richest nation on the globe³⁰ (fourth by PPP).³¹ However, the central government has set a growth target of 8% p.a., which is significantly above the 5% p.a. average over the past decade, so additional reforms will be needed to raise the growth rate to the target.³² Several of the areas that India must address and China has attempted to tackle in the post-Mao period are addressed below.

SOCIAL FOUNDATIONS OF ECONOMIC GROWTH

	PRC			India		
Year	1978	1990	2001	1978	1990	2001
Poverty Level [^]	33% ³³	10% ³⁴	5% ³⁵	51% ³⁶	36% ³⁷	26% ³⁸
Illiteracy Rate	34% ³⁹	22% ⁴⁰	15% ⁴¹	56% ⁴²	48% ⁴³	42% ⁴⁴
Life Expectancy	65 ⁴⁵	67 ⁴⁶	71 ⁴⁷	50 ⁴⁸	53 ⁴⁹	63 ⁵⁰

Development economics has become a popular subfield in the last ten years. Although we do not have the scope here to go into it in detail, the concepts of intrinsic importance of

⁺ Figures for Post-Deng reforms are for closest year available e.g., Indian GDP was 189 billion in 1981

* GNI per Capita

[^] National standards

opportunities and the role that individual's opportunities have in helping to realize economic and other quality of life gains is generally well accepted.⁵¹ Moreover, "morbidity and undernourishment can be serious barriers to productive work and economic performance."⁵² This becomes a reinforcing circle as improved growth rates that come from more social opportunities lead to 'growth-mediated' improvements in basic social indicators.⁵³

One of the most striking differences in India and China is the level of basic social services at which each country found itself in 1978. Although both countries had large populations living in poverty, good rural healthcare and a strong focus on basic education during the Mao years meant that China had substantially higher literacy rates and life expectancy than India, as shown above. The Indian government has made the improvement of these basic indicators the cornerstone of its reform program over the past ten years.

India's education system is something of an odd animal because it has a very high level of tertiary education (0.5 years per capita in 1995 compared with China's 0.2)⁵⁴ so it is producing some brilliant minds. The difficulty lies with the large minority of the population that is not even getting basic education. While India pushes its elite into higher education its mean years of schooling are significantly larger than that of China's population.⁵⁵ In today's information and education driven job market, where technology is a key focus, India cannot afford to let a third of its population go without ever learning how to read.

Land reform also remains a major issue for China and India. China's reversal of the collectivization that led to the famines of the great leap forward helped reform the agricultural sector, however the PRC is still struggling with private ownership of land. In India, "the strength of the private propertied class and the urban (and rapidly emerging rural) middle classes have limited efforts at egalitarian policies such as land redistribution."⁵⁶ There are also major legal issues in India, as the procedures to purchase land remain inefficient.⁵⁷ By one estimate, 90% of titles to land in India are unclear, which has a tremendous impact on property development.⁵⁸ Moreover, low property taxes put additional stress on already cash strapped local governments.⁵⁹

THE GOVERNMENT IN THE ECONOMY

China pursued three major rounds of reform of state-owned enterprises beginning in 1979 and this accelerated in the late 1990s with the State Owned Enterprise (SOE) sector. Reforms in the banking system to limit loans, introduction of profitability incentives that resulted in massive employee layoffs, and the forced divestiture of the PLA's massive industrial holdings in 1997, all have contributed to a decline in Beijing's direct control over corporations and increasing efficiency in the SOE sector.⁶⁰

India has also sought to make itself more competitive internationally and has pursued liberalization of SOEs. Reforms of state owned enterprises were limited through the early in the 1990s but India has recognized the wisdom of a vibrant and large private sector in the past five years. India sold more than 30 public sector units in 2000-2001, including the state telecoms monopoly and is continuing to attempt to privatize its SOEs.⁶¹ However, 70% of employment in India is still in SOEs.⁶²

