A Study on Economic Dimensions of India and China

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Abstract

India and China are the two emerging economies of the world. They are the two most populous countries in the world who together account for more than a third of the world's total population. A descriptive research study has been carried out for investigating the Gross Domestic Product of India and China in nominal and purchasing power parity basis. It also compares per capita gross domestic product and GDP growth rate of India and China. It also investigates the trends in the value of Chinese Yuan Renminbi (CNY) with Indian Rupee (INR). This paper also exhibits the market share in Foreign Direct Investment in Asia Pacific region in 2015. The dramatic rise not only enabled socio-economic upsurge of India and China but it also reshaped the regional and global trade trends.

India replaced China as leading recipient of capital investment in Asia-Pacific with announced FDI of $63bn, as well as an 8 per cent increase in project numbers to 697. India faced various structural bottlenecks including delays in project approval, ill-targeted subsidies, a low manufacturing base and low agricultural productivity, difficulty in land acquisition, weak transportation and power networks, strict labour regulations and skill mismatches.

Keywords : Foreign Direct Investment, Gross Domestic Product

1.0 Introduction

Indo-China relations refer to international relations between the People's Republic of China (PRC) and the Republic of India. The economic and diplomatic importance of India and China, which are the two most populous states and the world's fastest growing major economies, has in recent years increased the significance of their bilateral relationship. Relations between China and India date back to ancient times. China and India are two of the world's oldest civilizations and have coexisted in peace for millennia. Trade relations via the Silk Road acted as economic contact between the two regions.

This is a comparative study of China and India, two of the most populous countries of the world, and which combine to constitute nearly one-third of the world's population. Both India and China have undertaken fairly extensive economic reform policies during the past two decades. Since the adoption of economic reform policies in 1978, China's economic growth performance has been truly dramatic. On the other hand, in India, the second most populous country and largest democracy in the world, growth performance since the initiation of economic reform policies in 1991 has been relatively modest, falling behind on many fronts relative to the Chinese performance indicators.

Two major factors account for a country's growing integration with the global economy: trade and foreign investment; expansion of exports, and foreign direct investment (FDI). Growth of exports became a dominant source of industrial growth during the 1980s in most developing countries. Most of these countries including India and China, have replaced the old import-substitution policy by an export promotion strategy. Both domestic and international factors played an important role in the shift of national policies to repay debts. The process of globalization already underway necessitated export orientation for improving technology, management practices, marketing and international competitiveness.

The main difference between nominal and real values is that real values are adjusted for inflation, while nominal values are not. As a result, nominal GDP will often appear higher than real GDP. GDP is gross domestic product, the total economic output of a country, i.e., the amount of money a country makes. GDP per capita is the total output divided by the number of people in the population, so you can get a figure of the average output of each person, i.e., the average amount of money each person makes.

The two most common ways to measure GDP per capita are nominal and purchasing power parity (PPP). Nominal is an attempt at an absolute measure, a sort of immovable standard that remains the same from country to country. It is the original concept of GDP. In contrast, PPP is an attempt at a relative measure, taking factors of each country into consideration in order to put a number on a person's standard of living within that country.

2.0 Literature Review

The relation between FDI and growth has drawn the attention of scholar quite lately than other research works. Chadee and Schlichting (1997) discuss some aspects of foreign direct investment in the Asia-Pacific Region and conclude that FDI has made a positive contribution to all the economies in that region.

Borensztein, etal. (1998) through a study of 69 developing countries confirm that the LDCs (Less Developed Countries) do benefit from FDI, if they have the capabilities to absorb advanced technologies.

The World Investment Report UNCTAD (1999) also describes some econometric models for determining the impact of FDI on growth, after analyzing the data from 11 countries in East Asia and Latin America, using econometric techniques such as unit root and co integration tests.

Zhang (2001) provides evidence that FDI promotes economic growth in countries with a liberalized trade regime, and a workforce with higher job skills and education.

According to Ram and Zhang(2002), FDI provides ready access to the world markets and acts as a conduit for the host country to participate in the globalization process.

Using co-integration and an error-correction model to examine the link between FDI and economic growth in India, Chakraborty and Basu (2002) suggest that GDP in India is not Granger caused by FDI, and the causality runs more from GDP to FDI.

Hsiao and Shen (2003) argue the two way relationship between FDI and growth and support feedback relationship between FDI and GDP using a panel data on 84 countries covering the period of 30 years from 1970 to 1999.

Li and Liu (2004) find that it is an increasingly endogenous relationship between FDI and growth, especially since the mid-1980. Lee (2005) argues that foreign direct investment along with trade liberalization is the answer for economic development.

Baharumshah and Thanoon (2006) by using dynamic panel models demonstrated the positive contribution of FDI on the growth process of East Asian economies.

