SWOT Analysis of Chinese Economy and Its Comparison with Indian Economy

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Abstract:
Since the formation of the PRC, an enormous effort was made towards creating economic growth and entire new industries were created. Tight control of budget and money supply reduced inflation by the end of 1950. Though most of it was done at the expense of suppressing the private sector of small to big businesses by the Three-anti/five-anti campaigns between 1951 to 1952. The campaigns were notorious for being anti-capitalist, and imposed charges that allowed the government to punish capitalists with severe fines. In the beginning of the Communist party's rule, the leaders of the party had agreed that for a nation such as China, which does not have any heavy industry and minimal secondary production, capitalism is to be utilized to help the building of the "New China" and finally merged into communism.

Keywords: *Analysis, Chinese economy, Comparison, Indian economy, SWOT analysis*

1. Introduction

The People's Republic of China (PRC) is the world's second largest economy by nominal GDP and by purchasing power parity after the United States. It is the world's fastest-growing major economy, with growth rates averaging 10% over the past 30 years. China is also the largest exporter and second largest importer of goods in the world. On a per capita income basis, China ranked 87th by nominal GDP and 92nd by GDP (PPP) in 2012, according to the International Monetary Fund (IMF). The provinces in the coastal regions of China tend to be more industrialized, while regions in the hinterland are less developed. As China's economic importance has grown, so has attention to the structure and health of the economy. As the Chinese economy is internationalized, so does the standardized economic forecast officially launched in China by Purchasing Managers Index in 2005 By 1949, continuous foreign invasions, frequent revolutions and restorations, and civil wars had left the country with a fragile economy with little infrastructure. As Communist ascendancy seemed inevitable, almost all hard and foreign currency in China country were transported to Taiwan in 1948, making the war-time inflation even worse.

2. Literature Review

Douglas Zhihua Zeng and Shuilin Wang in their research paper **"China and the Knowledge Economy: Challenges and Opportunities" found that** the rapid pace of economic growth in China has been unprecedented since the start of economic reforms in late 1970s. It has delivered higher incomes and made the largest single contribution to global poverty reduction. Measured by international poverty lines, from 1978-2004, the absolute poor population in rural areas has dropped from 250million to 26.1 million. Such gains are very impressive and have been driven largely by a set of market-oriented institutional reforms, strong investment, and effective adoption and application of various knowledge and technologies, especially foreign ones through trade and foreign direct investment (FDI). While enjoying tremendous success, China also faces many challenges that have to be addressed in order to sustain its long-term development. These include weak institutions, low overall educational attainment, weak indigenous innovation capacity, poor linkages between research and development (R&D) and industries, etc.

Bonnie Handy and Chris Lim in their paper **"A Country Analysis of China"** mentions that China with its recent transition efforts offers an optimum environment for Staples to expand. There is a huge labor pool supplied by the world's largest population. There is a high-level of capital input energized by sufficient household savings and foreign direct investment. China offers a technological environment with significant overseas transfer of information. In addition, significant structural and legal reform efforts are well under way and although the future is unknown, overwhelmingly a positive future is predicted for China if it can successfully balance the Golden Straightjacket with its cultural roots. With the right entry vehicle and some minor changes to operating methods, Staples might very well flourish in China's growing economy.

Vanja Erjavec, Timotej Homar, Marko Juvan and Darja Leskovec in their paper **"The case of china and India"** has compared the economies of both the Countries on several parameters. They write that the sudden economic changes have derailed the world. China and India, the two emerging Asian giants, however, both found themselves largely immune to the contamination afflicting the western world. They even believed that the two countries might provide the engine that could pull the world out of the recession. They classified both the economies on the grounds of Resource and Technologies, Institutions, Political and Ideological Systems etc. However in their comparison on several macroeconomic factors like GDP, GDP growth rate, Per capita income, Literacy rate, FDI, currency value etc. they found China to be standing far ahead of India.

Eswar Prasad in his paper **"China's Growth and Integration into World Economy: Prospects and Challenges"** provides an overview of analytical work done by IMF staff as background for the 2002 and 2003 Article IV Consultations with the People's Republic of China. He talks that the labor market has become more market oriented over the past twenty years, and the main challenge now is to create quality jobs for the new entrants to the labor force as well as absorb the sizable labor surplus in the SOE and rural sectors. To address the labor market pressures, government policies have begun to focus on encouraging job growth in the private sector (especially in the service sector), which has been the main source of job growth in recent years. Indeed, the third plenum of the sixteenth Congress of the Communist Party in late 2003 stressed the need to support private sector development to create employment. Removing the numerous hurdles to growth that are still faced by private firmsis therefore a crucial priority for fostering job creation.