Both India and China have a long way to go in reforming their state sectors. Privatization in both countries has only been partial such that the PRC typically still holds 60-70% of the equity in 'privatized' companies,⁶³ and the Indian government has not yet pushed through a proposal to reduce its minimum shareholding in SOEs to 33% from 51%.⁶⁴ *De facto*, this means

that many privatized enterprises are still subject to regulations and procedures that have been set out by the government.⁶⁵

A fundamental issue for India is that it still has a high proportion of its economy dependent upon agriculture and because export restrictions hold prices below world markets, it promotes inefficiencies in the sector.⁶⁶ India has a natural advantage over China because it has not had to manage its agriculture as intensively since e.g., the Ganges River is the largest alluvial plain in the world, while China's Yellow River basin has few tributaries and therefore requires much more intensive development to support its population.⁶⁷ Nevertheless, India still has 70% of its workforce in agriculture⁶⁸ and it is responsible for 25% of its GDP⁶⁹ (versus 49% and 15% respectively, for China)⁷⁰ so reform in this sector is key.

India and China have both relied on heavy government involvement in the economy pre and post reform. India continues to rely on five-year development plans that have economics as a core focus; China is an authoritarian state, and although it has made major liberalization and market reforms such that it no longer can completely control its economy, the state has a huge say in what goes on in the economy. Nevertheless, differences in fiscal budgeting, government investment and government revenues between India and the PRC have a major impact on economic growth.

Year	PRC			India		
	1978	1990	2001	1978	1990	2001
Budget Deficit / GDP		1.1% ⁷¹	2.6% ⁷²		9.2% ⁷³	10% ⁷⁴
Domestic Investment/GDP	33% ⁷⁵	35% ⁷⁶	38% ⁷⁷	22% ⁷⁸	22% ⁷⁹	23% ⁸⁰

China has traditionally had low or nil budget deficits. The central government, in line with Mao's concept of self-sufficiency, did not look to finance itself through deficits in the pre-reform years. This had a salutary economic effect because the government did not crowd out the private sector and thereby drag down economic growth. In recent years, Beijing has been forced to break with tradition and is has been running increased budget deficits such that several public debt/GDP has reached almost 24%.⁸¹ The central government has attempted to devolve responsibility for providing a wide range of services to the provincial and especially township levels⁸² so as to reduce its fiscal deficits. Unfortunately, this is causing massive social disruption as local governments increasingly cannot handle the added fiscal responsibility and are unable to provide the services for which they are responsible because they themselves are virtually bankrupt.⁸³

India, by comparison, has had a long history of budget deficits. At 91%,⁸⁴ India now has one of the highest levels ever of public debt/GDP in its history⁸⁵ and is running a budget deficit of 10% in the 2002/3 fiscal year.⁸⁶ Indian investment levels have remained stable at approximately 20% of GDP for the past 20 years so there is little evidence of crowding out, but this is significantly below the 35+% levels of investment seen in the PRC.

An issue that goes to the heart of the debate about the role of government in China and India is the relationship between central and local governments. Over half of the consolidated public debt is at the state level in India and many of the basic social services that are necessary to provide a sound foundation for economic growth are the responsibilities of the states.⁸⁷ Similarly

in China, the local and provincial levels are together responsible for the majority of fiscal spending.⁸⁸ There is no easy solution here, but Beijing and Delhi must always carefully consider budgetary implications of shifts in policies when drafting and implementing reforms. Failure to do so adequately is becoming especially problematic in China.