3.0 Objective of the Study

- To compare Gross Domestic Product (GDP) between India and China in Nominal and Purchasing Power Parity basis
- To compare GDP per capita and GDP growth rate between India and China
- To identify the trends in the value of Chinese Yuan Renminbi (CNY) with Indian Rupee (INR)
- To exhibit the market shares in Foreign Direct Investment (FDI) in Asia Pacific Region

4.0 Method of Study

This research is a descriptive study in nature. The secondary data were collected from various journals, magazines, and websites particularly from the International Monetary Fund World Economic Outlook journal and Foreign Direct Investment Markets, etc. The study is based on the time period from 1980-2015. Graphs and tables have also been used wherever required to depict statistical data of GDP, GDP per capita, value of currency and FDI during the study period.

5.0 Data Analysis

China and India are the two emerging economies of the world. This is a comparative study of China and India, two of the most populous countries of the world, and which combine to constitute nearly one-third of the world's population. India's gross domestic product advanced 7.3 per cent year-on-year in the third quarter of 2016, following 7.1 per cent expansion in the previous period and missing market expectations of 7.5 per cent growth. Private consumption expanded at a faster pace while government spending slowed down and fixed investment dropped further. GDP Annual Growth Rate in India averaged 6.08 per cent from 1951 until 2016, reaching an all time high of 11.40 per cent in the first quarter of 2010 and a record low of -5.20 per cent in the fourth quarter of 1979.

Table 1 shows the amount of Gross Domestic Product (GDP) of India and China both on Nominal and Purchasing Power Parity (PPP) basis between 1980 - 2015. In 1980, the GDP of China was 309.06 billion $ whereas the GDP of India was 181.42 billion $ on nominal basis. From analysis we find that China GDP is 1.7 times more than India GDP on nominal basis in the year 1980. In these 35 years, China GDP has grown 3 times more than India GDP.

In 1980, India GDP was298.397 billion $ and China GDP was 386.147 billion $ on PPP basis. We found that China GDP is 1.29 times more than India GDP in 1980 on PPP basis. But gradually it increased to 2.37 times more than India GDP in these 35 years.

Table 1 : Comparison of Gross Domestic Product of India and China Under PPP and Nominal Basis

Year	Nominal GDP (billions $)		PPP GDP (billions Int. $)	
Year	India (Nominal)	China (Nominal)	India (PPP)	China (PPP)
2015	2,308.02	11,211.93	7,996.62	18,975.87
2014	2,049.50	10,380.38	7,375.90	17,617.32
2013	1,875.16	9,469.13	6,783.66	16,173.27
2012	1,835.82	8,386.68	6,252.67	14,789.52
2011	1,843.02	7,314.48	5,845.36	13,482.08
2010	1,708.46	5,949.65	5,370.62	12,085.45
2009	1,365.37	5,105.77	4,812.08	10,813.81
2008	1,224.10	4,547.72	4,402.48	9,826.85
2007	1,238.70	3,504.61	4,156.08	8,790.82
2006	949.118	2,793.16	3,686.98	7,498.22
2005	834.218	2,287.26	3,273.78	6,456.26
2004	721.589	1,944.67	2,902.27	5,619.96
2003	618.369	1,650.51	2,619.03	4,967.80
2002	523.768	1,455.56	2,378.85	4,427.49
2001	493.934	1,317.24	2,254.78	3,996.84
2000	476.636	1,192.85	2,100.67	3,608.29
1999	466.841	1,100.78	1,975.41	3,254.63
1998	428.767	1,045.20	1,793.83	2,979.16
1997	423.189	985.044	1,671.22	2,733.93
1996	399.791	892.01	1,579.14	2,459.20
1995	366.6	756.964	1,441.97	2,195.57
1994	333.014	582.673	1,313.05	1,938.76
1993	284.194	641.064	1,205.42	1,678.47
1992	293.262	499.859	1,124.01	1,438.13
1991	274.842	424.116	1,041.84	1,231.24
1990	326.608	404.495	997.737	1,091.19
1989	300.187	459.783	911.698	1,013.75
1988	299.645	411.736	828.311	937.369
1987	283.75	330.055	730.012	813.716
1986	252.751	303.177	684.693	710.989
1985	237.618	312.78	640.565	640.568
1984	215.556	316.519	589.716	546.877
1983	222.049	307.469	548.547	458.45
1982	202.861	286.561	491.864	397.691
1981	195.861	292.366	447.573	343.225
1980	181.416	309.06	386.157	298.397

Source : International Monetary Fund World Economic Outlook

If we compare last 10 years GDP of India with China from 2006-2015 on nominal basis we find that India GDP increased by 143 per cent and China by 301 per cent. On PPP basis, in the last 10 years GDP of India and China from 2006-2015 we find that India GDP increased by 116.88 per cent and that of China increased by 153.07 percent