3. Objectives of Research

The objectives of this study are to find out the possible answers the following questions:

1. To understand the forces behind China being one of the largest and fastest growing economies.
2. To find out the problems coming in the way of Chinese economy this hinders its inclusive development.
3. To analyze the future scope of its growth and development in the light of opportunities and challenges faced by the Economic giant.

4. Research Methodology

4.1 Type of Research

The research being carried out in this study is descriptive in nature. The researcher has used the secondary data for this purpose. The data have been collected from the official websites of World Bank, UNCTAD, World Investment Report, United Nations and Reserve Bank of India. We have used line diagram and bar charts and histograms to fulfill our objectives. A time series analysis has been taken.

4.2 Period of the Study

For the purpose of the study, 35 years period starting from the financial 1978 to 2012 has been considered.

5. SWOT Analysis of Chinese Economy

5.1 A comparison of Science and Technology talents

	China	India	USA	Japan	Germany	Russia
Science & Engineering Enrolment Ratio (% of tertiary students)	43	20	19	20	29	50
Researchers in R&D	810,525	117,528	1,943,000	646,547	267,000	487,400
Researchers in R&D / Mil. Pop	633	119.7	4,525.8	5,084.9	3222.2	3414.6
Total Expenditure for R&D as %of GDP	1.23	0.85	2.67	3.11	2.64	1.34
Scientific and Technical JournalArticles	20,978	11,076	200,870	57,420	43,623	15,846
Scientific and Technical JournalArticles / Mil. Pop.	16.5	10.7	704.0	451.6	529.8	109.5

5.2 Interpretation

China is second Research and development where as Russia comes first.

5.3 Comparison of Chinese and Indian Economy

5.3.1 Introduction

The sudden economic changes have derailed the world. China and India, the two emerging Asian giants, however, both found themselves largely immune to the contamination afflicting the western world. Some even believed that they might provide the engine that could pull the world out of the recession. When the financial crisis began compromising the real sector and, consequently, China and India's export dependant markets, many started to fear the reverse. The global downturn could drag them through a vicious circle of massive unemployment and poverty. Pessimism, however, may be exaggerated. Their economic potential still exists, since they remain the world's most dynamic markets and have managed to retain higher growth than the G8 countries. The aim of this comparison has been to identify the characteristics of the Chinese and Indian model of capitalism. The researcher has evaluated their strengths, weaknesses, opportunities, and threats from the perspective of how effectively they are able to cope with the current economic crisis. The evolutions of the crisis in both countries and the measures they have taken to preserve growth have been analyzed. Finally, we have designated and compared various forecasts for their growth over future years.

5.4 The Comparison of economies on different grounds with reference to some specific Parameters

5.4.1 Resource and technology

	China	India
Level of economic development	Transitional: from command economy to market economy GDP per capita (PPP): $6,076 Agriculture: 10.6% Manufacturing: 49.2% Services: 40.2%	Traditional-Transitional: from traditional economy ruled by casts to market economy GDP per capita (PPP): $1,492 Agriculture: 17.2% Manufacturing: 29.1,Services: 53.7%
Resource Base	Natural resources: coal, iron ore, petroleum, natural gas, mercury, tin, tungsten, antimony, manganese, molybdenum, vanadium,magnetite, aluminum, lead, zinc,uranium, hydropower potential(world's largest) Arable land: 14.86%Permanent crops: 1.27%,Other: 83.87% Labour: mostly unskilled and	Natural resources: coal (fourth-largestreserves in the world), iron ore,manganese, mica, bauxite, titaniumore, chromite, natural gas, diamonds,petroleum,limestone,arable landArable land: 48.83% Permanent crops: 2.8% Other: 48.37%

5.4.2 Political and Ideological System

China	India
Gini coefficient: 36.8 % Low social safety net and low income Redistribution	Democracy with bicameral parliament Hinduism, Islam, Buddhism, Caste System