OPENNESS AND INTEGRATION OF ECONOMY

Year	PRC			India		
	1978	1990	2001	1978	1990	2001
Exports/GDP	9% ⁸⁹	19% ⁹⁰	26% ⁹¹	6% ⁹²	9% ⁹³	14% ⁹⁴
Average Tariff Rates		31% ⁹⁵	16% ^{#96}		125% ⁹⁷	29% ⁹⁸

India and China have both sought and to some degree succeeded to become more integrated and open to the world economy in order to increase domestic company efficiency and have access to foreign capital markets for public and private enterprise. Both countries have cut their average tariff rates substantially in the past decade. At the same time, both countries have had full capital account convertibility in the 1990s. India has had a 'market determined unified exchange rate' since March 1993 that is basically a managed float,⁹⁹ while China had a 'managed float' policy that is in effect a peg to the dollar.¹⁰⁰ Although this is often seen as a necessary step toward liberalizing trade, this barrier helped to protect both India and China from many of the ill effects of the Asian financial crisis of the late 1990s since foreign companies could not easily pull out currency from either country.

FDI inflows into China have been the focus of much debate. It is unclear whether increased FDI inflows are a causal factor for economic growth or if they are simply correlated with such growth. FDI was relatively small in China during the 1980s and began its rapid increase only in the early 1990s. If one agrees with the thesis that it is domestic savings and investment that have been the main engines of Chinese's economic growth in the post reform years, then it casts doubt on the importance of increased FDI from the overseas Chinese community that after Tiananmen in 1989.¹⁰¹ Nevertheless, with FDI normally comes technology transfer and increased know-how, and increased FDI also serves as a signaling factor to international companies that a country is a good place to do business.

India is lagging far behind China in FDI. In 2001, it attracted \$2.3 billion in FDI, while the PRC had FDI inflows of \$46.3 billion.¹⁰² Poor infrastructure and rigid bureaucracy have historically kept foreign companies from making major commitments in India.¹⁰³ Moreover, the Indian government still caps ownership interests for foreigners in many sectors, and actually completely restricts FDI in other sectors such as retail goods.¹⁰⁴ India abolished most of its quotas on producer goods during the 1990s and has been moving to relax restrictions on FDI¹⁰⁵ as shown by recent lifting of restrictions in the distribution and marketing of oil products. However, consumer goods are still subject to major restrictions as almost 750 products are banned from FDI and /or have controlled prices via India's Small-Scale Industries Reservation List.¹⁰⁶

Special Economic Zones (SEZs) were created as part of Deng's economic reforms in 1978 and 1982 and became magnets for FDI. Initially, these were limited in number and were for production of export-only goods, but over time the quantity of SEZs has mushroomed and most of the production in these zones is now for domestic consumption.¹⁰⁷ Moreover, as the regions around the SEZs started enjoying spillover economic growth effects the divergence in growth

Agreed WTO average tariff level to be phased in through 2006

rates between the Coastal regions of China and the interior and far north began to diverge, leading to uneven economic growth. Official statistics, which are somewhat suspect and generally agreed to be overstated by 1-2%, show that GDP growth even in the slowest growing province (Heilongjiang), was 4.8% p.a. between 1978-95, while a majority of provinces had greater than 10% p.a. growth.¹⁰⁸

India has tried to make use of Export Processing Zones (EPZs) but these have largely been ineffective. Whereas China's SEZs were responsible for 28% of all Chinese exports in the late 1990s, India's EPZs were only responsible for 4% of Indian exports. The EPZs have been plagued by poor location and infrastructure, bureaucratic regulation and micromanagement.¹⁰⁹ Unlike China, there has been neither political commitment nor flexibility in the Indian system, so foreigners have largely stayed away.¹¹⁰ Moreover, Delhi maintained a policy to promote balanced regional growth for much of the last quarter century.¹¹¹ Although this is laudable in theory, in practice it has been and is impossible. Certain regions always will be more promising economically than others, especially in large countries such as India and China. Moreover, certain regions will be able to reform and exploit their regional comparative advantages faster than other regions. Delhi has moved away from this policy recently, and is trying to correct its past mistakes with EPZs by opening up a dozen new SEZs that have more relaxed labor laws.¹¹²

