

INDIA AND CHINA – BASIC PREMISES FOR FOSTERING A STRATEGIC PARTNERSHIP

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ABSTRACT

It is always beneficial in the long run to build sustainable commercial relationship with markets having strong paying capacity. But making inroads to such markets has always been difficult. More so, when, such relationships in the past have been marred with some misgivings and misunderstandings. India and China can gain a lot from each other's markets. This paper is an attempt to delve into the basic premises which can give a comparative view of both the countries and what each can learn from the other. This will help in fostering a sustainable strategic partnership.

Trade between the two countries is passing through a glorious patch these years. Trade volumes achieved in 2010 were those targeted for 2013 by their governments. India's exports to China have jumped 68.8 % over the last year figure and imports 41 %.

On the flip side, political relationship between the two countries is passing through a delicate phase. In such a contrasting scenario a proper perspective is needed for the policy makers which will help them in walking this tight rope.

KEYWORDS – Quality and Quantity of Manpower, Industrial productivity, Agriculture and services, Infrastructure and growth, Capital market activity, External Debt.

INTRODUCTION - 2000 years ago India and China together commanded almost 52% of the world economy. India 29% and China 23%.¹ Today, it is a mere 2.7% share in services trade for India and 3.7% for China. Share in merchandise trade is still lower with 1% share for India and 8.7% for China². But, once again the circle is coming to its starting end. The vast markets in these two countries are a big engine to future growth and prosperity. Globally speaking a clear picture that is emerging is that these two countries are poised to regaining their past glory and taking their rightful place on the world stage. It is equally clear that China is ahead of us in this pursuit. For a sustainable future policy , it is important that a clear comparative picture is presented in a normalized fashion. This will help both the countries to learn something from each other.

Normalized comparison between India and China on fundamental parameters like manpower, industrial productivity etc., throws up many facts, some of them quite alarming. The authors have succinctly grouped them under homogenous heads and tried to present a picture which will help as a finger post for exploiting further opportunities.

RESEARCH METHODOLOGY

All data is secondary and has been adapted from “A Statistical Outline of India 2009-10” Tata Services Ltd. Other sources if used have been mentioned at their relevant places.

I Quality and Quantity of Manpower (Table 1) – A skilled manpower is a significant resource for every nation. Indians have made their mark in software services, whereas China in manufacturing. Labour force as a percentage of population is 39.46 for India and 58.58 for China³. This edge on the amount of labour force has lead to an economy of scale in labour cost

¹ David Smith, The Dragon and the Elephant, China India and the new world order, Profile Books London, South East Asia Edition 2007.Pg 13-14.

² Table 323, page 292, Statistical outline of India, 2009-10, Tata Services Ltd

³ Table 294;Page 260 – Tata Statistical Outline 2009.

in manufacturing. Annual Labour cost per capita in manufacturing for China is \$ 883 when it is \$ 1192 for India a whopping 35% higher than China. Moreover, comparative data as appearing in the table below gives us a worrying figure.

Table 1 – Quality and Quantity of Manpower

		Unit	India	China	Remarks
A	Manpower demography				
1	Population	(Mn)	1140	1326	3 = (1/2)*100.
2	Labour force	Mn.	449.9	776.9	
3	Labour force / Popn (%)	%	39.46	58.58	
4	Labour cost per worker in manf.	\$ per year	1192.0	883.0	Labour cost is high for India ⁴
5	Infant mortality rate	Per 1000 live births	52	18	High infant mortality will retard population growth
6	Researchers in R&D	Per Mn	137.0	1071.0	A grave sign as researchers are too less in proportion
7	Population below poverty line	%	37.2	2.8	India's is
8	Human Development Index - 2007	Value (0-1)	0.612	0.772	India has slipped down from a percentile rank of (82/1.15 = 71.3) in 1970 to (134/1.8 = 74.44) whereas China has moved up from a percentile rank of (64/1.15 = 55.65) to (92/1.8 = 51.11)
		Rank out of 179	134	92	
		Value(0-1)	0.254	0.372	
		Rank out of 114	82	64	
9	Labour market efficiency	2010-11	92	38	
10	Gini Coefficient UN RP 20%	0-1	0.056	0.122	Higher income inequality in China

The talk about India's birth rate being higher and that it will overtake China has to be taken with a pinch of salt as infant mortality rate for India is 52/1000 compared to 18/1000 for China⁵. Number of Researchers in R&D is also too less for India i.e 137 per million compared to 1071 per million for China which works out to around seven times more than the Indian figure⁶. 37.2 % of the Indian population is below poverty line when it is only 2.8 % in China⁷. On the Human

⁴ T – 294;Pg 262.op cit.