5.4.3 Comparative SWOT Analysis of Indian and Chinese Economy

	China	India
Strength	• Low inflation • Low budget deficit • Measures accepted by CPC are effectively exercised	Democracy • Low effective corporate taxes • Strong service sector
Weakness	• Limited democracy • Exploitation of work force • Underdeveloped financial Markets	• High budget deficit • Ineffective tax collection • Bureaucracy • Traditions and religions constrain economic development
Opportunity	• Use of foreign exchange reserves to secure more voting power in IMF, invest abroad, acquire resources, knowledge and technology	• Growing IT sector • Aging population in developed countries and increased demand for products targeting old people
Threat	• Potential loss of value of foreign exchange reserves if dollar Depreciates. • Pressure to revalue Yuan • Global agreement on green house gas reduction - increasing costs	• Excessive budget deficits over 10% of GDP • Increase in inflation (caused by budget and food prices) • Terrorism and conflicts with Pakistan

5.5 Classification of economies

China and India are, from the perspective of comparative economics, emerging economies. They are both adopting elements of market economies. However, some of the characteristics from their past (the decisive role of the state in China and the caste system in India) are so embedded in their systems that they will remain a part of their models of capitalism in the future.

5.6 Comparison between India and China with respect to some other parameters

Parameters	India	China
Growth rate	6.2%	9.3%
Size of economy	2 trillion	RMB 4 trillion
Inflation	5.96%	2.40%
Forex reserve	295200 million$	3312000 million$
Saving rate	30% of GDP	<50%
Investment rate	30% of GDP	<40% of GDP
Tax	9.48% of GDP	10.54% of GDP
Trade openness	40%	60%
CAD of GDP	5.4%	+2.3%
Fiscal deficit	4.8%	2% of GDP
External debt	20%(376 billion$)	8.7%(770.83 billion$)

5.6.1 Interpretations

The GDP growth rate of China is almost 3% more than that in India. The size of the economy is much larger than that of India. Growth will definitely involve inflation but China has been successful in checking inflation which is currently only approx 2.4%. Where as inflation in India is around 6% which is higher than China but India who faced double digit inflation has been readily successful in controlling it as well. Again India has forex reserves but lesser than China implying China is globally a stronger economy. The savings rate being 20% higher than that of India makes China a comparatively secure economy. Capital formation viz investment is much higher in India than that of China which signifies India is on the path of more growth and development. The tax collection in China forms a greater percentage of their GDP than in India which shows govt. revenue being higher but people pay more taxes. China is more trade oriented than India. CAD in India is much higher than in China. This is of course a loud cry for advent of FDI in India. Even Fiscal deficit in India is more by 2% than in China indicating the government expenditure being much more than revenue in India than in China. Last but not the least the ore positive point is External debt of China is more than that of India.This is definitely positive for India.

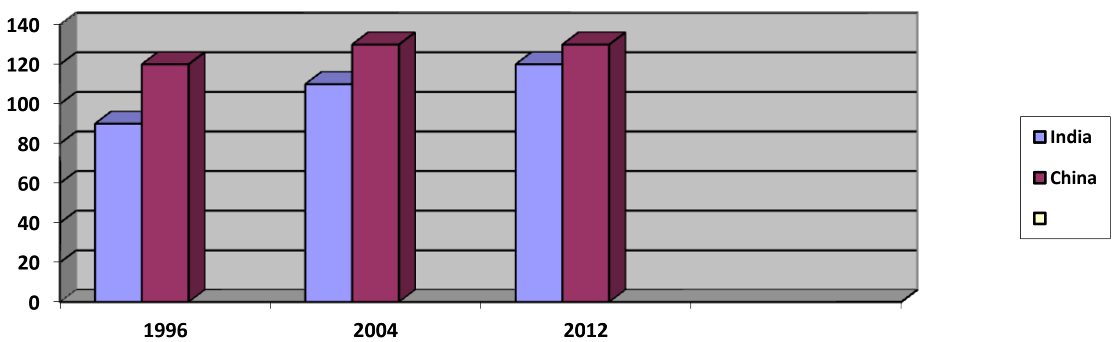

Fig. 1 Population of India and China (in crores)

While China remains the most populous nation, India is expected to catch it soon.

