IS INDIA THE NEXT CHINA?

India's population according to the United Nations has overtaken that of China. The more intriguing question is whether China can close the economic gap with China now that the Western Imperialism is seeking to restructure the world economy away from China. Will it become the 3rd biggest economy?

Demographics plays a large role in this determination. Much has been written about China's demographic crisis. The ratio of its ageing population to younger population induced by the one child policy but now aggravated by families constrained by finances, is seen as a negative. This view is not granular. As I pointed out in an earlier article on China, urban youth unemployment is around 20% indicating the problem is not so much demographic but economic and cultural.

In any case the quantity of lives has to be set against the quality of life when comparing these two countries.

"While India's economy has been growing at impressive rate, the country still has the **highest number of stunted children in the world,** *(40.6 million children) representing one-third of the global total of stunted children under the age of five. (Source: NFHS3 2005-06, CNNS 2016-18)." "It is irreversible by the age of two."* (2018 UNICEF Study) (my emphasis) Another study in 2018 published in PubMed found the incidence to be higher in the same year. "*Stunting prevalence is high (38.4%) and varies considerably across districts (range: 12.4% to 65.1%), with 239 of the 640 districts have stunting levels above 40% and 202 have prevalence of 30-40%. High-stunting districts are heavily clustered in the north and centre of the country."* As expected lower castes suffer the highest ratios of stunting.

Now mark, this is not only a lifelong debilitating condition associated with both learning difficulties and physical debilities such as diabetes, but tragically its effect can linger on for three generations and here. Given earlier prevalence's in India which were higher, and despite the significant progress being made recently in reducing stunting but not childhood wasting, the total cohort living with stunting including adults, is likely to be in the region of 400 million.

In China the incidence of stunting is currently no higher than in Europe as a whole. In fact, China has a bigger problem with obesity than it does with stunting. Stunting not only represents a direct burden on society butindirectly it also weighs on productivity. This makes India inherently less competitive than China and to reach Chinese levels of stunting will take a further twenty years. From the viewpoint of communism, the medical legacy of poverty, in this case stunting, will be one of the biggest challenges faced by the new society.

Innovation.

The 2022 scorecard for innovation continued to favour China. China was ranked 11th at 55.3 while India was ranked 40th with a lower score of 36.6. Looking more closely at the indexes China scores higher on every measure. We note that whereas China is 8th in R&D India is only 26th. (Table 1 below)

Table 1.

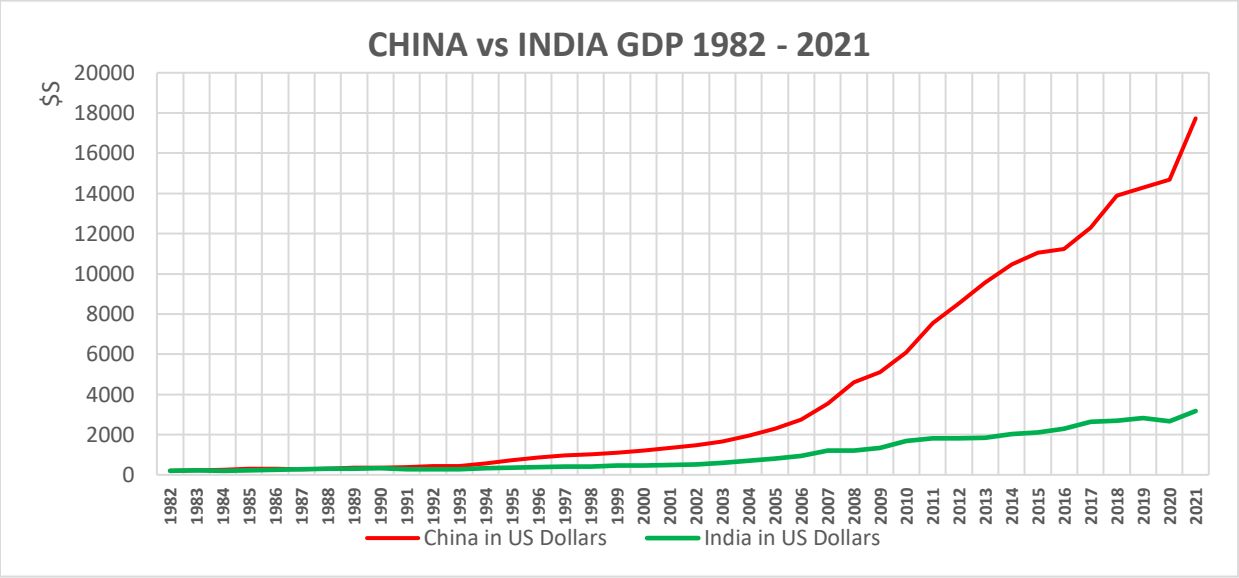
	China			India		
Research and development (R&D)	8	70.6	◆	26	40.6	◆
Researchers, FTE/mn pop.	48	18.1		82	2.7	○
Gross expenditure on R&D, % GDP	13	44.1	◆	53	11.9	◆
Global corporate R&D investors, top 3, mn US$	3	93.8	● ◆	16	68.5	● ◆
QS university ranking, top 3	3	86.8	● ◆	24	46.0	◆

In terms of infrastructure China is 25th with a score 57.5 while India is 78th with a score of 40.7. (I would query this relatively low score for China.) In terms of schooling the two countries are closer together. But in terms of the output of education under the heading of "knowledge workers" the gap is stark; China is first in the world, but China is only 80th. In terms of the ranking of its universities, China is 3rd while India is only 24th. Looking to the future, in terms of R&D expenditure China is 13th while India is 53rd. In terms of investment China is 3rd while India is 25th (still higher than all the G7 economies). Finally in terms of citable publications China is 39th while India is 78th.