⁵ T – 294; Pg 260 op. cit.

⁶ T – 294; Pg 261 op. cit.

⁷ T – 294;Pg 262.op cit

Development Index⁸ front too India has slipped down from a percentile rank of 71.3 in 1970 to 74.44 in 2007, whereas China has moved up from a percentile rank of 55.65 to 51.11 during the same period. In 2010, on labour market efficiency count China is ranked 38th among 139 countries when India occupies the 98th position⁹. The Gini co-efficient, which measures the inequality of income between the top 20% income earners and the least 20% income earners, is better for India than China, depicting lesser income inequality among the Indian population¹⁰.

II Agriculture, Industry and Services – Table 2 A – Agriculture

		Unit	India	China	Remarks
B	Agriculture				
1	Agricultural land as % of total ¹¹		61	60	Agriculture land denotes land suitable for agriculture both crops and livestock. It includes forests mountains and water bodies. It is further divided into Arable land, Orchards & Meadows and Pastures 1&2 are collectively called cultivated land. World average for agricultural land is 38% and arable land is 11%.
2	Value added per agricultural worker ¹²	2003-05 in constant 2000 \$	392	407	In spite of less fertilizer usage value added per worker is comparable denoting better value for output.
3	Fertiliser consumption per hectare of arable land ¹³	kgs	121.3	327.9	Less fertilizer consumption implies more organic farming for India
4	Per capita index of agriculture production (2009)	Base Yr - (1999=100) ¹⁴	105.0	126.0	Indian Government needs to push still harder its agenda on Agriculture.

⁸ Human Development Index is a composite index prepared by the United Nations Development Programme on a scale of 0-1, measured by three components longevity, knowledge and income, each measured by several parameters. Rankings are in descending order for 179 countries in 2007 and 114 countries in 1970. Table 319; Page 288 – Tata Statistical Outline 2009.

⁹ T – 322; Pg 291

¹⁰ T – 321; Pg 290

¹¹ T – 304; Pg 272.

¹² Ibid.

¹³ T – 294; Pg 261 op.cit.

¹⁴ T – 302; Pg 270. Op. cit

In any economy, domestically speaking, a prospering **agricultural sector** has the largest rippling effect in transferring prosperity to the entire population. Although it takes some time before the effects are manifest. In the last two five year plans the Government of India has rightly identified agriculture as the thrust sector. Table 2 outlines the comparative data on Agriculture. Compared to China (whose total land mass is appr. 96 lakh sq.kms) the following picture emerges. Agricultural land as percentage of total is slightly more for India (61%) than China (60%). In absolute figures agricultural land for India works out to 20 lakh 13 thousand sq.kms and for China it is 57 lakhs 60 thousand sq.kms. In spite of this, value added per agricultural worker for India (392 \$) is positively comparable to that of China (407 \$)¹⁵ when viewed against the large fertilizer consumption per hectare in China (328 kgs) vis-a-vis India (121.3 kgs)¹⁶. Index of agriculture production per capita (base 1999 = 100) has touched 105 for India against 126 for China depicting a growing thrust for the agricultural sector for the latter¹⁷. Thus it is quite evident that India's agricultural policies are in the right direction albeit a further fillip is required to boost the overall effect on the economy.