Fig 1 : Comparison of GDP of India and China on PPP and Nominal Basis

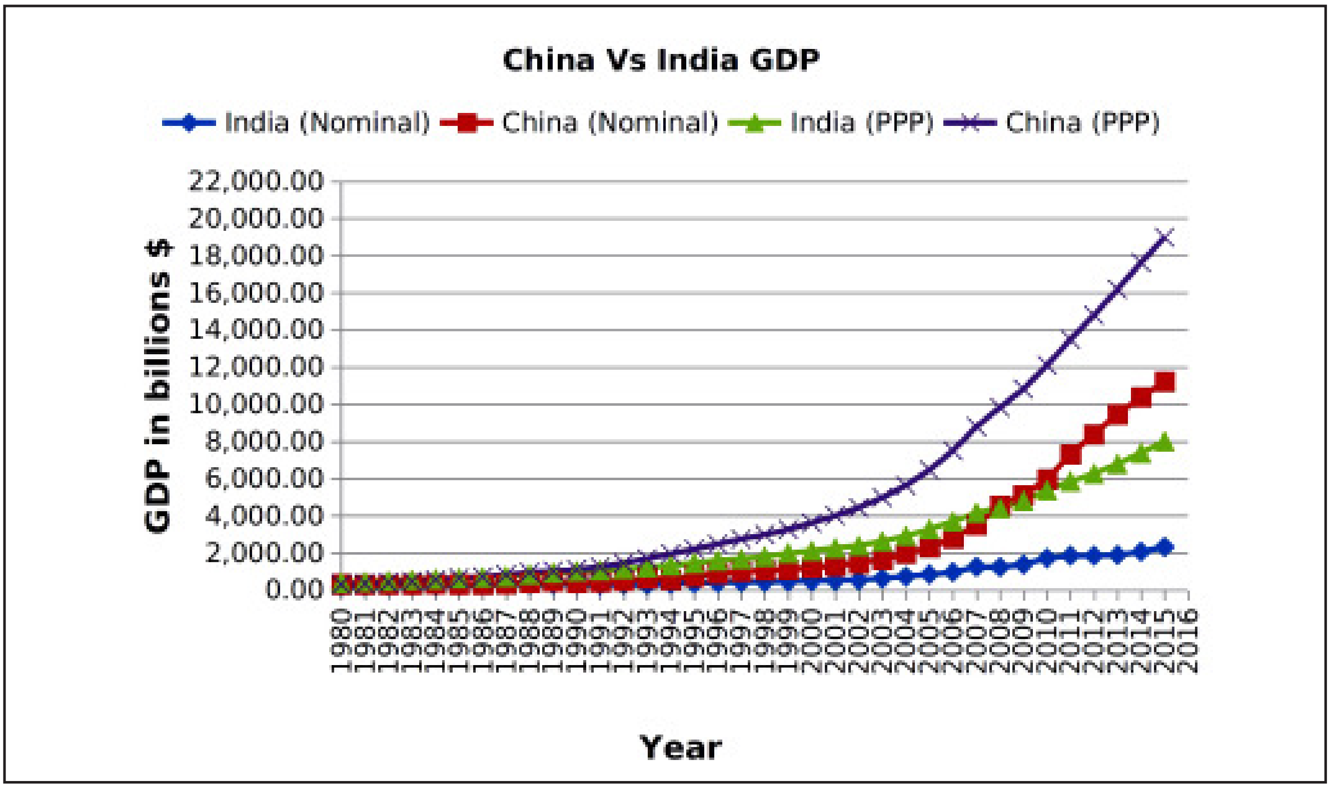


Fig 1 shows that on nominal basis we find that in 2015 India GDP is 2,308.02 billion $ and China GDP is 11,211.93 billion $. From this data we find that on nominal basis the GDP of China is 4.85 times more than India. On PPP basis we found that in 2015, China GDP is 18,975.87 billion $ and India GDP is 7,996.62 billion $. From this date we analyse that China is 2.37 times more than India in terms of GDP on PPP basis.

The GDP of India is 2,308.02 billion $ and that of China is 11,211.93 billion $ as in 2015 on nominal basis and on PPP basis GDP of India is 7,996.62 billion $ and GDP of China is 18,975.87 billion $. If we compare last 10 years GDP of India we find that India GDP increased by 143 per cent on nominal basis and 116.88 per cent on PPP basis whereas GDP of China from 2006- 2015, we find that China GDP increased by 301 per cent on nominal basis and 153.07 per cent on PPP basis. In 1980, the GDP of China was 309.06 billion $ whereas the GDP of India was 181.42 billion $ on nominal basis. From analysis we find that China GDP is 1.7 times more than India GDP on nominal basis in the year 1980. But after 35 years, China GDP has growth 4.85 times more than India GDP. In 1980, India GDP is 298.397 billion $ and China GDP is 386.147 billion $ on PPP basis. We found that China GDP is 1.29 times more than India GDP in 1980 on PPP basis. But gradually it increased to 2.37 times more than India GDP in these 35 years

