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CHINA AND INDIA -- THE CHALLENGE

Expert Roundtable 1
Growth: China vs. India

The debate's first question is, Will India ever grow as rapidly as China? If so, how might that occur?

This summer, *BusinessWeek* brought together 13 of the smartest people we could find for an online roundtable on the past, present, and future of China and India (**see below for a list of participants**). On each of eight days, we posted a new question. Economics Editor **Peter Coy** moderated the discussion. The experts communicated both with us and with each other on everything from geopolitics to generation gaps. Now we're sharing the discussion with you -- and invite you to offer your comments. Please note that not all 13 participated every day, and comments have been edited for style and clarity.

Will India ever grow as rapidly as China? If so, how might that occur?

Subroto Bagchi
I do not think India should try to "grow as rapidly as China." Growth is not just an economic issue. Growth has to be aimed within a relevant country context. India has its own unique past, a very different present, and will chart her own version of the future. In that future, the most crtical component is to keep democracy safe.

The average Indian has, over the last almost 50 years, learned to value freedom. That requires India to socialize many actions before they get taken -- this has its own effect on speed. In matters of growth, one has to take a long view of time, and I see India making overall wholesome progress over time. Will that match China's current rate of growth? Probably not. Does not have to. There is a price to everything. We got to be aware of that.

Oded Shenkar
At least in the next few years, India is unlikely to grow as fast as China. China leads India in foreign investment, a key contributor to economic growth, by a margin of 10 to 1, because foreign investors, who can place their money anywhere, see more opportunities and less obstacles in China.

Ironically, Indian democracy is viewed as a hindrance vis-a-vis the stability of China's authoritarian regime on its liberalizing market and docile unions. India also lacks a Hong Kong and a Taiwan, next-door technology, and capital hubs that when combined with the mainland's abundant, cheap, and productive human resources create powerful complements. India has a long way to go before it catches up with China.

Viveca Chan
India is waking up and catching up fast. I will not be surprised to see India having a higher rate of growth. However, it will be hard for India to catch up with China on the size of its market and the absolute size of its growth. China dominates in manufacturing and has the market size and spending power domestically. India is strong in technology/IT services, which may be high value but not high volume. However, this can change as India starts to get into production and as Chinese companies start to buy Indian companies and set up production in India.

If India were to grow faster than China, it must increase its attractiveness to investing companies in terms of its market size and potential for luxury products. Indian consumers are more frugal and rational in spending. Chinese consumers are much more willing to pay for branded and luxury goods, a dream for marketers. This is evidenced by ubiquitous presence of luxury brands from Starbucks to Louis Vuitton in China vs. India.

So if the India market is to grow faster than China, Indian consumers need to be encouraged to buy things they do not need and pay prices that have no relation to the cost of goods. After all, market growth is about the growth of brands.

Arun Maira
Will India ever "grow" as fast as China? The first question is grow "what" or "in what terms?" As another participant has pointed out, growth in the size of the economy alone may not be enough. Other facets of India must change and grow along, and he suggests that, in a balanced scorecard approach, lesser growth in the size of the economy may be O.K. if there is growth in other dimensions.

However, let me focus on economic growth for now. The constraints on the growth of India's GDP appear to be insufficienct investments according to most economists--investments include FDI and investments in infrastructure. The most commonly cited constraints on investments is the confusion and slowness of policy change as well as confusion and tardiness at the bureacratic levels, as contrasted with the "single mindedness" on the Chinese side.

Therefore, if this constraint could be eased and there was more alignment in the Indian system, India would attract more investment, including investments in the infrastructure, according to this view, and thus would grow much faster than otherwise--perhaps matching China's rates of GDP growth. Therefore, if processes for creating adequate alignment on key requirements for growth are strengthened, India will grow faster.

To obtain alignment, it will be necessary to face up to and resolve issues regarding the goals of development as have been mentioned. Alignment obtained by raising and resolving issues will create less fragile and more enduring alignment (even if the process of obtaining that alignment seems tough and confusing).