Industrial productivity (Table 2 B) is dependent on savings being channelized to manufacturing sector in an effective and efficient manner resulting in adequate capital formation. At the very outset gross domestic savings as a percentage of GDP for India is 38% compared to 54% for China as shown in table 2 below. In India, a significant number of investors being Muslims shy away from interest based investments. If interest free financing structure is given a fillip in the country another 5% - 6% of GDP will be available for investment. Moreover out of this current rate of savings which is modest compared to China a major amount is blocked in speculative activities on the stock market resulting in limited value addition. Industry value added for India

¹⁵ T – 304; op.cit

¹⁶ T – 294; op.cit

¹⁷ T – 302; op.cit.

is 29% of GDP against 49% of GDP for China portraying an efficient manufacturing sector in China. But, surprisingly, capital formation as percentage of GDP for India at 40%, is again a close competitor to China's 44%. Moreover, all industrial activity comes at a cost to environment. India's withdrawal of fresh water has been 645 billion cubic meters against China's 630 which can be taken either way. On the one hand, It means India is consuming more natural resources. On the other hand it also points to less polluting processes in Indian factories.

Table 2 B – Industry

		Unit	India	China	Remarks
C	Industry				
1	Gr. Domestic Savings	% to GDP	38.0	54.0	¹⁸
2	Industry value added	% of GDP	29.0	49.0	¹⁹
3	Gr. Domestic Capital Formation	% to GDP	40.0	44.0	²⁰
4	Annual per capita withdrawal of fresh water 2007	Bn cubic meters	645.8	630.3	²¹
5	Emission of organic water pollutants 2005	000 kgs/day	1519.8	6088.7	²²
6	Value added in Mfg.	\$-Bn	170.0	1488.0	²³

Emission of organic water pollutants in thousand kgs per day for India is 1519.8 as compared to China's 6088 thousand kgs / day. Given the value added in manufacturing for China which is more than seven times that of India emission of organic waste is only three times that of India. This portrays a grim picture of environmental pollution and organic waste emission vis-à-vis

¹⁸ T – 294; Pg 260.

¹⁹ Ibid.

²⁰ Ibid.

²¹ T – 304; Pg 273

²² T – 305; Pg 273

²³ T – 294; op.cit.

value added in manufacturing for our country. Lastly, carbon dioxide emissions per capita had been 1.3 metric tonnes for India compared to 4.3 in China which is 230 % more for China²⁴.

In the **services sector** India has an edge over China In terms of share of services in GDP and balance of trade . Table 2C outlines the following facts.

Table 2 C - Services

		Unit	India	China	Remarks
D	Services				
1	Share in GDP	%	53.0	40.0	²⁵
2	Services Exports (% share in the world)	\$-Bn	102.6 (2.7)	146.4(3.9)	Services trade balance is positive for India and negative for China ²⁶⁽²⁷⁾
3	Services imports (% share in the world)	"	83.6(2.4)	158.0(4.5)	²⁸
4	Trade Balance	\$ - Bn	+ 19	(-) 11.6	(2 – 3)

India's share of trade in GDP is 53% and China's is 40%. Balance of Trade in services is +19 billion \$ for India and – 11.6 billion \$ for China. India's spending on education as percentage of GDP is more than China's which has given positive results in a more educated manpower for the country . This has resulted in a rich reserve of english educated youth segment with an inherent talent for programming which is a definite edge over China in the context of services industry.

III Infrastructure and Growth (Table 3 and 4) - India's energy costs are higher than China as denoted by PPP (Purchasing power parity)cost in \$/kg which is 4.7 for India and 3.2 for China. Normally figures for electricity consumption per capita is cited as an indicator for development. True, but if consumption is further bifurcated into consumption for personal use and consumption for industrial production a clear picture emerges. Electricity consumption for

²⁴ T – 305; op.cit

²⁵ T – 294; op.cit.

²⁶ T -292; Pg 258

²⁷ T – 323; Pg 292

²⁸ T -292; Pg 258 op.cit.

Industrial production is desirable and excess consumption for personal use leads to an attitude of luxury and apathy. Energy consumption for India is 542 kwh / capita and China is 2332 kwh / capita. Out of the total energy consumption in India household consumption accounts for fifty percent whereas for China it is forty percent²⁹. Although in absolute measures household consumption of electricity per capita for China is still quite higher compared to India.