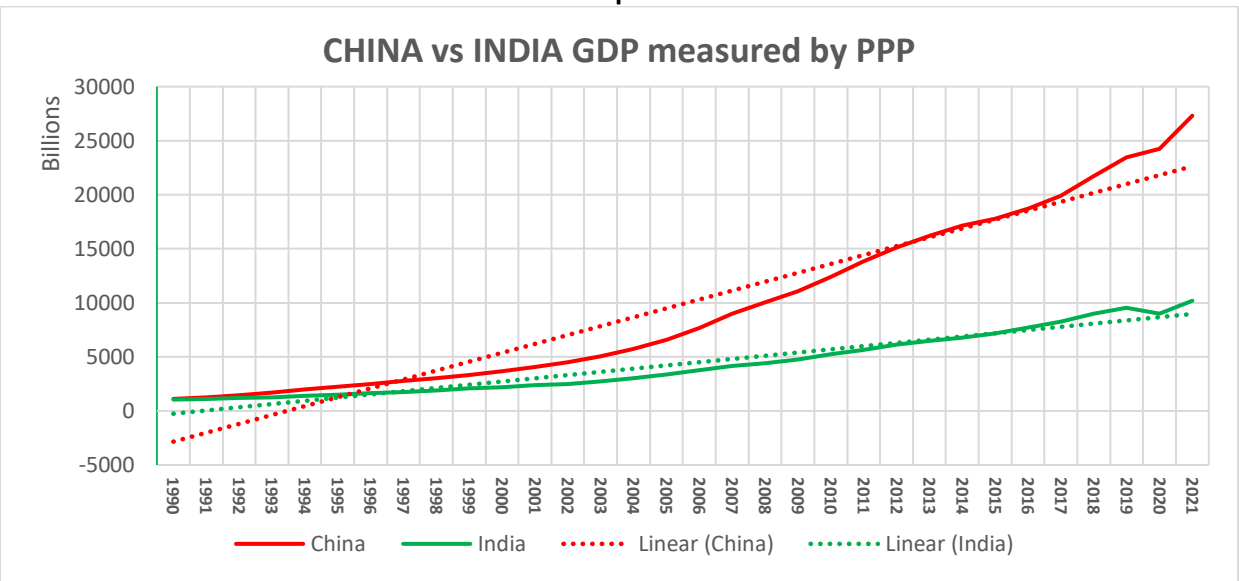
In terms of GDP.

All data is from the OECD here and here.

Graph 1.



Graph 2.

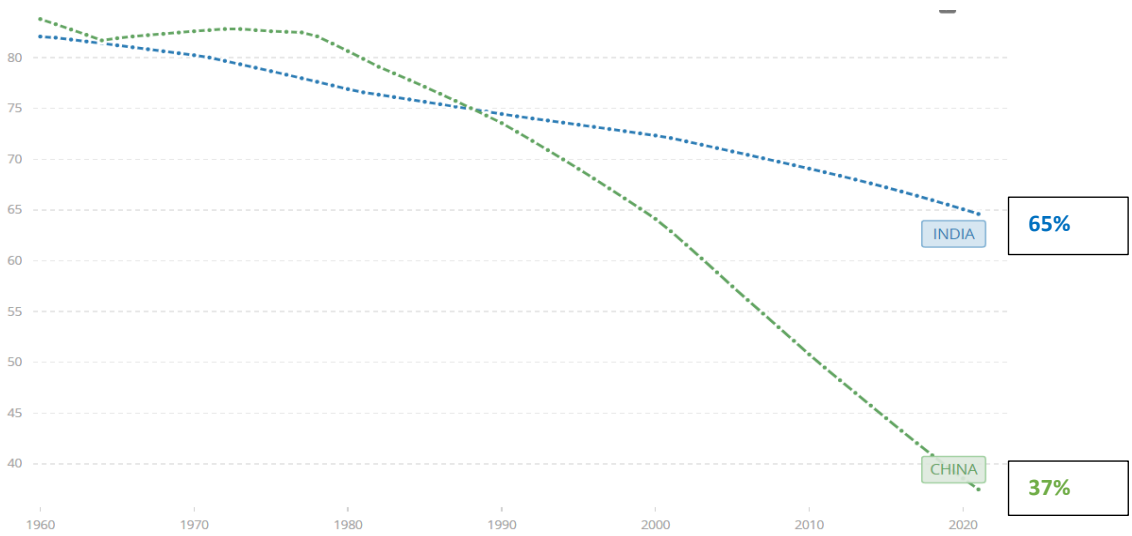


I have provided two ways of measuring the size of their respective economies. It is likely the use of Purchasing Power Parity (PPP) measures rather than Dollars, provides a more realistic comparison given the unique structure of each economy. As a result, whereas the Chinese economy is 5.6 times larger in terms of Dollars, this reduces to 2.68 times larger when measured by PPP because the Chinese difference between PPP and Dollars is only 54%, whereas in India's the difference is 320%. This shows inter-alia that the Chinese economy is much more developed and urbanised, than is the Indian economy. According to the IMF projections compiled in April 2023, by 2027 when measured by PPP China's economy will still be 2.36 bigger. In other words at current growth rates it will take another 10 years before India's economy is even half the size of China's.

Productivity.

In assessing the productivity of the economy it is useful to start with the ratio of rural to urban dwellers. The primary reason being that most of the productive industries and services are located in urban areas. Thus while India has the world's largest population only one-third is urban compared to nearly two thirds for China. In numbers, that is 488 million in India (2021) and 898 million in China, a difference of 84%.

Graph 3 (% rural population share of total population)



In terms of paid employees to population ratios (rates of employment) the International Labour Organisation estimate for China is 63.6% compared to 45.9% for India (the world average of 56.4%). None of the G7 sits above China. Only Italy of the G7 sits below India, the remainders sit above it.

