

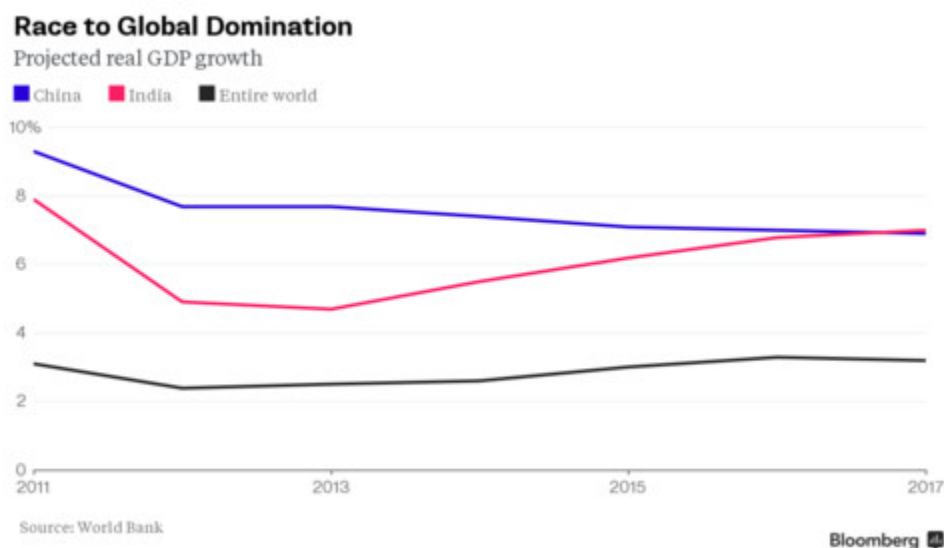
Why India Will Keep Growing Faster Than China

China's authoritarian government has some advantages — for now

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The economic growth race between India and China started in the late 1940s, around the time India gained independence and adopted democracy and China turned to communism. Given the sheer size of their populations, each has the potential to dominate the global economy but until recently, it's been no contest: In 2013, China's per capita gross domestic product was 4.5 times larger than India's.



The latest forecast suggests that the tide may be turning in India's favor, possibly for good. The World Bank anticipates that, by 2017, India will be growing faster than China.

This is a short-term forecast based on some very specific circumstances. India, for example, now has a credible central banker doing sensible things like tackling inflation. The country's popular new government is finally building infrastructure and cutting the red tape that held the economy back for so many years. If India keeps it up, the World Bank expects its economy to grow 7 percent in 2017, up from 5.5 percent in 2014. Meanwhile, the forecast calls for growth in China to slow as its government reduces spending, tightens credit, and unwinds its housing bubble. The bank expects China's growth to fall from 7.4 percent in 2014 to a modest 6.9 percent in 2017.

There are reasons to believe that the slowdown isn't a temporary blip and that, over the long term, India's economy will ultimately overtake China's. At the moment, both countries are growing so quickly because they're catching up to richer economies. They are shaking off the effects of market isolation, under-educated populations, limited access to technology, poor infrastructure, and regulations that stifled business development. Eventually, when these economies catch up, adding machines won't increase productivity. It's impossible to predict exactly how long this will take. Writing in the *Financial Times*, Martin Wolf predicts that China and India's fast-growth convergence phase will run at least an additional 20 years. At that point, they—like the current powerhouse economies in the developed world—would be lucky to grow more than a steady 3 percent per year.

Once that happens, growth will depend on demographics and each country's ability to innovate. India has a better outlook on both fronts. Its population is growing; China's is shrinking. It's harder to predict which country will be better at innovation. Signs point to India because democracies, with their secure property rights and general stability, tend to be better at fostering successful entrepreneurship. China's authoritarian capitalism is a new model, and it's not

clear whether it can produce the sort of environment in which people take chances, form businesses, and invent things.

India still faces many hurdles. It needs to build lots of infrastructure, improve access to quality education, and remove the bureaucracy that has existed for years under many vested interests. This is an area in which China's more authoritarian system has an edge. Its leaders have greater liberty to make hard choices and smooth out rough patches. China's may prove to be a better model for catch-up growth. But managing a thriving, mature economy requires entrepreneurship and innovation. So far, India has the edge.

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