

THE PEOPLE'S REPUBLIC OF CHINA v. THE REPUBLIC OF INDIA
AN UPDATE ON ECONOMIC PROGRESS

Since TARGET's last report on the economies of the People's Republic of China (PRC) and the Republic of India, there have been significant advances in both countries, but it appears that the PRC's economy is out-distancing that of India in many areas of commerce and industry.

Please See:

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There is no guarantee, however, that this situation will subsist for any great length of time because, as any industrialist knows, necessity makes for strange bedfellows.

What must be only too apparent to the West is that the advances in the economies of these 2 emerging powers are guaranteed to change that economic landscape of the world, forever.

The European Union and the United States of America are only too aware of this fact.

Here are some of the statistics in respect of these 2 economies, which have, recently, been unearthed by TARGET:

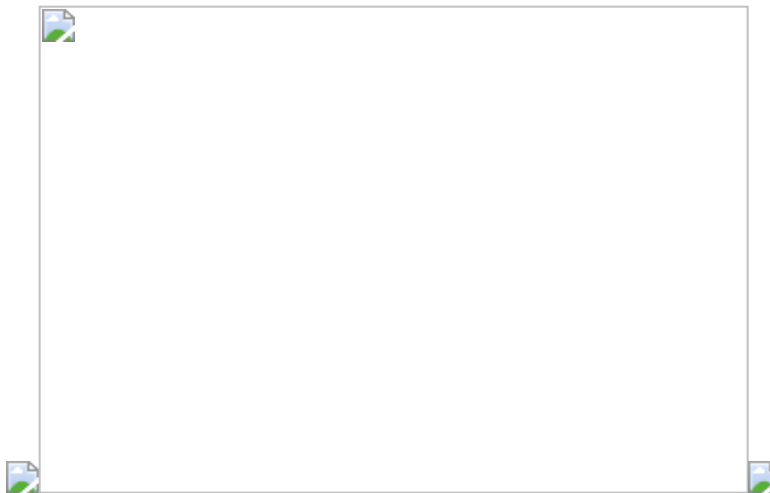
1. The **Gross Domestic Product (GDP)** of the PRC is 2.20 times greater than that of India's (GDP = The annual total value of goods, produced in a country, excluding transactions with other countries). Up until the early 1990s, the GDP per capita in the 2 countries was about equal. The PRC's move ahead of its rival, India, was probably due to wide-ranging economic reforms, which were about 10 years ahead of India's. Also, the PRC's system of government, in terms of the determinations of the Beijing seat of power, is much more dictatorial than that of India where, only too often, political bureaucracy stymies economic reforms;
2. India, over the past 30 years or so, has relied on investments in its service industries whereas the PRC has relied on earnings, generated from its industrial infrastructure and the production, therefrom. As such, the PRC has become more attuned to international business and has, via its many industries, attracted a great deal in foreign investment, which continues to flood into the country. Further, the ratio of domestic savings and investment to GDP is about double that of India;
3. Both the PRC and India are enjoying huge foreign reserves so that high oil prices, while not welcomed, of course, will not significantly impact on their economies or strain external liquidity. In any event, both countries, in terms of their respective GDP's, have very low external debt;
4. India is looking at a rather dicey situation in respect of its level of public sector debt. Interest payments, as a percentage of Government revenue, is high by any standard;
5. The PRC faces a substantial challenge with regard to excess domestic liquidity. Domestic credit is approaching 170 percent of GDP. This was a major contributing factor to the rapid rise in the Consumer Price Index inflation during 2004;

6. India appears to have a much better standard of corporate governance than does the PRC. This is due to India's history, during the days, prior to 1947, when the country was a British Crown Colony. While the PRC's economic growth is superior to that of India's, the rate of return on assets in India is considerably higher than that of the PRC. Further, India's non-performing loans in its banking sector are considerably lower than those of the PRC's banking system. Also, India's stock-market performance is outstripping that of the PRC;
7. Social conditions are improving rapidly in the PRC, especially in respect of the average Chinese citizen. In fact, since 1948, the average citizen of the PRC has never experienced such rapid progress, their lot, improving apace;
8. The PRC enjoys a much better physical infrastructure, compared with India's;
9. India enjoys a far-better, organised army of skilled workers, especially engineers, who are very well regarded;
10. The PRC's determination to liberalise its economy and to invest in the modernisation of its physical infrastructure has paved the way to industrial success, unlike India, where the Government has been dragging its feet. This determination of Beijing has caused a flood of foreign investment into the country; and,
11. Although India initiated economic reforms one decade later than the PRC, it is managed to advance further in the field of institutional infrastructure and corporate governance.

The above 11 points are only part of the infrastructural advances that these 2 economies have achieved of late, but it points to an obvious and clear distinction between the countries:

- a. The PRC continues to emphasise the importance of industrial undertaking, inviting Sino-Foreign Joint Ventures and reaping financial benefits from such enterprises; whereas,
- b. India continues to rely on its ability to be a service centre for the world.

The following is a graphic representation of some of the aspects, covered in TARGET's above précis.





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