Therefore, I am of the view that the current debates in India about the goals of development and about the appropriate models for growth are good for enabling the alignment that we need to accelerate (even) economic growth. In fact they make me more, not less hopeful that we will grow in a more rounded way and faster over the next couple of decades.

Rajni Bakshi

The key question, as Arun Maira has said, is growth in what terms? The competition between India and China over higher and higher GDP is a short-term concern. However, the fate of planet earth may depend on both India and China's ability to redefine growth itself and create new, ecologically sustainable patterns of consumption.

Both India and China have a knowledge base to move in the direction of sustainability. Whether they can deploy this in a significant way will depend on their decision makers' ability to marry a wide range of work on alternatives with innovative market mechanisms.

India has the advantage of having a vibrant, energetic and creative NGO [nongovernmental organization] sector that is now more and more willing to work in tandem with market energies to push for economic democracy, i.e level playing fields at many levels.

China seems to have a greater coherence in its policies. While the big challenge for India is to turn its trial and error muddling into an advantage.

Saurav Adhikari
India can grow as rapidly as China if some critical macro (policy) and micro (at the firm and individual level) initiatives are taken.

First the macro initiatives. It has only been 14 years since the 1991 reforms were unleashed, a good decade or so after China's Deng-era reforms. The political pendulum has now moved so far to the middle that these initiatives cannot be stopped or opposed by even the political left. So India should see solid macro initiatives under any government. This should lead to much better external perceptions while internal reforms take place. FDI- and infrastructure-fueled growth will inevitably follow.

Second, a little understated (and understood) but key element of the initiatives that make me confident that India can match or even exceed China's growth is the micro-level changes. India's middle class is well-educated, increasingly more demanding of better services, products, and governance at all levels. This has ensured a "market/consumer/individual" level revolution of sorts which is not state-led. This will propel growth in a very significant way.

Yes, I am very confident that the next few decades the Indian story of growth will be as compelling as China's, even given statistical nuances that are part of the hazy interpretation of growth.

Donald Straszheim
India will continue to lag until governmental leaders further open their eyes to the lesson of China and accelerate the economic reform process. That is happening, but it takes time. India must further the reforms in order to attract foreign direct investment. They are far behind. That FDI brings in talent and technology and expertise, easily as important as the capital itself.

One major advantage that India has is the existence of a functioning democracy and the economic "soft infrastructure," or what I would describe as "institutional capital" that those in developed economies accept as standard -- rule of law, commercial code, veracity of the data, evenhanded treatment of all parties, root out corruption, property rights (intellectual and otherwise), bankruptcy procedures, monetary and fiscal policies that work and are understandable, etc.

Madhav Bhatkuly
India has not grown as fast as China, but it appears as if India might grow faster over the next decade. There are two key differences in the growth of these two nations. First, China has seen significant investment in infrastructure and FDI, while India's growth has been without any meaningful investment in infrastructure and FDI. Second, India's growth has emerged through an era of capital defficiency, while China's growth been the result of flinging increasing amounts of capital at it.

In power, telecom, and to some extent roads/highways and ports, India appears to be addressing the issue of infrastructure. On FDI too, foreign ownership is now less of an issue except in a few sensitive sectors. As infrastructure expands, so will the India's growth. So far it was restricted to a handful of sectors such as IT and pharma, which were relatively less affected by lack of infrastructure. Thus, India now appears set for multisector growth.

For example, new and large opportunities have emerged in textiles where India was thwarted because of quotas despite being the largest yarn producer of the world. Quotas have now been abolished. The auto sector could be another driver. Development costs in India are among the lowest in the world. India already has a large home base in two-wheelers with three of the world's top 10 manufacturers of the world. In passenger cars too, India is fast becoming an export centre.

Though unlike the past decade which was led by services, the next 10 years may see India being driven by growth in manufacturing.

Subir Gokarn
China has been growing at roughly 9% a year with an investment/GDP ratio of around 40%. India has been clocking about 6% a year with an investment/GDP ratio of about 25%. This indicates that India is using capital more efficiently, in the sense that it gets more growth bang for the investment buck. The reason for this disparity is quite simple: India's growth drivers have been services, which typically are far less capital-intensive than manufacturing, on which China has relied to a greater extent.