To some extent, it appears that India is already on the right path. The Economist Intelligence Unit ranked India higher in the late 1990s than China in its attractiveness as a place to do business.¹¹³ However, because the PRC is a larger and wealthier consumer market that is growing at a faster pace, India will have a strong challenge to attract as much foreign investment as China. Overall, India has become better integrated in the world economy but must continue to seek to attract more FDI while balancing against losing local control of many of its industries as has happened in China.¹¹⁴

STABILITY AND EFFECTIVENESS OF THE BANKING SYSTEM

China embarked on serious banking system reform in 1984. In spite of its efforts at reform the weakness of the banking sector represents one the largest threats to China's sustained economic growth. The system is insolvent although high domestic savings rates have enabled it to remain liquid. China finally admitted within the last two years to its NPL problem, and estimates that 29.9% of loans are non-performing.¹¹⁵

Year	PRC			India		
	1978	1990	2001	1978	1990	2001
Domestic Savings /GDP	6% ¹¹⁶	39% ¹¹⁷	65% ¹¹⁸	19% ¹¹⁹	21% ¹²⁰	21% ¹²¹

Banking reforms, although necessary, have had a negative impact on the domestic economy. Although loan growth has returned to its 1990s level of approximately 12% p.a.¹²² circumstantial evidence suggests that there is a major credit crunch for businesses. Domestic companies are finding themselves at a disadvantage against foreign competitors because bank managers have become overly cautious and view their local status as denoting higher credit risk.¹²³

India has far fewer problems with its banking system than China, although it too is trying to push through significant reforms. Changes to allow foreign banks to operate in India have outpaced similar efforts in China (although China is now liberalizing as per its WTO entry

agreement). Most significantly, India attacked its problem with non-performing loans as part of the reforms following the 1991 financial crisis such that the rates have dropped to current 6%¹²⁴ from 25% a decade earlier.¹²⁵ India also has the advantage of several vibrant stock markets and other alternative financial investments that have caused banks, whether state or privately owned, to become more efficient in order to compete to win deposits.¹²⁶

Nevertheless, inefficiencies still abound in the banking sector in India. Amongst other problems, one economist notes that banks are too heavily invested in low risk low yield government securities because they are concerned about risk from commercial lending.¹²⁷

LESSONS TO LEARN AND SOME FUNDAMENTAL DIFFERENCES

The Indian economy has performed admirably well in the 1990s and early 2000s. However, the PRC has outpaced India. A recent study argues that India could almost double its economic growth rate to over 10%, surpassing China's, if it reformed regulations for product markets, instituted serious land reform, reduced government ownership of industry, and improved infrastructure. These are all areas where China has relevant experience for India, especially the first, which is said to be responsible for dragging GDP growth down by 2.3%.¹²⁸ Now that it appears that Delhi has mastered the way to continued growth by avoiding major fiscal and financial debacles it needs to propel the Indian economy to the next level.

Analytical Sector	Lessons from China
Social foundations	Improvements in education, healthcare, and land reform set a strong foundation for sustained economic growth
SOE and agriculture reform	SOE reform is still an issue for both countries. Proper land reform is vital to improve efficiency in the agricultural sector
Government role in economy	Decrease budget deficits so as to help promote increased investment levels
Tariffs and investment restrictions	Decreased tariffs lead to improved domestic company efficiency and help promote desired FDI
Capital and currency controls	India and China have had similar recent experiences
Banking reform	India arguably is leading China here

India can learn from China's experience in the 1980s when it was able to increase basic social indicators that underpin an economy, while avoiding massive social upheaval. India's current five-year plan focuses on human development and poverty reduction as its two primary goals.¹²⁹ Delhi therefore must enact reforms in an efficient manner so they work but also to make them as painless as possible to the general public for as long as possible. China's success in the 1980s had a strong basic quality of life (poverty had been reduced greatly even under Mao) at its foundation and sets a good example for India. Moreover, China had been successful at increasing the participation of women in the work force, which is another problem that plagues an India that is largely conservative about women's roles in society.¹³⁰ There is a certain irony as the social security net that helped maintain and improve the basic social indicators that helped China grow so fast in the 1980s and 1990s is now being dismantled as economic reforms continue. It is unclear whether the system can hold up or if it is going to crack. Whatever the outcome in the PRC, India will need to make sure that its 'advanced' economic reforms do not interfere with the functioning of the building of the basic foundation for sustained economic growth through infrastructure and basic services to its population.

