

# **Rising Powers**

## **Event Report:**

### **India-China 2020: Great Leap Forward?**

Led by

**Dr. Charan Wadhva,**  
Former President and Chief Executive,  
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And

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on

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## **Table of Contents**

<b>Biographies.....</b>	<b>page2</b>
<b>Presentation: Charan Wadhva.....</b>	<b>page3</b>
<b>Summary of Presentation: Zhang Jun .....</b>	<b>page9</b>
<b>Summary of discussion.....</b>	<b>page10</b>
<b>Concluding Remarks.....</b>	<b>page10</b>

### **Biographies of participants**

**Dr. Charan Wadhva** has been Research Professor since 1987 and is the Former President and Chief Executive (January 2001 to July 2004) at the Centre for Policy Research (CPR), a leading think tank in New Delhi, India. He has served as Professor of Economics and International Marketing at the Indian Institute of Management (IIM) at Ahmedabad from 1970 to 1987. He also held the Reserve Bank of India Chair Professorship at that Institute. Dr. Wadhva was the first Director and Chief Executive of the Indian Council for Research on International Economic Relations (ICRIER), New Delhi. He served as a Member of the National Security Advisory Board, Government of India during 2002-03 and 2003-04. He has also been a member of the Governing Board of the South Asian Centre for Economic Policy Studies (SACEPS) based in Dhaka, Bangladesh.

**Zhang Jun** was educated at LSE and the University of Sussex. He specialises in Chinese economic development with special reference to the institutional aspects of China's economic reform. Over the past two years he has been researching the Indian economy, in comparison with China, and has made a number of visits to India.

**Elizabeth Wright** founded the China Policy Institute in 2003. Former Director of the Great Britain- China Centre, Elizabeth also worked at the Foreign and Commonwealth Office including as Second Secretary in the British Embassy in Beijing (1972-75). From 1984-2003, she worked at the BBC World Service and was Head of Asia and Pacific Region for 9 years. Elizabeth has been a regular commentator on Chinese affairs both on radio and television.



**ABSTRACT OF PRESENTATION**

**INDIA 2020:**

**COMPARATIVE POSITIONING OF CHINA AND INDIA  
IN 2020**

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**MARCH 2005**

**INDIA 2020:**

**COMPARATIVE POSITIONING OF CHINA AND INDIA IN  
2020**



India is certainly on the move as a rising power. The country is set to emerge as the second most important economic powerhouse in Asia by 2020—next only to China. Following the market oriented and globally integrating nature of economic reforms launched in India in 1991, India has shown remarkable and sustained upswing in the trend growth rate of its economy and a marked shift to knowledge based industries and services during the last fifteen years. The mood is upbeat in the country. India's rising self confidence is based on the high degree of dynamism displayed through its entrepreneurial and growing technical prowess in the global economy.

All projections under the realistic scenario made by the World Bank (and several other national and international organizations) reveal that India is all set to emerge as the third largest economy in the world in PPP terms by 2020 next only to the USA and China. India's rising economic power is based on its international competitive edge in knowledge-based industries and services. This will allow India to emerge as a significant player in international relations including political and security dimensions of global governance. As two of the leading most Asian economic powers, China and India will be major driving forces for stimulating world economic growth in the next twenty-five years and beyond.

### **This Presentation consists of Three Parts:**

1. India and its present positioning in the Global Economy.
2. India and its positioning in the Global Economy in 2020—2030.
3. Comparative strengths and weaknesses of India and China for becoming global economic power by 2020.



***Selected Points Highlighting Comparative Strengths and Weaknesses of India and China for becoming Global Economic Power by 2020***

➤ **CHINA AS DRAGON AND INDIA AS ELEPHANT**

**INDIA'S MAIN STRENGTHS**

1. Abundant natural resources and all season “agricultural” activities (higher arable area per square kilometer of national territory than China).
2. Highly skilled manpower (Scientific; Technical; Managerial; Professional).
3. Democratic Dividend (rising Population in working age group up to the year 2020).
4. Growing affluent middle class.
5. English language proficiency.
6. Vibrant democracy (largest number of voters).
7. Internationally comparable rule of law and justice (property Rights; IPRs etc).
8. Significantly positive response to economic reforms and globalization process by private enterprise.
9. Well functioning financial markets.
10. Political Stability: Democracy forging Unity in Diversity.

**INDIA'S MAIN WEAKNESSES**

1. Lower ranking on the Human Development Index.
2. Large absolute number of poor and illiterates.
3. Infrastructure bottlenecks.
4. Implementation problems due to political and administrative hassles (delays and corruption at all levels of Government—especially at grass-root level).
5. Regional disparities in levels of economic development of the states.
6. Internal conflicts especially in Jammu and Kashmir and Northeastern States.



7. Costs of Indian democracy: slow and incremental pace of reforms due to coalition politics and various lobby groups influencing decision making and implementation processes.
8. South Asian Politics: India-Pakistan Relations restraining faster progress towards South Asian economic integration.

## **CHINA'S MAIN STRENGTHS**

1. Clear vision and pragmatic approach to policy making to achieve the status of global power by 2020 (beyond its current status of regional power in Asia and its status as a member of the P-5 Group of Nuclear Nations).
2. Sustained high growth since launching of economic reforms in 1978 leading to significant reduction in poverty levels.
3. Largest populated country in the world providing large and growing market and expanding opportunities for two-way international business.
4. Significant player in world trade especially through its competitiveness in exports and high level of foreign exchange reserves.
5. Well-developed infrastructure in main business centres and in Special Economic Zones (being extended to other areas).
6. Business friendly policies and procedures for encouraging Foreign Direct Investment.
7. Productive and disciplined work force.