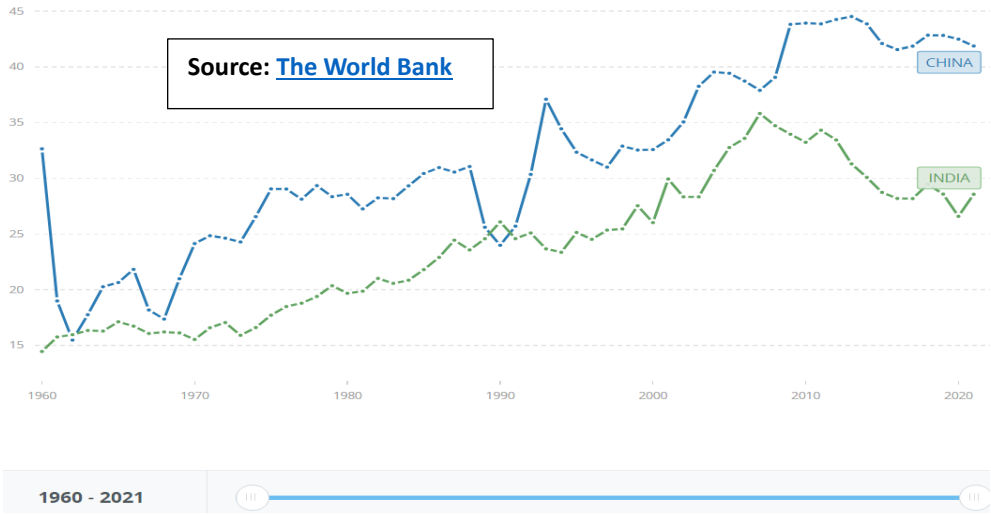
In terms of productivity itself, the growth rates are similar over the last ten years despite the larger rural population in India. All data used for the graphs can be found on this site: CEICDATA. Set against the disgraceful and meagre improvement in G7 productivity, both countries have improved productivity three times faster.

Graph 4.

Graph 5.

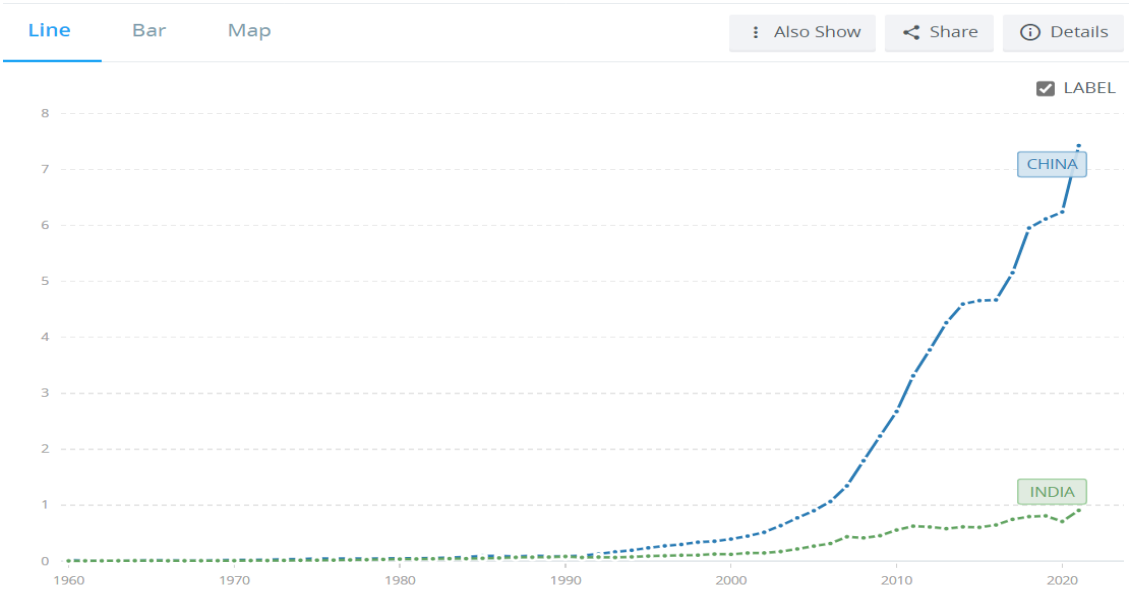
It seems that India is achieving commensurate improvements in productivity but with lower levels of investment. The data on gross fixed investment taken from The World Bank can be found below. We should bear in mind that more of Chinese investment has gone into property and infrastructure than in India, but nevertheless there is the appearance that investment is more efficient in India when measured against productivity growth.

Graph 6. (Fixed investment share of GDP)



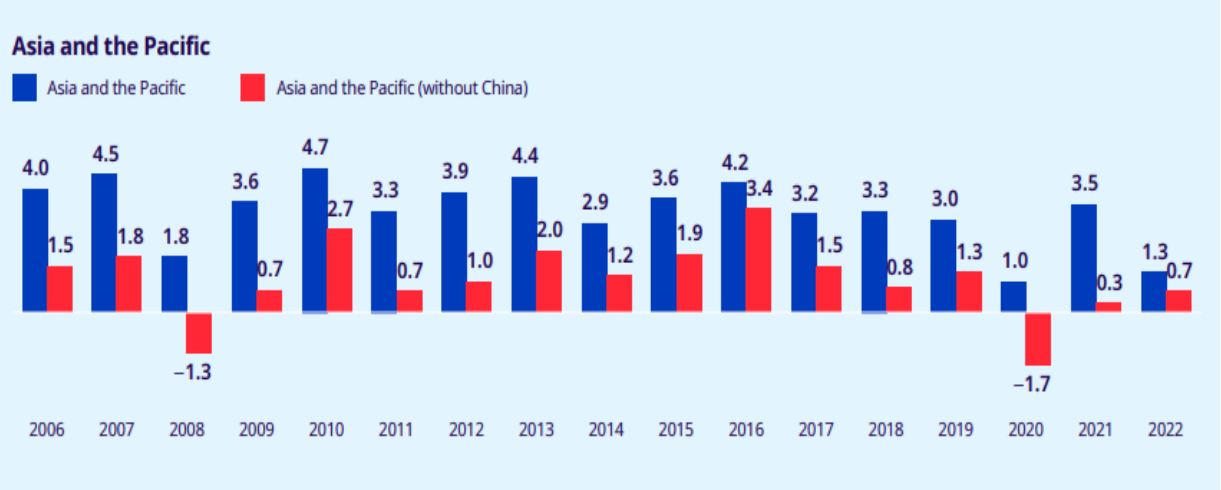
Of course, because China's economy is much larger in dollar terms than is India's, China's relatively faster rate of accumulation results in a much larger absolute value of investment. As graph 7 below shows, when measured in current dollars, for every 1 dollar of fixed investment in India, China is investing 8 dollars. In addition, China's accumulation is out-accelerating that of India, and unless China slows down or stumbles, or is brought to its knees, there is little likelihood that India's stock of capital will catch up.