India can accelerate its growth rate if its manufacturing sector makes a larger contribution. For this to happen, several policy changes have to be made. The two key ones, to my mind, are labor market reforms -- labor market regulations currently hobble manufacturing, while leaving services relatively unscathed -- and the facilitation of investment in infrastructure, particularly power and transport.

The political will to go ahead with labor market reforms is not visible. There is some, but extremely slow, progress in infrastructure. Without these, the ratcheting up of investment, both in infrastructure and in manufacturing capacity, which is required to accelerate growth in manufacturing, simply will not happen.

India can grow as fast as China, but it needs to break through some rather imposing barriers to do so. The good news is that these are man-made and can be dismantled by the right policy interventions.

Wang Yong
China and India will keep the position of growth stars in the future. China may be a bit faster than India. There are reasons to bet that China could keep a rapid growth of over 7% at least within the next 10 or 20 years. The reasons China will have a stable and fast growth, are like this:

The prospect of rapid development will be built on the country's weakness, that is, uneven development between the coastal east and the hinterland west. That [will allow for] China's keeping advantage in labor-intensive export while seeking industrial upgrading in the east. The double engines will give Chinese economy more power.

China has a development-oriented state system. China is still a one-party constitutional system. But the ruling party is very flexible and open to the demands of an increasingly pluralistic society. Economic freedom is more [assured]. The country is moving very quickly toward rule of law as well as rule by law, and a more investor-friendly environment will be more real in next several years. The country is able to sustain political and social stability while it is experiencing tremendous transition and uneven development.

Wenran Jiang
India is picking up the pace, not far behind from the lower to below-average growth rates of China in the past 25 years (6% to 9%). Although India's potential higher rate may rest on a different set of factors than the ones that have driven China so far, it is important to look at China's experiences and to what extent India can create similar conditions.

The first is to confront the so-called "peasant question." With all the talk of the high-tech industry, software, and IT nowadays, let's not forget that China's economic reform and the subsequent takeoff began from the countryside.

From the late 1970s to the mid 1980s, it was not the cities but the rural areas that prospered. It was the redistribution of land that unleashed so much energy in 70% of the Chinese population at the time and formed the basis of the later urban reform. Then again, from the mid 1990s, Chinese peasants lagged behind and were left behind, and the income gap between the cities and the countryside widened.

The so-called "sannong" crisis -- crisis in the agrarian sector, in the agrarian regions and among the agrarian population -- has caused serious problems for China's overall development. India may have to deal with some of its own fundamental problems in the vast rural areas if it wants to produce its own sustainable miracle of growth.

The second is to pursue high GDP figures at the expense of equal distribution. Deng Xiaoping's famous sayings are: "To get rich is glorious," and "We should allow a portion of the population to get rich first." China used to be poor but equal. That is no longer the case. The "trickle-down" magic has so far not worked in China. Today, China is a more unequal society than India.

Will India push ahead for higher speed and make itself an even more unequal society? While China has hundreds of millions of peasants, India has a 160 million "untouchables" that are seriously oppressed. One way for rapid growth to occur seems to be leaving them behind -- for the moment if not forever.

The third is to create favorable environments to attract FDI, joint ventures, and trade partners, with a lot of preferential treatment. There is only so much domestic capital available, so for sustainable long-term growth, it is crucial to have an "open-door" policy with social stability. China has done well -- much better than its predecessors like Japan and South Korea and is way ahead of India in the game. Even today, it continues to provide better incentives to foreign capital. It is impossible for India to grow as fast as China unless India can do better in this area.

There is one even more fundamental issue: None of the above could be accomplished in the Chinese case without a strong state. And the Chinese state is both nondemocratic and totally committed to growth at the same time. While there is no convincing correlation between an authoritarian strong state and a high growth rate, neither is there clear evidence linking democracy with strong economic performance. It is obvious that there are some lessons that India can learn from China, but there are also factors in China that cannot be emulated by India.

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