## **CHINA'S MAIN WEAKNESSES**

1. Lack of synchronization between economic liberalization and political liberalization (highly centralized political power regime).
2. Human Rights record: Restrained civil liberties.
3. Large regional disparities in the levels of economic development (backward areas).



4. Growing unemployment and restrictions on internal movements of labour causing discontent.
5. Large number of loss making State Owned Enterprises.
6. Sizeable Non-Performing Loans in the Banking/Financial Sector.
7. Legal System below international/western standards (Property rights/IPRs).

## **Concluding Observations**

1. Both India and China are set to emerge as significant global economic powers in the first half of the twenty first century—China most likely to do so by 2020 and India more likely to achieve this status around 2030. Both these countries will be significant regional powers in Asia.
2. The rise of both India and China as significant global economic powers will be based on a combination of following critical determinants:
  - (i) sustained high rates of economic growth;
  - (ii) pro-active high technology development policies raising competitiveness with respect to applications to skill based and knowledge intensive industries and services;
  - (iii) large populations and dominantly youthful composition of their population (with larger potential democratic dividend in case of India).
  - (iv) Political Statesmanship and diplomatic foresight in managing domestic social issues and international relations with the United States and other member countries of the Security Council of the United Nations as well as with their politically hostile neighbours; and
  - (v) Significant rise in their military capabilities.
3. The achievement of the status of global economic power by both China and India will improve their leverage for participating in decision making in international political and global security related areas and multilateral institutions.
4. As the National Intelligence Council (USA) has remarked: Only an abrupt reversal of processes of globalisation or a major upheaval in China and India would prevent their rise as global powers. It remains to be seen whether and



how China and India exercise their growing power and whether they relate to each other cooperatively or competitively to other powers in the international system.

5. It would be ideal for regional and global prosperity and peace for China and India to strike strategic alliance for improving their bilateral political, economic, social and security relations. Together they should forge coalitions among like-minded countries at international fora (like WTO). Both countries while competing in global market economy must maximize their areas of economic complementarities and actively contribute to regional economic cooperation through an Asian Economic Community.



## **Presentation Summary:**

**Zhang Jun**  
**Professor of Economics and Director,**  
**China centre for Economic Studies**  
**Fudan University**

- Many Chinese economists do not realise challenges from India or are unwilling to accept that India can catch up or present a real challenge to China. There is a general assumption that democratic process slows progress.
- However much greater awareness of India's achievements – Chinese dailies reporting success stories from India
- Mechanics of economic growth in China similar to East Asian economies of Korea, Japan, Singapore in the 1970 / 80s
- Chinese economy largely driven by primary reform in the agriculture sector in the 1980s – reforms yet to fully reach inland provinces
- Income disparities in the 1980s not as great as today
- Consumption sector in China booming – huge demand for revolutionising consumer sector
- Rapid investment in Chinese economy moving to Greater Shanghai area
- Gradually huge divisions of manufacturing moving to eastern and southern coasts of China
- Rising trade participation ratio in China – massive domestic investment on a climb because of large regional disparities in inland provinces
- Aggregate statistics of China very different from India – Spending is 40% of GDP, in India only 28%
- Incremental capital output ratio in China rising since 1990s – in 1980s investment ICOR was 2.5; today it is over 6.0 – return to investment in China getting worse because of overinvestment.
- Tension between local and central government – central government would like to cool the economy down but find it difficult to retain control over local province decisions.
- Inland provinces neglected by foreign investors but also by policy-makers in China
- Investing more does not guarantee profitability from investors
- Policymakers beginning to redraw the geographic distinctions / jurisdictions to simplify economic management
- East Asian economies share the same problem of structural adjustment – growth experienced huge fluctuations



- Lots of inland problems – China has to move forward since problems getting more serious
- High growth in China in the last 2 decades quite impressive
- First of all imperative to solve the structural issues

## Summary of discussion

During the ensuing discussion, there was a recognition that although similarities can be made between China and India, significant differences in the approaches made by the countries exist.

Zhang Jun commented on a remark made by the Chinese ambassador to India that *“China is a small dragon flying quickly; but that makes it easier to turn back”*. In other words, the fast-growing Chinese economy has a greater risk of reversal than the slower-moving Indian economy or, to put it differently, slow and steady might win the race in the long run.

A second important distinction between India and China was encapsulated by Dr Charan Wadhva, who in quoting **Lord Desai** remarked that *“China will become a great power, India a great democracy”*, Thus highlighting the difference in approaches between the two countries and also the difficulties that India has in pushing through reforms, in relation to China

On the Chinese side it was highlighted that economists were still reluctant to recognise India’s emergence as an important component of the international architecture.

## Concluding Remarks

It was highlighted that China’s human rights record, was serving to hinder investment, Zhang Jun noted that improvements were being made in this area. Elizabeth Wright remarked that it was an important step forward for these sorts of issues to even be raised.

With regard to India it was remarked that bureaucracy and rigid labour laws were the chief obstacles to foreign investment, Wadhva responded by mentioning the special economic zones that have been created and the creation of better infrastructure. Dr. Wadhwa also pointed out that foreign investments in India have had greater returns than in China, in contrast to popular perception.

Wadhva concluded that there exists good economic relations and investment between India and China, he suggested that e-governance could take care of



inefficiencies, and that healthy competition between China and India could help to attract Foreign Direct Investment.