Table 2 : Comparison of GDP Per Capita of India and China Under PPP and Nominal Basis

Year	Nominal GDP capita ($)		PPP GDP capita (Int. $)		Growth (%)	
Year	India (GDP)	China (GDP)	India (capita)	China (capita)	India	China
2015	1,808.41	8,154.38	6,265.64	13,801.07	7.46	6.76
2014	1,626.98	7,589.00	5,855.31	12,879.85	7.17	7.36
2013	1,508.16	6,958.91	5,456.01	11,885.82	6.9	7.75
2012	1,495.95	6,193.82	5,095.10	10,922.51	5.08	7.76
2011	1,521.92	5,428.79	4,826.97	10,006.37	6.64	9.3
2010	1,430.13	4,437.02	4,495.66	9,012.87	10.26	10.41
2009	1,158.93	3,825.98	4,084.50	8,103.27	8.48	9.21
2008	1,053.44	3,424.43	3,788.71	7,399.62	3.89	9.64
2007	1,080.89	2,652.41	3,626.59	6,653.21	9.8	14.2
2006	839.927	2,124.92	3,262.81	5,704.32	9.26	12.68
2005	748.85	1,749.26	2,938.76	4,937.64	9.29	11.3
2004	657.522	1,496.04	2,644.58	4,323.45	7.85	10.1

2003	572.299	1,277.22	2,423.90	3,844.25	7.94	10.01
2002	492.234	1,133.15	2,235.63	3,446.78	3.91	9.1
2001	471.311	1,032.10	2,151.51	3,131.66	4.94	8.3
2000	463.118	941.159	2,041.10	2,846.93	3.98	8.4
1999	462.133	875.117	1,955.49	2,587.43	8.46	7.6
1998	432.225	837.762	1,808.29	2,387.89	6.18	7.8
1997	434.737	796.793	1,716.82	2,211.45	4.05	9.3
1996	418.602	728.832	1,653.44	2,009.33	7.55	10
1995	391.249	624.965	1,538.92	1,812.71	7.58	10.93
1994	362.366	486.169	1,428.78	1,617.65	6.66	13.1
1993	315.42	540.905	1,337.87	1,416.23	4.75	14
1992	332.544	426.606	1,274.57	1,227.38	5.48	14.2
1991	318.012	366.176	1,205.49	1,063.04	1.06	9.2
1990	385.407	353.787	1,177.36	954.395	5.53	3.8
1989	363.313	407.956	1,103.42	899.476	5.95	4.1
1988	370.275	370.846	1,023.55	844.279	9.63	11.3
1987	358.157	301.972	921.441	744.479	3.97	11.6
1986	326.025	282.007	883.19	661.343	4.78	8.8
1985	313.067	295.491	843.959	605.16	5.25	13.5
1984	290.116	303.304	793.696	524.044	3.82	15.2
1983	305.432	298.49	754.535	445.062	7.29	10.9
1982	285.018	281.898	691.063	391.221	3.48	9.1
1981	281.41	292.156	643.064	342.978	6.01	5.2
1980	265.909	313.115	566.005	302.312	5.28	7.91

Source : International Monetary Fund World Economic Outlook

If we compare last 10 years i.e. from 2006-2015 we find from Table-2 that India per capita GDP has increased by 115.30 per cent and that of China has increased by 283.74 per cent under nominal basis.

In PPP basis if we compare last 10 years i.e. from 2006-2015 we find that Per capita GDP of India has increased by 92.03 per cent and Per capita GDP of China has increased by 141.94 per cent. Now if we compare the present per capita GDP of China and India between 1980-2015, we find that China has increased 26.042 times and India has increased 6.8 times in the last 35 years.

In 1980, under nominal basis China per capita GDP is 17.75 per cent more than India per capita GDP whereas in 2015 it has increased to 350.91 per cent. But whereas in PPP basis we find that in 1980, India per capita GDP is 87.23 per cent more than China and in 2015, China is 120.27 per cent more than India. On PPP basis the per capita GDP of India is more than China from 1980 to 1992 but from then on China per capita GDP dominates India per capita GDP.

Figure 2 shows that per capita GDP of China in 2015 was 8,154.38 billion $ and that of India is 1,808.41 billion $. From these data we find that China is 4.5 times more than India Per capita GDP in 2015 on nominal basis. Under PPP basis, per capita GDP of China was 13,801.07 billion $ and India was 6,265.64 billion $ in the year 2015. From this we analyse that under PPP basis China Per capita GDP in 2015 is 2.02 times more than India Per Capita GDP.