Graph 7. (Billions of Dollars)



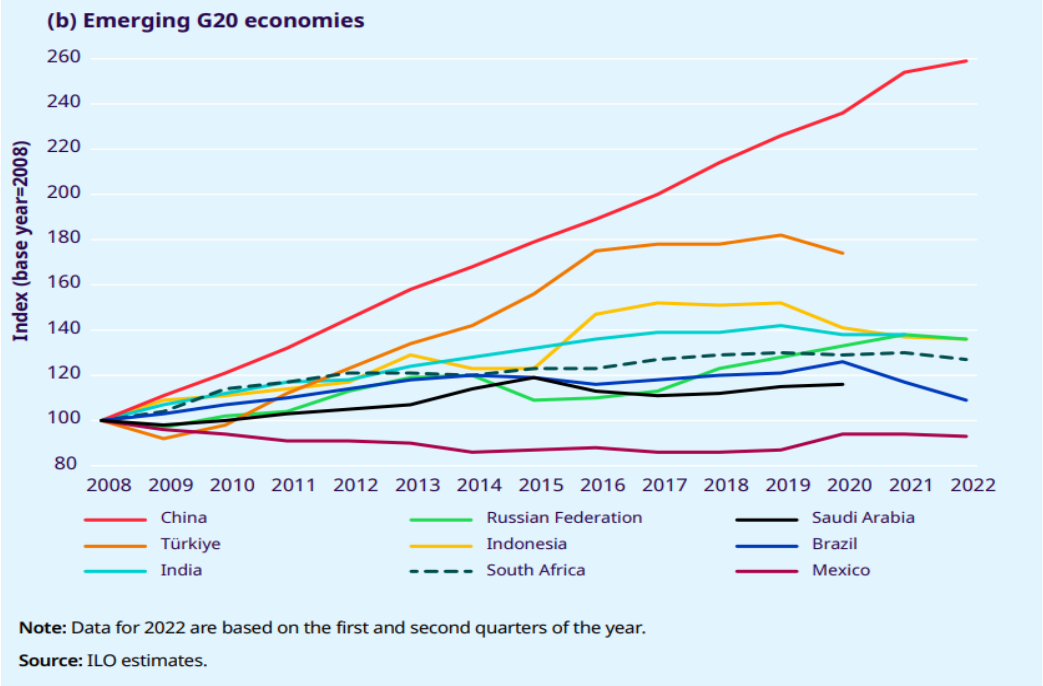
Higher rates of productivity growth create the potential for employers to ratchet up the relative rate or degree of exploitation. The limit to this increase is imposed by the rise in wages. Regionally, Chinese wages have risen the fastest. Indeed, as the ILO points out, the order of magnitude of the increase in Chinese wages was sufficient to lift global wages.

Graph 7.



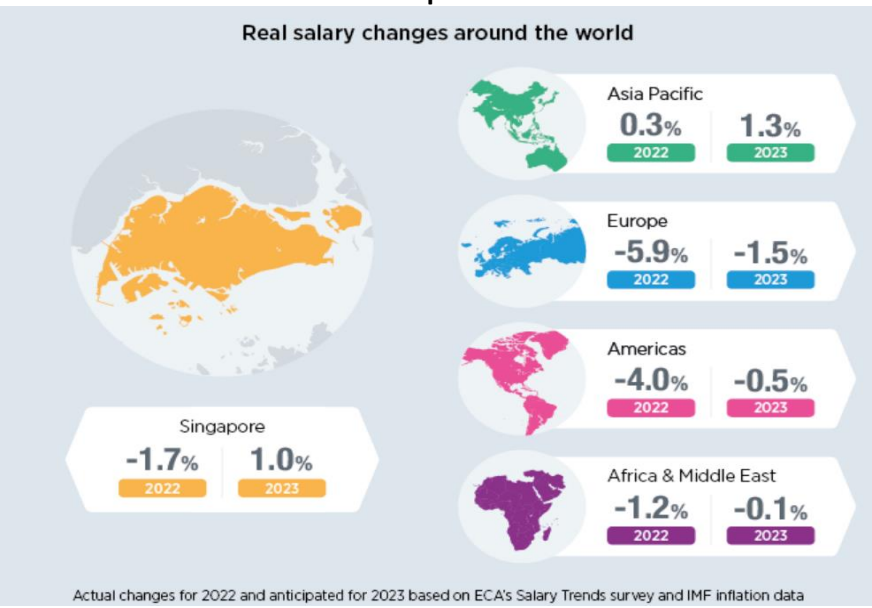
Over time, as shown in the graph below also taken from the International Labour Organisation's *Global Wage Report 2022–23*, Chinese wages have outpaced Indian wages. Also of note is that real wages in India have stagnated since 2018. This has helped offset the falling rate of profit (see Graph 15).

Graph 8.



Finally, before proceeding to look at current comparative wages between the two countries it is worth looking at how wage growth compares globally. So where does this leave comparative wages currently? These are set out in the following graph taken from ECA International. This graph makes clear that it is workers in the dominant economies of Europe and North America who have been hammered the hardest. Payback for all that Covid support, most of which in any case ended up in the pockets of the larger corporations via profit gouging.

Graph 9.



Having side-tracked, it is now time to view how the more rapid rise in Chinese wages has lifted current wages in China above that of India. The following four graphs are sourced from this link: Asia Briefing. They provide comparisons in dollars for average wages, semi-skilled wages, skilled wages/salaries, and finally for those with Higher Degrees and ten years experience. (PPI would reduce the gap.)

Table 2(a).

Hourly net pay

Hourly Net Pay	
City	Hourly Net Pay (US$)
New York	25.2
Shanghai	5.4
Beijing	4.5
Mumbai	2.3
Delhi	2.1

Table 2(b).