Integration with the world economy and methods for attracting foreign investment are two other areas where India can learn from the PRC. Although India was a founding member of the WTO, it has lagged China in exports/GDP and FDI, largely because of its bureaucracy. China has been excellent at making use of the knowledge transfer that usually comes with FDI. As India liberalizes and decentralizes its economy along the lines that the PRC has taken over the last 25 years, it should help to increase its growth rate. Moreover, India will need to increase its investment levels if it is to be able to accomplish the major task of building the infrastructure that is necessary to attract FDI and more importantly help spur continued GDP growth. To this end, India can learn from the PRC's historical record of low or nil budget deficits, although as mentioned above, China too, is now struggling with deficit problems.

In summary, the key lesson and goal for India should be to liberalize restrictions on industries while carrying out reforms to improve basic social conditions; sustained economic growth will be difficult to achieve if there is one without the other. As an example, the Indian state of Kerala has literacy rates, life expectancy, and poverty levels that are as good as or better than any province in China (eg life expectancy is 72), however Kerala has not come close to achieving the same GDP growth rate as China.¹³¹

A natural question to ask is if India is at a disadvantage in the economic growth race because it lacks an authoritarian political system that can force through reforms that may be blocked in a representative government. For example, China's authoritarian system has helped GDP growth per capita because of China's population control policies.¹³² These have been successful in significantly reducing China's fertility rate to 1.6 in 1998.¹³³ Although this has allowed China to increase GDP per capita at a faster rate than India, it has come at the expense of Beijing trampling on individual freedom and may lead to future problems as the gender gap these policies have caused may impact China's economic growth negatively over the next generation as a significant portion of the PRC's male population will not be able to marry and have families and be as productive economically as it otherwise would have been, to say nothing of the major social costs to these individuals. Overall, a democratic government does make it more difficult to sell change in India, but may help that nation to weather the storms along reform's path better than China in the long term.

India also faces a challenge from its traditional caste system that China has not had to encounter. For anyone who has ever visited India, it is obvious that although the traditional caste system has been abolished, the social stigma of coming from the low castes remains. This carries over into poverty rates, and poverty usually has illiteracy, poor education, and lower life expectancy as its bedfellows. The political leadership will have to play an ardent role in attacking the social problems of this large minority of the Indian population if change is to be effected. If this does not occur, than strong social indicator improvements will not be able to be achieved to the fullest degree possible with a resultant drag on economic growth.

ECONOMIC FUTURE OF INDIA AND CHINA

The key threats to continued Chinese economic growth over the next decade are:

- **Weakness in the banking sector.** China will need to introduce additional reforms while balancing their negative impacts so as not to create an uncontrollable amount of social unrest.¹³⁴ The banking system will need to be solvent and until it is the government must rely on consumers' continued trust in its implicit guarantee on bank deposits. Given that there are increasing choices where consumers can put their money, the liquidity that has propped up the banking system could go away.¹³⁵
- **Increasing strain on the fiscal system.** Problems with central and especially local government budgets are creating social strain due to the reform of social security and decreased healthcare access, especially in rural areas. China has fallen close to the bottom of the WHO's rankings for 'fairness and distribution of the government's contribution to local healthcare.'¹³⁶
- **Increasing regional economic inequality.** Although China's interior and far west are growing, their relatively slower pace of economic expansion means that the regional gulf between rich and poor is increasing.
- **Maintaining political stability.** Increased social upheaval, a burgeoning crisis in the healthcare sector, and a global economy still faltering put added pressure on the CCP as it seeks to maintain power.