Per capita GDP of China in 2015 was 8,154.38 billion $ and that of India in 2015 was 1,808.41 billion $. China is 4.5 times more than India Per capita GDP in 2015 on nominal basis. Under PPP basis, per capita GDP of China was 13,801.07 billion $ and India was 6,265.64 billion $ in the year 2015. Under PPP basis China Per capita GDP in 2015 is 2.02 times more than India Per Capita GDP. If we compare last 10 years i.e. from 2006-2015 we find that India Per capita GDP has increased by 115.30 per cent and China Per capita GDP has increased by 283.74 per cent on nominal basis. In PPP basis if we compare last 10 years i.e. from 2006-2015 we find that Per capita GDP of India has increased by 92.03 per cent and Per capita GDP of China has increased by 141.94 per cent. Now if we compare the present per capita GDP of China and India between 1980-2015, we find that China has increased 26.042 times and India has increased 6.8 times in the last 35 years.

Fig 2 : Comparison of GDP Per Capita of China and India on Nominal and PPP Basis

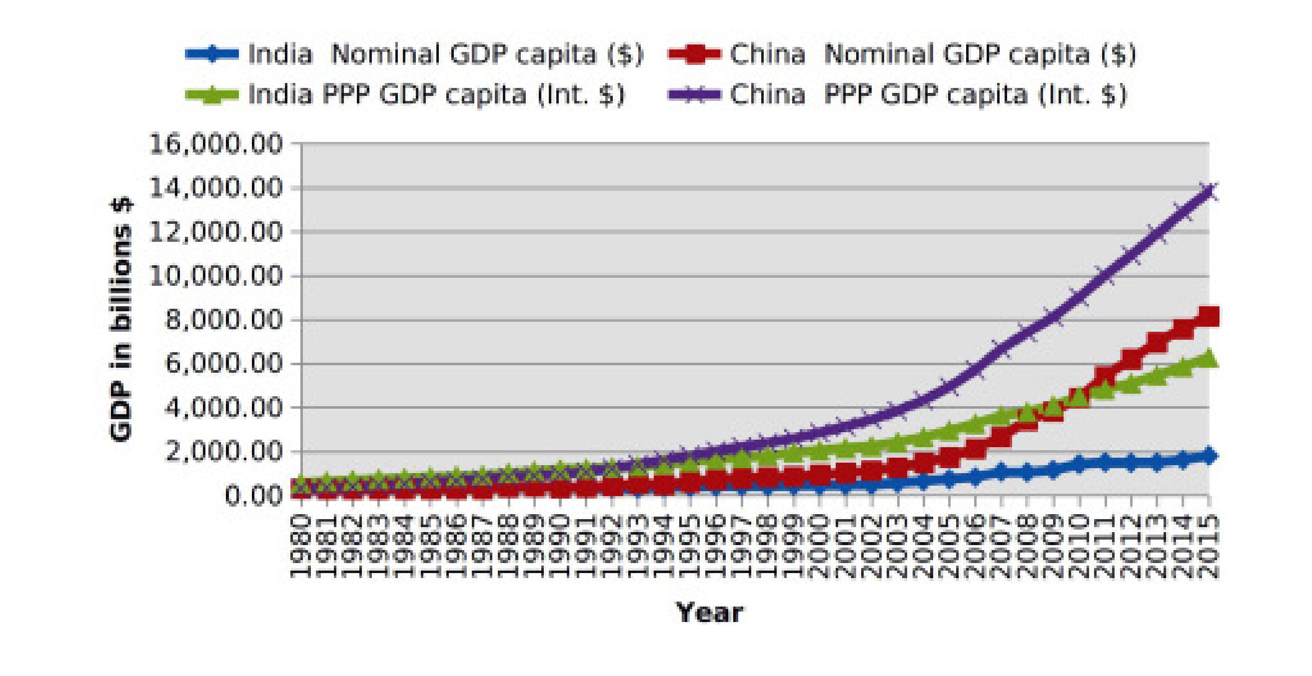


Fig 3 : Comparison of GDP Growth Rate of China & India

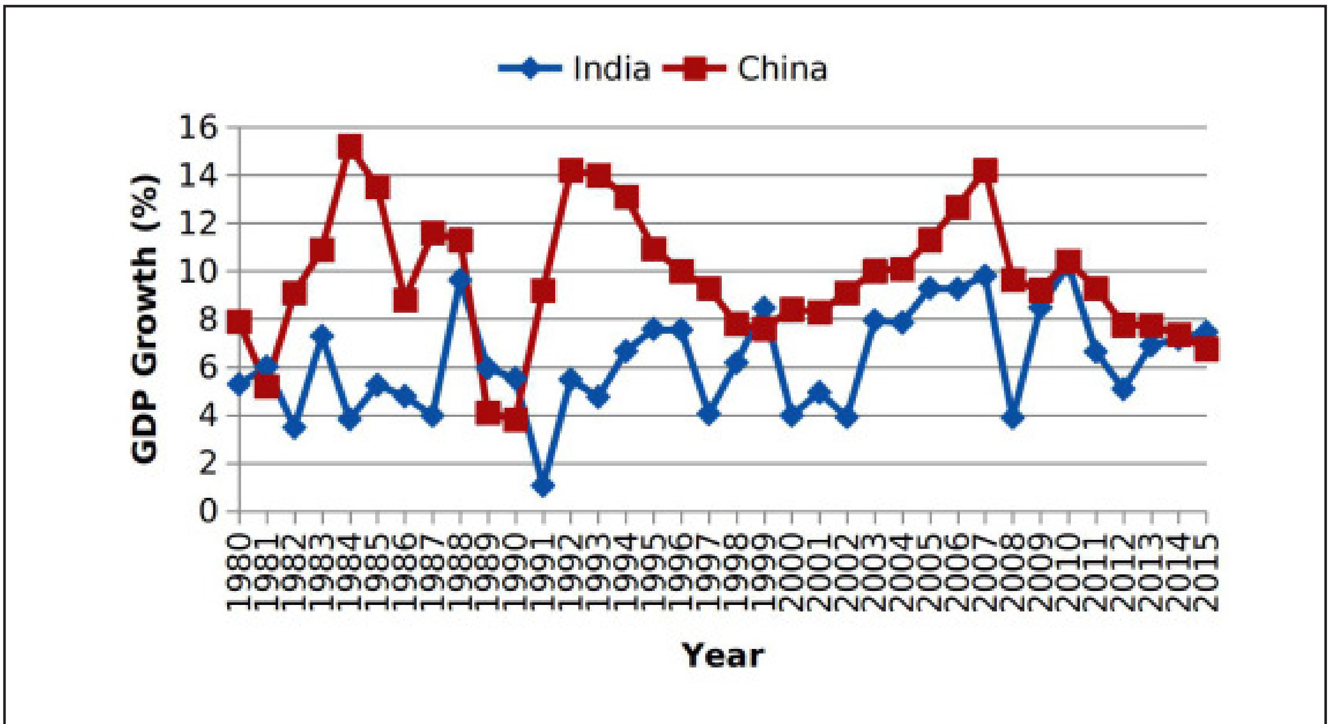