Gross annual income of car mechanics

Gross Annual Income of Car Mechanics		
City	Annual Income (US$)	Weekly Working Hours
New York	50,000	43
Shanghai	9,300	40
Beijing	8,500	40
Mumbai	2,100	70
Delhi	1,900	51

Table 2(c).

Gross annual income of skilled workers

Gross Annual Income of Skilled Workers	
City	Annual Income (US$)
New York	79,100
Shanghai	9,200
Beijing	6,200
Delhi	4,800
Mumbai	3,100

Table 2(d).

Gross annual income and working hours of engineers

Gross Annual Income and Working Hours of Engineers		
City	Annual Income (US$)	Weekly Working Hours
New York	107,400	46
Shanghai	15,800	40
Mumbai	15,400	40
Beijing	10,700	40
Delhi	9,600	46

We note that average pay in India is around 40% compared to China. It is widest for semi-skilled workers. Then it reduces as skill levels rise. Finally, at the level of engineer, the gap has closed. This is understandable, because while less skilled workers wages are set locally, that of the more mobile professionals, is set regionally. In all cases wages and salaries in New York are between 5 and 6 times higher than China and up to 20 times higher than in India.

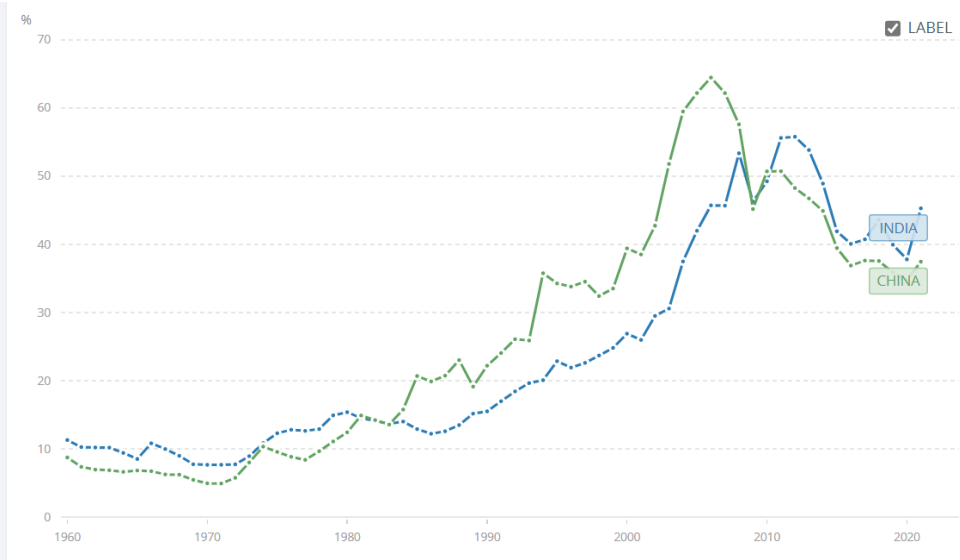
Thus we may conclude that wage rates are far lower in India than in China and as we move towards the less skilled levels, particularly those vast assembly lines Foxconn exploits, the gap will be even wider. Accordingly, as the world economy contracts challenging cost prices, the multi-nationals will find India to be more competitive on wage rates.

However, for India to become the world's workshop alongside China, requires more than low wages. It requires an indu-sphere, that is an industrial infrastructure providing accessible inputs as well as a deep pool of talented and experienced industrial workers. It took China close to two decades to accumulate this sphere, and it did so under much more benign conditions, namely an expanding world market which reduced the investment threshold, or what is the same thing, conditions where market prices were being set by the less competitive producers. Today the opposite is the case. Markets globally are tightening, raising the investment threshold because market prices are now being set by the more efficient and competitive producers, mainly in China. Thus while producer prices fell in the youth of globalisation, they did so because of a fall in average costs of production as production shifted to China, but now they are falling because they are being compressed on the other side, by falling demand.

One of the reasons that China was able to afford to build this indu-sphere, what can be called its upstream-downstream model, was because it focused on export driven industry. It was able to generate a trade surplus, then harvest and centralise the resulting foreign currency, then use it to capitalise its state led upstream industries (infrastructure) as well as to afford additional training and research. That luxury is not open to India.

Despite both economies being deeply integrated into the international division of labour, as evidenced by the proportion of their production that takes the form of foreign trade, the structure of this trade is different between these two countries. In both countries foreign trade as a share of GDP has doubled since the 1990s to reach 40% and above today (Graph 10 below).

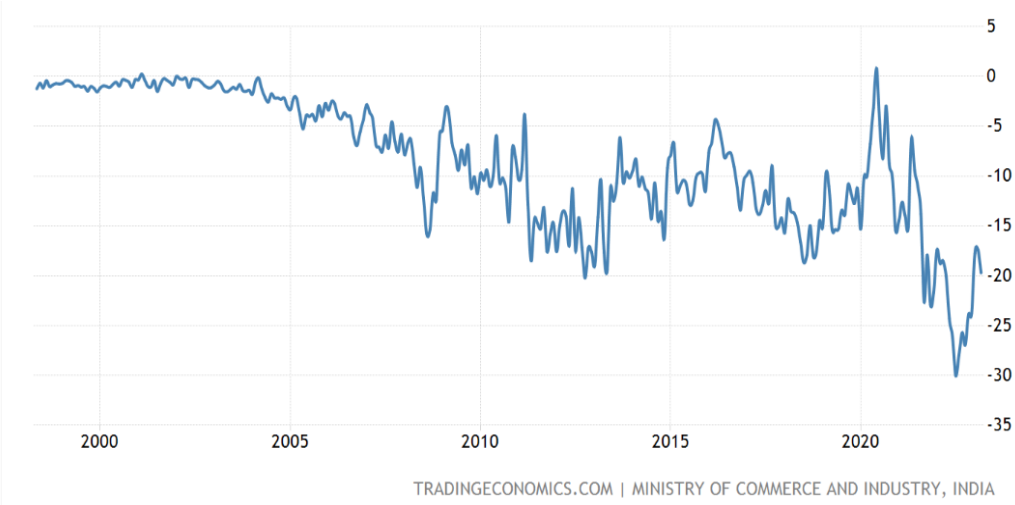
Graph 10.



