

THE TALE OF TWO ECONOMIES: WHAT CHANGED IN 30 YEARS

Relevant for: Indian Economy | Topic: Issues relating to Planning & Economic Reforms

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Until 1990, India's per capita income was higher than that of China. However, data from the World Bank shows that India's per capita income, as of 2019, is about a fifth of China's. What changed in the last three decades? Mint explores.

What was China's per capita income in 1990?

Per capita income is the average income of a citizen of a country. In 1990, the per capita income of China was \$318, while that of India's was slightly greater at \$368. China's economy took off in the 1990s, thanks to market liberalization transforming it into an industrial powerhouse from a largely agrarian society. Since then the per capita income of China has surpassed that of India. In fact, data from the Chinese National Bureau of Statistics tells us that in 2019, China's per capita income was \$10,276, having crossed the \$10,000-mark for the first time. The per capita income of India, however, was around a fifth of that.

How did the India-China gap grow?

Chinese exports took off in the early 1990s. The country emerged as the outsourcing paradise for manufacturing for large parts of the western world, allowing companies to drastically cut costs. In 2018, Chinese exports stood at \$2.64 trillion against India's \$0.54 trillion. A major part of the jump in Chinese exports was a result of its companies becoming a key part of the global supply chains of large western companies. Indian companies missed out on this and are still trying to catch up. The overall physical infrastructure available was also clearly better in China, prompting the western companies to go there.

Which sector has India done well in over last 3 decades?

In the last three decades, India has done fairly well in services exports. In 2018, China's services exports were at \$233.6 billion, while those of India were around \$205 billion. The difference between China's services exports and India's services exports has been reducing over the last decade. And that is great news for India.

Why have our services exports gone up?

This has primarily been due to software exports, which have grown constantly over the last few decades. Software exports have grown because of visionary entrepreneurs who saw a global opportunity, decided to tap into it, and ensured that their companies have the capability to compete globally. What also helped was that the government took time to realize what was happening in the sector, and hence could not hold it back through its interference. In a few states, the government even supported software entrepreneurs.

What went wrong with manufacturing sector?

The manufacturing sector could not come up with a similar formula except for a few sectors such

as two-wheelers. Many companies remained stuck in the import-substitution era that prevailed before the 1990s. Hence, they could not compete on the global front or even with foreign firms within India. This is why India imports even basic products. In the first 11 months of 2019-20, 97% of goods imported from China were manufactured products.

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