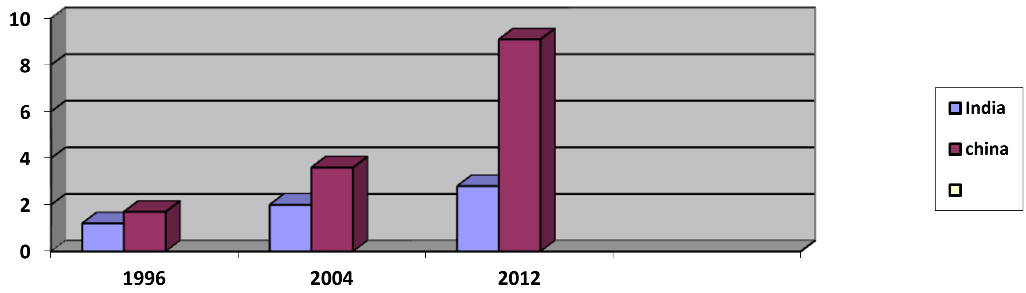

Fig. 2 GDP per capita (in $ 1,000) of India and china

The gap in per capita income has widened even more in the last 16 years.

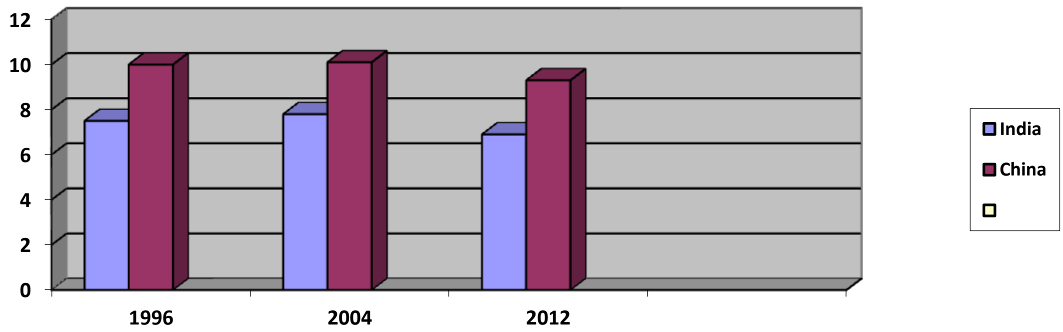

Fig. 3 GDP growth rate (in percentage)

The reason for these widening differentials is that China's economy has consistently grown faster.

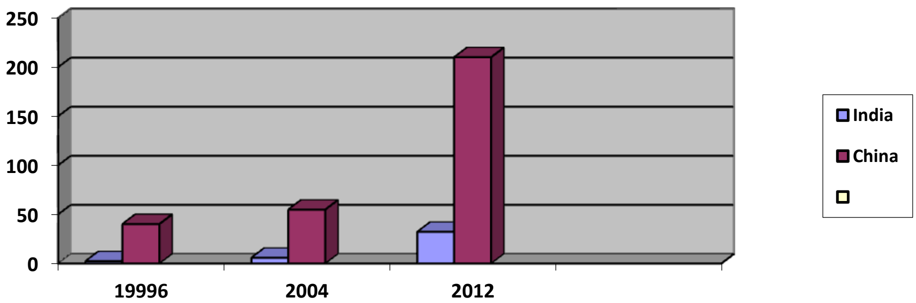

Fig. 4 FDI (in $ billion) of India and China

FDI fig. in India today is even much lower than the China's fig. in 2004

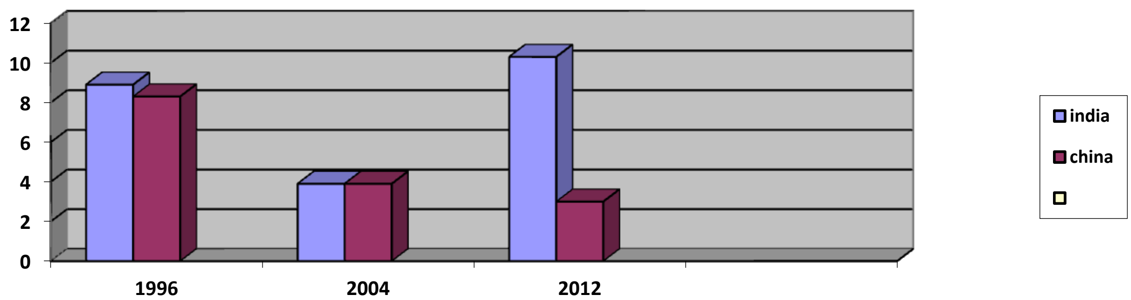

Fig. 5 Inflation (consumer price) in percentage in India and China

China has been much more successful than India in keeping inflation in check though in China than in India in 2012.