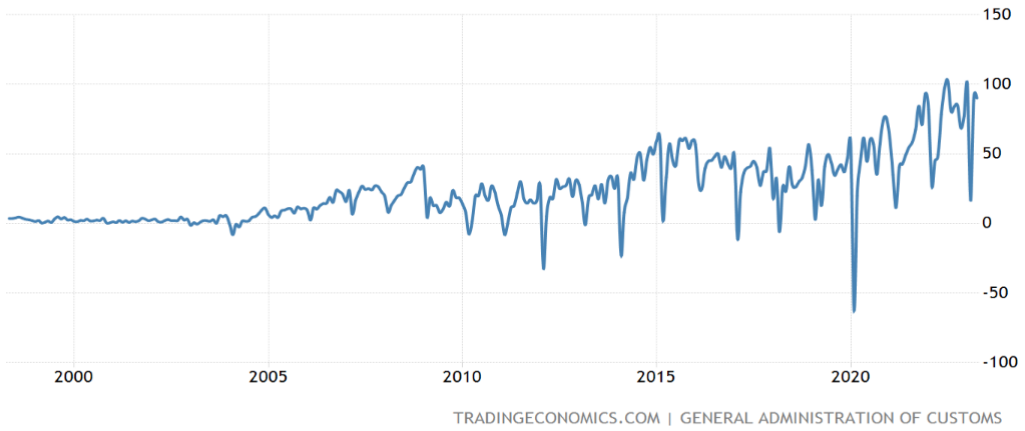
(Source: Worldbank)

But whereas the Indian Trade Balance was negative, the Chinese Trade Balance was positive.

Graph 11.



Graph 12.

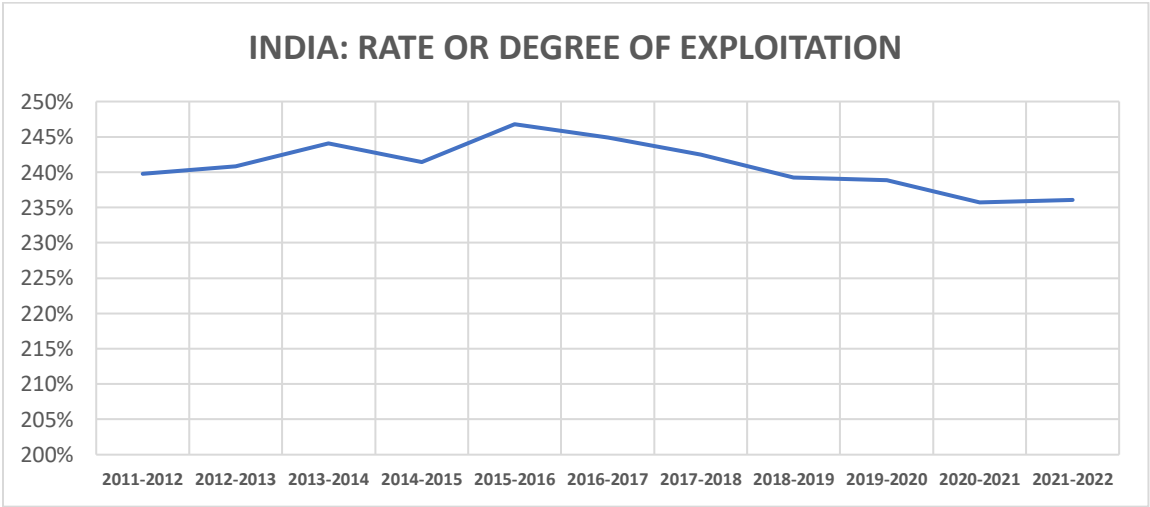


Thus whereas China registered a whopping $877 billion trade surplus for the calendar year 2022 equal to 4.9% of its GDP, India registered a deficit of $190 billion equal to 1.2% of its GDP. This makes India much more dependent on Foreign Direct Investment (FDI). In fact FDI is increasing faster in India than elsewhere including China. *"India gets the highest annual FDI inflow of USD 83.57 billion in FY21-22 India rapidly emerges as a preferred investment destination; FDI inflows have increased 20-fold in last 20 years. Equity inflow in Manufacturing Sectors have increased by 76% in FY 2021-22 (USD 21.34 billion) compared to previous FY 2020-21 (USD 12.09 billion)."* This was well behind China at USD 189.1 billion. But India's current FDI growth rate is double that of China's which means that India will overtake Chinese inflows within three years on current trends, despite having an economy that is between 20% and 40% the size of China's depending on the way it is measured.

The rate or degree of exploitation.

The Indian Ministry of Statistics and Programme Implementation provides the statistics needed to compile the various rates. The first is the degree of exploitation for non-financial and non-governmental sectors. This series includes agriculture given its importance to the economy.

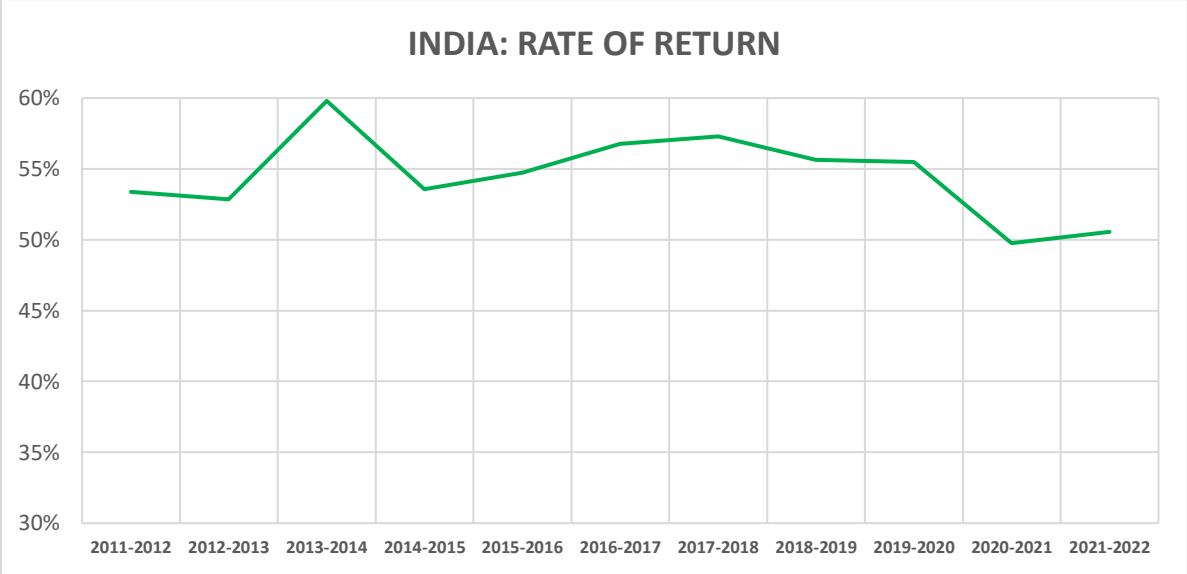
Graph 13.