Fig 3 shows the comparison of GDP growth rate of China and India. In 2015, the growth rate of India was 7.46 per cent and China was 6.7 per cent. We can analyse that Indian GDP growth rate is slightly more than China in 2015. In 2014, the growth rate of India and China were 7.17 per cent and 7.36 per cent respectively. The growth rate of China in 2013 was 7.75 per cent and India was 6.9 per cent. In 2012, the growth rate of China and India was 7.76 per cent and 5.08 respectively. The growth rate of China in 2011 was 9.93 per cent and India was 6.64 per cent. The growth rate of China in 2010 was 10.41 per cent and India was 10.26 in 2010.

6.0 Comparision of Chinese Yuan Renminbi (CNY) with Indian Rupee (INR)

Chinese Yuan Renminbi is the official currency of the People's Republic of China. It is the basic unit of the renminbi, but is also used to refer to the Chinese currency generally, especially in international contexts.

The Indian rupee (sign: Rs; code: INR), is the official currency of the Republic of India. The rupee is subdivided into 100 *paise* (singular *paisa*), though as of 2011 only 50 paise coins are legal tender. The issuance of the currency is controlled by the Reserve Bank of India. The Reserve Bank manages currency in India and derives its role in currency management on the basis of the Reserve Bank of India Act, 1934.

The value of 1 CNY is equal to 9.88 INR as on 15th Nov, 2016.

Table 3 : Value of 1 Chinese Yuan Renminbi (CNY) with Indian Rupee (INR)

(As on 1st Jan of the Year)

