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Column: COMMENTARY: The case for India as a global economic power

COMMENTARY

# The case for India as a global economic power

Tens of millions of Indians are still subsistence farmers who have yet to share in the gains of the past two decades.

China attracts all the attention but its rival may be better positioned for the long haul. **By Gary Shilling**

●Most of us still look at China, the world's second-largest economy, as the undisputed leader among major developing countries. In the long run, however, I'm betting on India to emerge as the more significant global economy.

Those who are dazzled by China often forget that much of the rapid growth before 2008 was caused by the shift of global manufacturing from Europe and the US, not by domestic-oriented activity. China's economy remains export-driven, with consumers accounting for only 38% of gross domestic product, far below the levels of many developing and developed countries.

Chinese leaders are working to shift toward a more domestically directed economy. They want households to spend more and save much less than the current rate of almost 30%. One of the reasons that savings play such a big role is the high value Confucian society puts on providing for one's family. The Chinese also save to pay for education for their children and to cover health care and retirement costs because there is no equivalent of Medicare and Social Security.

In 2010, the Chinese government promised basic health care for all by 2020. That's eight years from now, and basic care remains pretty basic. In some rural hospitals, a practical nurse is the most highly trained medical practitioner.

China has also increased minimum wages 20% to 30% in the last year to enhance consumer incomes and purchasing power. Yet higher pay, notably for factory workers producing goods for foreign companies, is driving low-skilled manufacturing jobs to cheaper venues such as Vietnam, Bangladesh and Pakistan.

Furthermore, Western companies are increasingly resisting the requirement that they transfer technical expertise to Chinese partners as the price of setting up production facilities in China. There is a widespread belief that much of the success of Chinese manufacturers is due to such voluntary technology transfers or outright theft of intellectual property.

China recently reduced its target for real GDP annual growth to 7.5% from 8%. That target is probably too high as China's one-child policy leads to a population decline, especially among new labour-force entrants. The number of 15- to 24-year-olds is already dropping and this group is projected to account for 150 million people in 2030, compared with 250 million in 1990. As a result, China's labour force between the ages of 15 and 65 is expected to peak in 2014.

China's ample labour has increased GDP growth by an estimated 1.8 percentage points annually since the 1970s, but the contraction will cut into growth by 0.7 percentage points by 2030. At the same time, better conditions in rural areas have reduced the availability of cheap labour in coastal cities.

By contrast, India has had no effective constraints on population growth. China still has the advantage — with 1.34 billion people compared with India's 1.24 billion — though not for too much longer. Furthermore, the age distribution of India's population is better because of China's one-child policy, which is now being reconsidered in view of its negative consequences for the country's long-term labour force and economic growth. This means that the dependency ratio, the proportion of children and senior citizens to working-age people, is expected to continue falling in India in coming decades and to increase in China.

**China's one-child policy will have negative long-term consequences for the labour force and economic growth. India has more even age distribution and a larger proportion of working-age people, though overpopulation is arguably a serious problem**

Younger people, of course, tend to be more geographically mobile, flexible in terms of occupation and creative. But these advantages only translate into greater productivity and economic growth if these workers have the right education and training as well as job opportunities.

Several centuries of British colonial rule left India with a vigorous democracy and a parliamentary form of government. As in the US, these kinds of institutions are very well adapted to running a large, religiously diverse country where the central government is constrained by increasingly powerful states and weak coalition governments. China, however, remains centrally controlled, with the Communist Mao Dynasty simply replacing the dynasties of old.

The British also left India with a railway system that enabled the relatively easy movement of people and goods in that vast country. By contrast, China doesn't grant resident status to farmers who move to urban areas in search of work.

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And, of course, the British gave India the English language — very useful in today's world and a unifying force in a country with hundreds of languages and dialects. India also inherited a legal system that is very different from the Communist Party-dominated courts in China, which feature show trials and foregone convictions, as demonstrated by the recent trial and conviction of Gu Kailai, the wife of the disgraced party leader Bo Xilai.

India is also home to a number of large, sophisticated companies, such as Tata Group, that can compete globally. China, meanwhile, is burdened with government-controlled banks and other hugely inefficient state-owned enterprises that still produce a significant share of GDP and employ a quarter of the workforce.

Indians have a natural bent toward technology, as was pointed out to me by the US ambassador to India when I visited him in his New Delhi office in 1986. The ability of India's many engineers and scientists to communicate in English is also a big help. Furthermore, the booming information-technology sector relies more on new technologies such as satellite transmission than it does on India's utilities and inadequate basic infrastructure.

US and European companies outsource many back-office and even legal and medical services to India. Outsourcing now yields about $69 billion in annual revenue, accounting for a quarter of Indian exports. The lower wages in India and English-language skills of call-centre employees offer big advantages to this industry.

Another asset for India, as well as China, is a rapidly growing middle class. PricewaterhouseCoopers estimates that 470 million Indians, or 38% of the population, had annual incomes of between $1,000 and $4,000 in 2010, enough to permit some discretionary spending. The number of consumers with such ready cash is expected to jump to 570 million in a decade, with about $1 trillion in income.


**Construction continues at a rapid pace in areas such as Guragon (above) to meet the needs of India's expanding urban population.**

The household-savings rate is high, almost 30%. Even so, 82% of Indian households had phones, usually mobile, in 2012. Of the 247 million Indian households, 77% owned televisions, and 42% had bicycles, motor scooters or motorcycles, though only 10% possessed a motor vehicle, according to the 2011 census of India. Furthermore, much of Indian household saving is invested in gold and the dowries of yet-to-be married daughters.

Another strong point is that the Reserve Bank of India is relatively independent of government influence, while the People's Bank of China is completely controlled by the state. During the recent regime change in China, the PBOC governor, Zhou Xiaochuan, was dropped from the list of 205 members of the Communist Party's Central Committee and is apparently being forced into retirement. Politicians, not central bankers, call the monetary shots in China.

India has a vigorous and opinionated free press, compared with China's state-controlled propaganda machine. Internet use in India is expanding, although it is still tiny compared with the US and even its BRIC cohorts: Brazil, Russia and China.

**A. Gary Shilling is president of A. Gary Shilling & Co. and author of 'The Age of Deleveraging: Investment Strategies for a Decade of Slow Growth and Deflation' The opinions expressed are his own.**