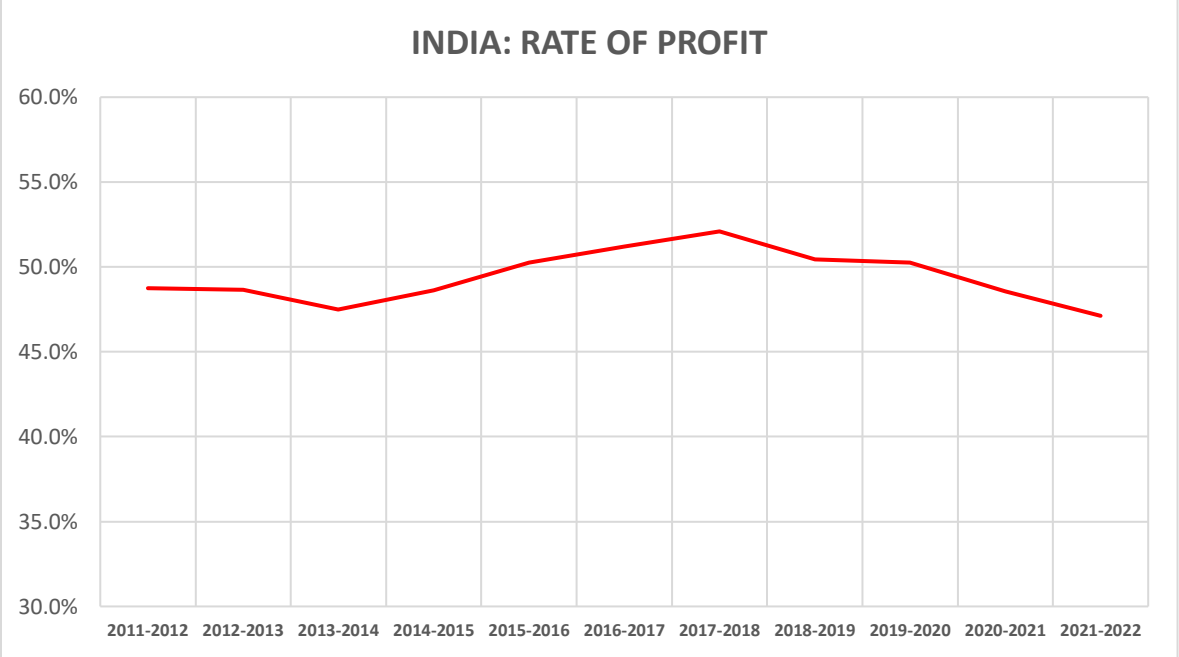
There are two points to note. The rate or degree of exploitation based on the operating surplus divided by employee compensation yields a very high international rate of exploitation, which is at least double that found in the G7. In addition, that rate of exploitation over the last ten years has been remarkably stable varying by less than 5%.

This high degree of exploitation makes for a high rate of return and rate of profit. The rate of return is based on the operating surplus divided by fixed assets plus inventory. All data and calculations can be found in the accompanying spreadsheet: '*India worksheet 1'*.

Graph 14



Graph 15.