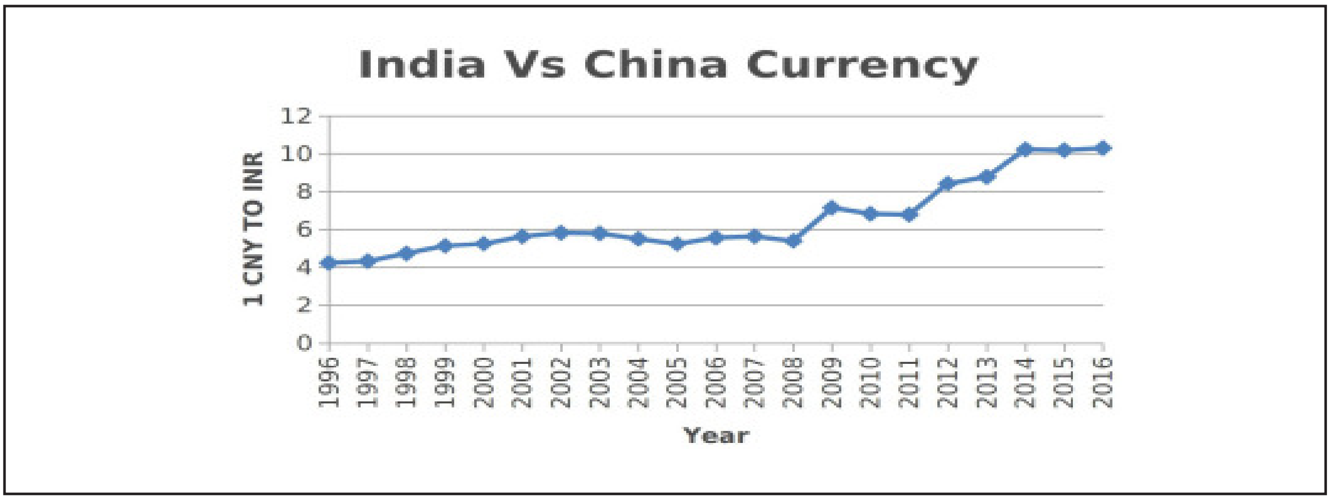
Date	1 CNY to INR
2016	10.2949
2015	10.1837
2014	10.2254
2013	8.7857
2012	8.4298
2011	6.782
2010	6.8263
2009	7.1428
2008	5.3952
2007	5.6436
2006	5.5699
2005	5.243
2004	5.5089
2003	5.7986
2002	5.8309
2001	5.639
2000	5.2467
1999	5.1323
1998	4.7223
1997	4.3189
1996	4.2287

Source : International Monetary Fund World Economic Outlook

In Table 3, a comparison of Indian currency and Chinese currency is made. It shows that the value of Chinese Yuan Renminbi (CNY) with Indian Rupee (INR) from 1.1.1996 to 1.1.2016. In 2006 the value of 1 CNY was 4.2287 INR. But gradually Chinese Yuan Renminbi was increased to 10.2949 in 2016. From the last 11 years we find that Chinese Yuan Renminbi has increased 2.5 times of what it was in 2006.

The value of 1 CNY is 10.2949 INR in 1st Jan, 2016. Chinese Yuan Renminbi (CNY) value was gradually increased from 4.2287 INR IN 2006 to 10.2949 INR in 2016. The value of Chinese Yuan Renminbi (CNY) has increased 2.4 times of Indian Rupee (INR) in the last 21 years i.e. from 1st January, 1996 to 1st January, 2016.

Fig 4 : Value of 1 CNY with INR



Note : Value of CNY were Recorded on 1st January Every Year

In Fig 5, it show the value of Chinese Yuan Renminbi (CNY) and Indian Rupee (INR). As on 1st January 2016, the value of 1 CNY is equal to 10.2949 INR. The value of CNY has consistently increased from 4.2287 INR in 2006 to 5.1323 in 1st January, 2009. From then it has increased to 7.1428 in 1st January, 2009. But the value of CNY has decreased to in 6.8263 INR as on 1st January, 2010. From then, the value of CNY has increased to 8.42 INR in 2012, 10.22 INR in 2014.

Table 4 : FDI into Asia- Pacific in 2015

% Asia Pacific Market Share	Country	Capital Investment ($bn)
20%	India	63
18%	China	56.6
12%	Indonesia	38.5
7%	Vietnam	21.1
6%	Pakistan	18.9
5%	Australia	15.2
4%	Malaysia	13.4
3%	Myanmar	10.8
3%	South Korea	8.9
3%	Philippines	8.5
20%	Other	65.6

Source: Foreign Direct Investment Markets (FDI INTELLIGENCE)

Table 4, shows Foreign Direct Investment market share in Asia Pacific in 2015. The market share of Asia Pacific in terms of FDI is 20 per cent which contributes 63 billion $ in capital investment. India emerged as the top share in market share of FDI in Asia Pacific region. It was followed by China with 18 per cent market share which contributes 56.6 billion dollars

