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*Insights from the Comparison of Economic Development
Patterns of India and China*

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INSIGHTS FROM THE COMPARISON OF ECONOMIC DEVELOPMENT PATTERNS OF INDIA AND CHINA

Ladies and Gentlemen, good morning:

I'm very glad to take this opportunity created by the International Monetary Fund to discuss with you the character of different development patterns of India and China, and the ways to sustain sound and rapid development for both countries in the future. Here I briefly offer some opinions on related issues for your reference.

Currently, both India and China are important developing countries in the world and both are among the fastest growing. Stepping into the new century, China has achieved an average growth rate of 10.5 percent from 2001 to 2010. According to the primary estimate, China's GDP grew 9.2 percent to 47.16 trillion yuan (about \$7.4 trillion USD) in 2011. At the same time, India also achieved fast growth in the past 10 years. Both countries have gained significant achievements in economic and social development. Meanwhile, as it is widely known, the two countries adopt distinct patterns of economic development. India takes a service-dominated

pattern, while China follows the more traditional production-dominated pattern. This distinction results in different industrial structures. It is said that India is the “world’s office”, while China is the “world’s factory”. The two patterns are adopted by the two countries according to their domestic conditions respectively; each has its advantages and shortcomings. In order to sustain sound and rapid development in the future, the two countries need to learn from each other.

1. The advantages of each pattern. The main character of China’s economic development is the predominance of the production sector, which entails phenomena such as focusing on labor-intensive industries, high domestic saving rate, large-scale infrastructure construction, constant increase of FDI and international trade. This development pattern keeps its eyes on both domestic demand and the foreign market. India’s development pattern is peculiar in its emphasis on consumption rather than investment, domestic demand rather than foreign market, service sector rather than production sector and high-tech industries rather than labor-intensive industries. The Indian economy excels in finance, software and high level research, and shows robust long term growth potential.

2. Shortcomings of each pattern. China’s increase of

economic aggregates to a certain extent relies on lavish consumption of natural resources and heavy pollution to the environment, which results in an unreasonable economic structure and a rough growth mode. Under this pattern, China is facing a tightening bound of resources and environment, over-consumption of energy and resources in an outpacing speed, increasing reliance on the foreign market, low ability to innovate and to transform technology into products, and various social-economic problems caused by the imbalance of rural-urban development and regional divergence. India has a fast growing software industry which owns a global status, but does not absorb a sufficient labor force. As a labor abundant country, India's capital/technology-intensive industries grow faster than labor-intensive industries, leaving many laborers unemployed. For a densely populated country, it would be very challenging to surpass the phase of industrialization and leap forward to the post-industrial phase directly.

3. The two countries should learn from each other's development pattern. China has learned a lot from India's experience. In order to achieve stable long term economic development, China's *Outline of the 12th 5-year Plan* has vowed to take scientific development as its motif and the transformation of the development pattern as its mainline, starting with adjusting the

economic structure. First, we'd insist on the strategy of expanding domestic demand. We will further promote consumer demand, which entails improving consumption supporting policies, enhancing income of both rural and urban residents, supporting new consumption areas such as tourism, culture, information and elderly care and vigorously expanding the rural and mid-west regional markets. We will improve the structure of investment, initiate key projects arranged in the 12th 5-year Plan, and implement the concrete measures to encourage private investment as soon as possible. Secondly, we'd emphasize the development of the service sector as an important measure to adjust economic structure, providing a favorable institutional environment for it. We will pay more attention to the development of productive service industries, create sound conditions and make a larger space for life service industries. Third, we'd enhance the ability of autonomous innovation, strengthen the construction of quality, trademark and standard, and form new comparative advantages in international competition. We will combine technological innovation and the development of burgeoning strategic industries, aiming at success in future competition in technology and industry. Fourthly, we'd take energy conserving and emission reduction as important measures to transform the development pattern and adjust economic structure.

We will further support the energy and environment conserving industries, encourage green and moderate consumption and promote the consumption mode favorable for resource and environment conserving, reducing the pressure on resource factors from the demand side. Fifth, we'd enhance balanced development among regions. We will encourage orderly inter-regional transfer of industries, in line with the various regional development plan and national region-function strategy, and promote the comparative advantages of different regions to enhance the level of industries and foster new offshoots of growth.

In conclusion, each development pattern has its own characters and creates huge cooperation potential for us in areas like infrastructure, information technology, FDI, construction contracts and banking. The two countries should deepen their communication and cooperation continuously, endeavor to make their advantages complementary and sustain sound and rapid economic development together.

Thank you!