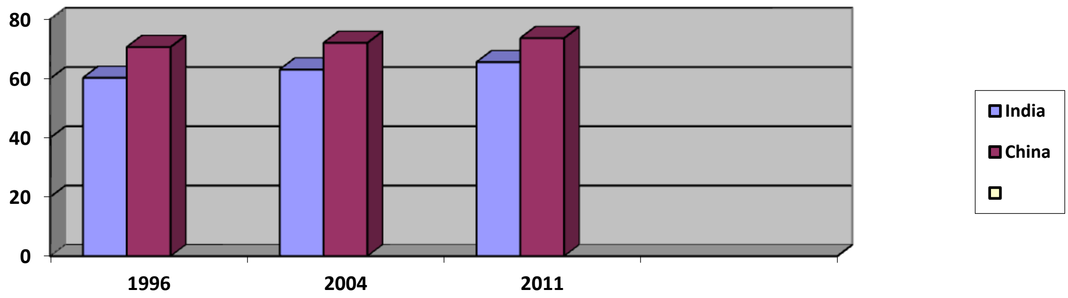

Fig. 6 Life expectancy (in years) in India and China

On an average, Chinese live 8 years longer than the Indians.

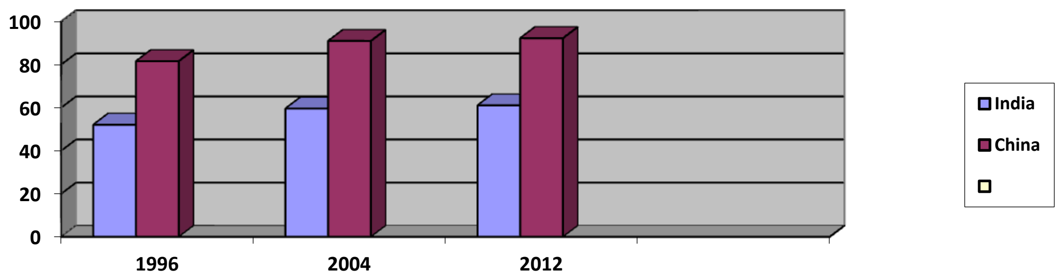

Fig. 7 Literacy percentage in India and China

China is nearing total literacy; we are close to only one third.

6. Conclusion

The economies of China and India are emerging and aspiring to gain greater roles in the global economy. Their models of capitalism are different from the rest of the world. They are characterized by enormous inexpensive labor forces, extremely high savings rates, underdeveloped financial markets, and growth driven by investment expenditures and exports. Growth is aimed at the creation of new jobs as their labor forces are expanding. They adopted some elements of market economy – integration into global trade and openness to the inflow of foreign investment during the last decade, China has been more radical in its approach to export-based growth than India. This, combined with China's population control, has resulted in a lower poverty rate and GDP per capita twice as high as in India. Crisis hit both countries through the outflow of foreign funds, falling exports, and diminished global trust. China was affected more than India since its share of export in GDP is higher than that of India. When crisis spread to the real sector, both countries resorted to the implementation of stimulus packages and monetary expansion. China's stimulus package, amounting to 15 percent of GDP, was intended to be spent over two years and mainly on infrastructure. Roughly one-third was to be fiscal spending and the rest in the form of loans by state-owned banks. India's stimulus package of 4.8% of GDP consisted of infrastructure spending, export incentives, and farm loan waivers. In the second quarter of 2009, the results of the anti-crisis measures began to appear. Year-over-year GDP growth was 7.9% in China and 4.8% in India. In comparison to developed economies, their results are impressive, though growth is still well below their pre-crisis levels. Our histogram analysis on the basis of different of parameters show different analytical features.Though India is lagging behing in education forex rate, life expectancy etc but India is catching up very soon.The FDI policy reforms have taken place in China before India but the recent policy reforms in India will soon make her the fastest growing economy in the world and much stronger globally.Apart from the drawbacks china has much larger population than India with lesser youth population than India as well.

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