Fig 5 : Capital Investment in FDI

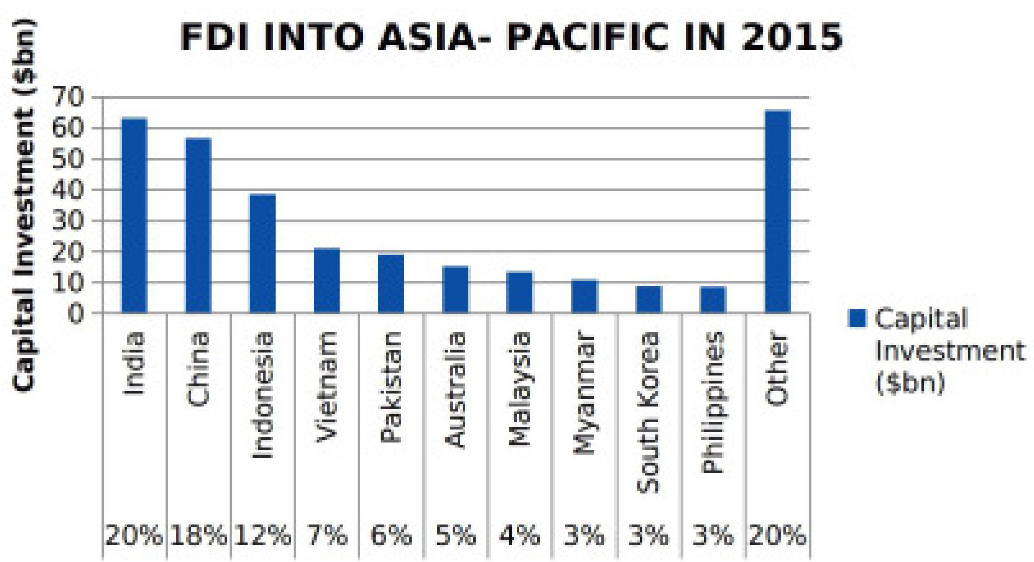


Fig 5 shows the share of Foreign Direct Investment to Asia- Pacific in 2015. India replaced China as leading recipient of capital investment in Asia-Pacific with announced FDI of $63bn, as well as an 8% increase in project numbers to 697. The top three countries for capital investment, namely India, China and Indonesia, accounted for almost half (49%) of FDI in the region.

7.0 Findings

China and India are the fastest emerging economies of the world. Gross Domestic Product of China on nominal basis is 4.85 times more than India's GDP as in 2015. On nominal basis we find that in 2015 India's GDP is 2,308.02 billion $ and China's GDP is 11,211.93 billion $.

The GDP of India in 1980 was 298.397 billion $ and China GDP was 386.147 billion $ on PPP basis. We found that China GDP was 1.29 times more than India's GDP in 1980 which gradually increased to 2.37 times in these 35 years i.e. from 1980-2015 on PPP basis.

Per capita GDP of China in 2015 was 8,154.38 billion $ and India in 2015 is 1,808.41 billion $ on nominal basis. China is 4.5 times more than India Per capita GDP in 2015 on nominal basis. Under PPP basis, per capita GDP of China was 13,801.07 billion $ and India was 6,265.64 billion $ in the year 2015. China Per capita GDP in 2015 is 2.02 times more than India Per Capita GDP.

On PPP basis the per capita GDP of India is more than China from 1980 to 1992 but from then on China per capita GDP dominates India per capita GDP. In 1980, Per capita GDP of India was 566.006 billion $ whereas China was 302.312 billion $. But China Per Capita gradually increased than Indian Per Capita under PPP basis. As on 2015, China Per Capita was 13,801.07 billion $ and Indian Per Capita GDP was 6,265.64 billion $ which is 2.2 times more than Indian Per capita GDP.

In 2015, the growth rate of India was 7.46 per cent and China was 6.7 per cent. We can analyse that Indian GDP growth rate is slightly more than China in 2015. In 2014, the growth rate of India and China were 7.17 per cent and 7.36 per cent respectively.

The value of 1 CNY is 10.2949 INR in 1st Jan, 2016. Chinese Yuan Renminbi (CNY) value was gradually increased from 4.2287 INR IN 2006 to 10.2949 INR in 2016. The value of Chinese Yuan Renminbi (CNY) has increased 2.4 times of Indian Rupee (INR) in the last 21 years i.e. from 1st January, 1996 to 1st January, 2016.

India emerged as the top share in market share of FDI in Asia Pacific region which contributes 20 per cent market share with 63 billion $ in capital investment. It was followed by China with 18 per cent market share which contributes 56.6 billion dollars in 2015.

8.0 Conclusion

India has a "long way" to go before it matches China's role in the Asia-Pacific region's trade and investment flows and the country's success will depend on its ability to speed up implementation of necessary structural reforms.

The Asia-Pacific Trade and Investment Report 2015 by the U.N. Economic and Social Commission for Asia and the Pacific said India faced various structural bottlenecks, including delays in project approval, ill-targeted subsidies, a low manufacturing base and low agricultural productivity, difficulty in land acquisition, weak transportation and power networks, strict labour regulations and skill mismatches.

India still has a long way to go to match China's role in the region's trade and investment flows. India's success will depend on its ability to accelerate the implementation of necessary structural reforms in order to improve its business and investment environment.

In addition, population growth adds to India's growth potential. The report cited IMF projections that India is expected to have the largest labour force in the world by 2030, with about one billion people of working age. However, India is still not in a position to support global and regional trade and investment flows as China did, it said. The size of Indian economy and GDP per capita, measured in real term, is around 30 per cent of China. India's economy is still domestically-driven and the share of the country's industrial sector is still relatively small. Therefore, India needs to significantly strengthen its manufacturing sector in order to become competitive as a global and regional export hub.

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