Other concerns are the lack of enforcement for intellectual property rights and overall uneven application of the law, decline in public investment in agriculture, the disrepair in irrigation systems and rural roadways, and corruption.¹³⁷ All of these factors serve to make China's continued rapid expansion less certain. Nevertheless, China has been able to escape major difficulties for the last 25 years, and it is expected to continue its rapid economic growth, with projections of 7% GDP growth p.a. through 2020.¹³⁸

We are witnessing a period where China is accomplishing reform at an incredible pace and scale but there are a minority of analysts that believe that India may come out ahead of its neighbor eventually due to political concerns and the increasing rot that is creeping up underneath China's impressive accomplishments. "India may indeed catch up with China in the next few decades, whether it adopts China-style economic reform or no. India may advance in relative terms without undertaking serious reforms due to China's inherent weaknesses. China's storied growth is likely to falter under the threat of a massive default of the banking system or from political pressures brought about by the restructuring of state enterprises."¹³⁹

A similar argument concerns the increasing moral bankruptcy of the CCP. As the CCP has come to stand less ideological and more pragmatic, there will likely be increased pressure to have political reform of some sort. Even if this does not occur, the government's disconnect from the people may ultimately endanger China's excellent record of growth. For example, the current SARS epidemic will likely cut at least half a percentage point from Chinese GDP growth this year¹⁴⁰ and there has been much comment in the press that Beijing could have had a much stronger response to the crisis than it had but was more concerned with managing the political succession from Jiang Zemin to Hu Jintao.¹⁴¹

India also faces many challenges if it is to maintain and increase its GDP growth. Key factors here are:

- **Continued building of the social net.** India is continuing to focus its five-year plans on poverty reduction and raising literacy rates and primary education rates.
- **Reducing government budget deficits and reforming the state sector.** India's debt/GDP ratio is becoming very high such that it is increasing pressure on the government to reduce its dependence on funding expenditure through deficits. Moreover, reform of SOEs remains a major agenda item.
- **Liberalizing trade restrictions.** Indian enterprises need to become more efficient and the country needs to attract more FDI as a method to gain know-how and as a self-reinforcing signal to the international community. Delhi recently has become more attuned to reducing prohibitions on foreign ownership and needs to continue down this path.
- **Maintaining political stability.** The BJP, which is a Hindu centric party, is currently in power and India's ongoing ethnic violence has flared up in several states in the last year, notably Punjab.
- **Increased competition from other nations.** China's entry into the WTO is expected to cost India almost \$5 billion from 2002-2006.¹⁴² As India increasingly becomes integrated into the world economy and removes more barriers to trade, it will be subject to increased competition, which may impact growth negatively if the policymakers cannot keep the economy on course.

Overall, India must consider how effective 'advanced' economic reforms in e.g., the banking sector can be, when fundamental needs to give the large minority of Indians who lack basic skills to be productive workers are met.

CONCLUSION

India has made great economic strides in the last ten years and looks set to move ahead well in the decades to come. It can learn much about options for its continued economic reforms from the example of the PRC, however the neighbors are very different countries with fundamental social and political divergences that make it foolhardy to suggest that everything that works in China will work in India. The two countries will increasingly become integrated into the world economy, become more integrated with one another, and become more competitive with one another.

China has a history of being a global economic leader that India lacks, but many Indian companies already are learning how to compete in the global marketplace. It is unclear if India as a whole will ever truly be a world economic leader or if it can overtake China, but the rotting underbelly of the PRC in the form of increasing social and political instability could have a dramatic impact on this economic race. Whatever the outcome, the PRC and India face many economic challenges in the decade ahead, but are better equipped technically and experientially than ever before to handle the challenges each faces in creating sustained economic growth and improved quality of life for its citizens.

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