Table 3 – Infrastructure

		Unit	India	China	Remarks
E	Infrastructure				
1	Energy Cost -PPP	\$/kg	4.7	3.2	³⁰
2	Electricity consumption per capita	Kwh	542.0	2332.0	³¹
3	Rail route	kms	63,327.0	60,809.0	Rail network is far better in india ³²
4	Rail density	Kms / land area (sq.kms)	0.019	0.006	Rail transport density per sq.kms is 316% better for India. ³³

It implies that a greater portion of Electricity consumption is utilized for industrial purpose in China. Rail route in kms is 63,327 for India and 60,809 for China. Given the bigger geographical land area which is nearly 96 lakhs sq. kms compared to India's which is around 33 lakhs, the railway network for India is more far reaching than China's. It also implies better use of electricity as rail transport is more energy efficient than road transport.

IV Growth story - China's socialist market economy started in 1978 and it clogged a double digit growth rate in the very next decade as shown in the table below. (decadal growth rate for 1980-90 for China is 10.2%), whereas India's market liberalization of 1991 still hasn't

²⁹ "Discussion Paper of the United Nations Department of Economic and Social Affairs" by Oleg Dziubinski and Ralph Chipman, April 1999.

³⁰ T – 307; Pg 275

³¹ T – 294; Pg 261

³² Ibid.

³³ Calculated by researcher – rail route in kms divided by geographical land area

seen the face of double digit growth rate. Moreover, economic growth has been a costly story for India.

Table 4 – Growth Story

		Unit	India	China	Remarks
F	Growth Story				
1	1960-70	Annual avg grwth in GDP %	3.4	5.2 ³⁴	China's socialist market economy started in 1978. It has clogged double digit growth rate in the very next decade. India's started in 1991. Still it has not been able to touch double digit growth rate?
	1970-80	"	3.6	5.8	
	1980-90	"	5.8	10.2	
	1991-00	"	6.0	10.3	
	2000-08	"	7.9	10.4	
2	Commercial Bank lending rates	%	13.3	5.3 ³⁵	Money is costly for borrowers
3	Interest rate spread	%	4.6	3.1 ³⁶	
4	Domestic credit by Banking sector	% of GDP	71.6	126.2 ³⁷	
5	Inflation Consumer services	Avg. % 2008	4.8	2.2 ³⁸	India's growth is coupled with inflation

Cost of capital for Indian corporate has been higher than China. Lending rates by commercial banks for India are hovering around 13.3 % when they are averaged around 5.3% for China. Interest rate spread for Chinese lenders is only 3.1 % when it is 4.6 % for India. Bank's pay their depositors a specific rate of interest on their deposits and charge interest on the money lent (depositors money as well as borrowings from RBI). The difference between the interest paid to depositors and charged from borrowers (i.e interest rate spread) is higher for India denoting a higher cost of capital for Indian corporate. Because of cheaper capital, domestic credit as

³⁴ T – 296; Pg 264

³⁵ T 294; Pg 262

³⁶ Ibid.

³⁷ Ibid.

³⁸ Ibid.

percentage of GDP is 126% in China and 71.6 % in India signaling more credit off take in Chinese capital markets. As Indian financial markets become more competitive and wide spread the interest rate spread will close down to the Chinese spread . But still India will have to tackle its inflation more actively which in consumer services was at an average of 4.8% for India and 2.2 % for China in 2008.

V Capital market Activity (Table 5) – Secondary capital markets in India are more active than China. Of the vast economy of China only 1700 companies are listed when in India whose economy is comparatively lower has 4946 companies. The coefficient of standard deviation which compares volatility in stock indices for stock exchanges in the two countries is 40.87 for Hong Kong’s stock exchange and 60.06 for SENSEX.

Table 5 – Capital Market Activity

		Unit	India	China	Remarks
G	Capital Market Activity				
1	Listed domestic companies	No.	4946	1700 ³⁹	Stock market more active in india
2	Co-eff. Of std. dev	1991-2010	Sensex – 60.06	Hangsen – 40.87 ⁴⁰	

This implies more volatility on the Indian bourses. Between 1991 and 2010 sensex has risen 13.6% and Hangsen (Hong Kong stock exchange⁴¹) (has risen 9.2%⁴². This, when viewed with GDP growth which is more robust for China (10.3% , India 6.95%), implies more speculation on the Indian bourses.

³⁹ Ibid.