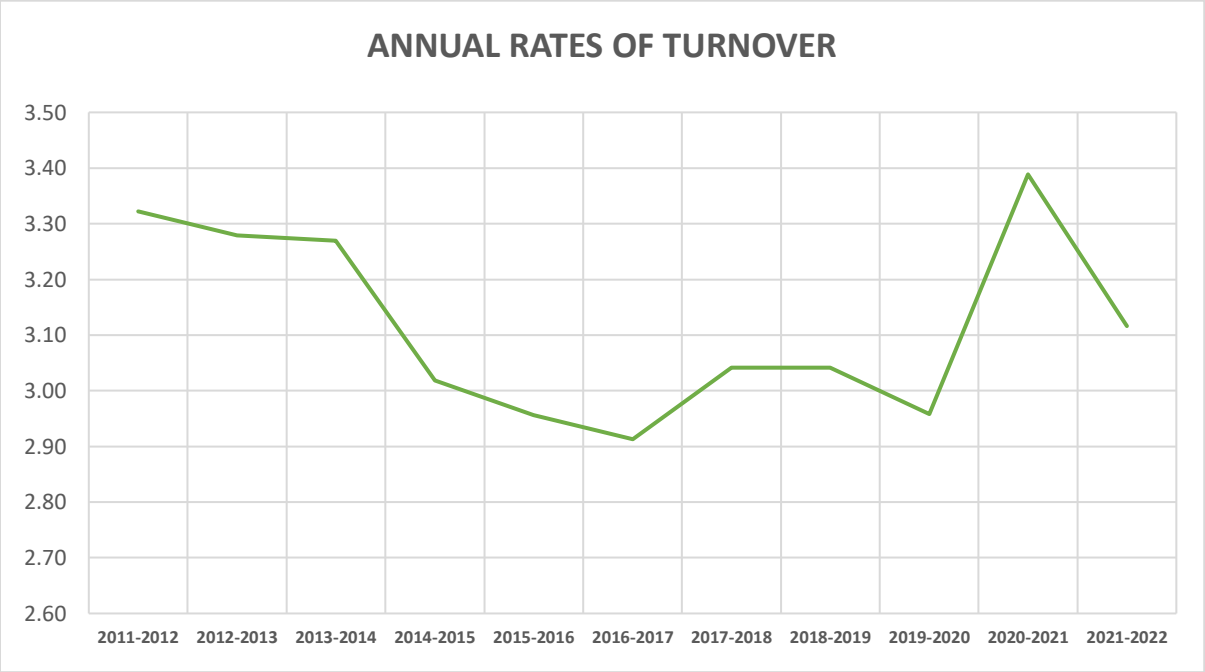


The rate of profit is based on employee compensation divided by fixed and circulating capital. Here the importance between the rate of return which excludes variable capital and the rate of profit which does include it as part of circulating capital, is established. Not only is there a 10% difference in the rates despite the inclusion of inventory (it would be very much bigger otherwise) but the actual profile is different. What the more accurate rate of profit shows is that since 2017-8 the rate of profit has been falling consistently losing 5% in absolute terms or nearly ten percent of its 2017-8 value.

What is interesting and can be found in the spreadsheet, is that the composition of capital appears to be no lower than that found in the advanced capitalist countries, whether measured against variable capital or circulating capital. It therefore appears that the high rate of profit is a function of the high degree of exploitation.

I have also included the annual rate of turnover which approximates that found in the US, Germany and the UK though its volatility is lower.

Graph 16.



The Banking System.

The Indian Banking system and therefore the structure of credit is less developed compared to China. Banks in India play an outsize role in finance, being responsible for 64% of all financial deposits. This concentration of banking assets is common in developing countries therefore not unique to India. Public sector banks dominate holding 60% of all assets. There are just over 100 regular banks operating in India including foreign banks. The Public Sector banks which were bogged down by Non-Performing Assets have gradually had their balance sheets cleaned up helped by the passing of a new bankruptcy law and recapitalisations.

According to *Statista* total banking assets in India amounted to $2.6 trillion in 2021. China's bank assets amounted $52.1 trillion the same year again according to Statista. In fact the assets of China's, and the

world's largest bank, *Industrial and Commercial Bank of China*, at $5.54 trillion was double that of all the banks in India put together in 2021. On a world scale, China has the four biggest banks in the World. In the top 10, the US only two ranked 5th and 7th. In the top 20, Chinese banking assets of $22.91 trillion compared to the $11.18 trillion found in the USA. Finally, in the top 100 banks, China has 19 entrants against only 1 from India.

Until the imperialists decided to vacate China and turn to India after countries like Vietnam proved to be too small to become real global workshops, I did not rate India's prospects of emerging as a significant economy, but with the redivision of the global economy, it has a better chance, but it will still be rocky. The Wall Street Journal celebrated India's coming of age on Tuesday as a chip producer only to roll it back on Wednesday. This is an indication of the obstacles facing India. It is worth setting the context for the difference between China in terms of their respective chip industries and therefore how far behind India is. In 2022 the revenue from India's chip industry was $27 billion compared to $192 billion in China, and India's revenue is expected to rise to only $54 billion by 2025. And whereas the Indian government has pledged $10 billion in seed money for its industry the equivalent figure for China is $145 billion.

However the prospects for foreign investment in India's industry are more promising than in China as the US seeks to extricate itself from that country. And if there are more substantial investments by the likes of Apple and Foxconn, then that will help the BJP's prospects of staying in power. Modi needs all the help he and his party can get if the recent exit-polls on Wednesday, showing a resurgence in the Congress Party vote in the state of Karnataka, is anything to go by. Populism is not enduring. The attempted crushing of the farmers, the in-your-face opulence amidst abject poverty, the focus on grandstanding projects at the expense of focusing on the needs of the urban poor, is starting to cost the BJP support. Religious propaganda is not armour, it is merely a veneer. (It is not for nothing that Xi across the border is calling for closing the gap between rich and poor.)

There are a number of ways of measuring inequality. Here is a novel way. "*Glance over the Economist Intelligence Unit's 2022 'Global Liveability Index' and you will find Indian cities in the bottom half of the rankings. Of the 173 cities on the list, New Delhi is ranked 140, Mumbai 141, Chennai 142 and Ahmedabad 143. Bengaluru was adjudged the least liveable of the Indian cities considered, with a rank of 146.* So except for the high rises surrounded by up-market shops, life is uncomfortable if not dangerous for the rest of society. And this despite the mixed picture from the World Bank of poverty reduction in India. "*Over the past two decades, India has made remarkable progress in reducing extreme poverty. Between 2011 and 2019, the country is estimated to have halved the share of the population living in extreme poverty - below $2.15 per person per day (2017 PPP) (World Bank Poverty and Inequality Portal and Macro Poverty Outlook, Spring 2023).* ***In recent years, however, the pace of poverty reduction has slowed; key welfare indicators have also been slow to improve****."* (my emphasis)

The BJP party led by Modi is an authoritarian religo-populist and neo-liberal regime. It preaches Hindutva nationalism to dupe the masses while it cosies up to the big capitalists in India. However, while Modi is a Hindu chauvinist in common with Xi the Chinese Chauvinist, here the commonality ends. Modi has a much more ambivalent relationship to imperialism, which is why they favour India now above China. In a word, they recognise India will never become an economic competitor because it remains too disorganised and unfocused despite the BJP introducing some streamlining such as tax collection and better banking supervision. "*Future capital spending of the government in the economy is expected to be supported by*

factors such as tax buoyancy, the streamlined tax system with low rates, a thorough assessment and rationalisation of the tariff structure, and the digitization of tax filing." But this is simply the basics.

Conclusion.

This is not a comprehensive study of the Indian economy. Nor of its superstructure, how the state is integrated into the economy and how it regulates labour relations. That will have to wait for another day. Rather I have focused on a quantitative review of the productive balance between China and India in the context of the unfolding economic war initiated by the US against China.

India is not China and this side of a revolution it is unlikely to ever become China. Even if it were to become another China, by the time it achieves this status, this will be irrelevant because the conflict between China and the US will be resolved within a few years, not a few decades, weather permitting.

Brian Green, 11th May 2023.