⁴⁰ T – 314; Pg 282 – Std. Deviation calculation by Researcher.

⁴¹ The reason for considering Hong Kong stock exchange is that much of mainland China businesses are listed there. Composite index of Shanghai stock exchange has started only in 2006. Previous data is not available.

⁴² Table 314, page 282, Statistical outline of India, 2009-10, Tata Services Ltd.

VI External debt (Table 6) – External debt, as a percentage of GDP is high for India at 19% compared to 8.74% for China. As a consequence debt-service ratio for India is 8.7% and for China it is only 2.0%. Between 1990 and 2007 debt burden for India has risen @ 10.27 % over a larger base figure of 1990 when China has risen 9.8% over a lower base figure for 1990. Again when viewed in the context of GDP growth, Indian economy has grown slowly that too debt ridden when China has grown at a faster rate with lower debts.

Table 6 – External Debt

		Unit	India	China	Remarks
H	External Debt as in 2009-10				
1	GDP	\$-Bn	1217.5	4326.2 ⁴³	
2	Total Debt outstanding	\$-Bn	230.6	378.2 ⁴⁴	Compared to GDP India is more indebted than China
3	Debt / GDP	%	19	8.74	1 divided by 2
4	Debt Service ratio	%	8.7	2.0 ⁴⁵	As borrowing is costly and debt / gdp ratio is high for india
5	Total Debt Service \$-Mn	1990	8,187	7,057	
		2007	39,141	31,590 ⁴⁶	
6	Exchange rate	Rs & Yuan /per \$	Rs. 48.3	Yuan 6.8 ⁴⁷	Yuan is nearly fixed. Rupee is floating
7	Exchange rate history 2007-11 (5 yrs)	summary	Min 39.21/Max 51.79	Min 6.37 /Max 7.89 ⁴⁸	Rupee highly volatile and losing ground. Yuan relatively very stable and gaining ground
8	Change in %	1995-09	-30.9	+23.0 ⁴⁹	

Comparing yuan and rupee the former has remained steady and gained value in the international markets over the past twenty years and the latter has been very volatile and lost its value drastically over the same period.

⁴³ T – 294; Pg 260

⁴⁴ T – 294; Pg 262

⁴⁵ Ibid.

⁴⁶ T – 312 ; Pg 280

⁴⁷ T – 294; Pg 261 op.cit

⁴⁸ T – 316; Pg 284

⁴⁹ Ibid.

Conclusion

The group of seven (G7) – the US, Japan, Germany, Britain, France, Canada and Italy is effectively the world's economy steering committee. Since 2001, its membership has become badly skewed, with proposals from many quarters for including the BRIC countries in this grouping.⁵⁰ Experts predict that if conventionally measured GDP figures are to be believed, China will quickly overtake France and Britain, followed by Germany before 2010, Japan in about 2016, US around 2041. In this race India is trailing China closely.⁵¹

Although there is much circularity in the growth story of both these developing economies, that much of foreign capital is stimulating production in the factories of these countries which in turn cater to those very markets from where the capital has originated. China is using this principle in Africa. Some 700 Chinese companies already operate across the African continent. Angola which exports 25% of its oil output to China has benefitted from \$2 billion loans from Beijing, which is being used to fund Chinese built railways, roads, schools, hospitals and lay a fibre-optic network.⁵²

For a future policy premises it is necessary that, instead of involving oneself in empty rhetoric of political and economic philosophies of democratic socialism versus socialistic capitalism, it is important to study the deep characteristics of universal human nature which steers economies from one successful milestone to the next. Both India and China gradually replaced their bloated, bankrupt and inefficient public sector with vibrant and accountable form of enterprises (public or semi public) and reaped the benefits. Wherever there is Indolence, apathy, sloth and

⁵⁰ Ibid, pg 98.

⁵¹ Dominic Wilson and Roopa Purushothaman, A study by Goldman Sachs "Dreaming with BRIC's; The Path to 2050"

⁵² David Smith, Op. cit. p 126.

tardiness be it the public or the private sector it will be driven out by healthy competition of the market economy.

On the other hand, greed, avarice, selfishness of cowboy capitalism will also start casting its shadow very soon in today's networked economy.