Volume-4, Issue-11, Nov-2015 • ISSN No 2277 - 8160

Research Paper Management

Tortoise or Rabbit – Who Will Win The Race Lessons to be Learnt From Economic Decline of China

Dr. Ashish Singh

Associate Professor MBA Agri Business Rajiv Gandhi South Campus Banaras Hindu University

ABSTRACT

I have heard the story of tortoise and rabbit race at least hundred times from my daughter, who ends it with the sentence saying that "tortoise wins the race and gets money as the prize". This thing looked rubbish to me till I heard of economic decline of China. Then I realized that these small stories, taught at school have strong foundations behind them. They are true in hundred percent cases.

The fast pace at which China rose can be compared with rabbit. And the fast pace at which it face the decline in economy can be thought as rabbit losing the race. On the other hand, India is considered as a slow economy, much like a tortoise. It witnesses a change, but at the best. It is growing at small pace, much like a tortoise.

This article is written to explore the root causes behind economic meltdown of China, and to learn the lessons behind it.

KEYWORDS : Economic meltdown, Fabien

Introduction

To begin with the article, the economic scene of these nations is truly exciting. If both of them were able to implement successfully their economic agenda, it may improve the lives of their total population. In total, both the nations represent two-fifths of the world population. Two countries have different political systems in practice, and due to it have had very different approaches to the reform process.

Very simply put, China, which has Communist Party as a monopoly power, achieved a higher economic growth and larger market than India, which has total democracy. But, as recent trends indicate, China economy is on decline. So in total, this study is really intriguing and interesting.

This article starts with comparison of two giant countries, India and China. It will study the similarities and dissimilarities between the two. Both the countries have big area covered and are located in Asia; both of them suffered a lot from Colonial rule; the population of both the countries is large and is growing; China leads the world in population followed by India, which is second; both countries have a traditional rich history; the demographics of both the neighbouring nations is quite similar; both nations have a majority huge proportion of middle income group; There moral ideas and values are approximately the same; both the countries respect their families; both the nations are peace loving and hate violence etc.

The countries are having so many similarities that anyone can think that their economies are also the same. But, they are entirely different. So, it will be much better if try to understand the point of difference between the two economies.

Around the same time that the Chinese Communist Party seized power, India achieved independence from British rule in 1947. Like China, India was a large developing nation. However, the similarity stops here. India's development is different from China's in almost every aspect. Nehru steered India toward a "Fabiant" policy, which states that the state's should play a dominant role in the economy while maintaining a minimal private ownership.

Up to 1980s, India's economic growth was slow due to the heavy burden of state ownership and bureaucracy rules and hurdles, but steady and better than China's under Mao rule. It was a situation of "better and not-the-worst". In 1991, India started the policy of "Liberalisation, Privatisation and Globalisation", normally called LPG in short. After that, India became global hub for software development and is currently one of the largest destination countries for outsourcing.

In terms of government support, the India economy, after 1991, has been market controlled with open competition from companies within India and the foreign competition. There is minimum interference from the side of government.

China was mostly a command economy, which until recently had a very small private sector and there is still substantial state control over macroeconomic processes in forms that have differed from more conventional capitalist macroeconomic policy.

Similarly, India financial sector was typical of the mixed economy without comprehensive government control over the financial system. But in China, financial system still under the control of the state, despite recent liberalization. Chinese economy has and is being controlled by the government. The companies there are well proctored from the foreign competition. If they want to export, they are freely supported by the government. Thus, in terms of exports, India is far behind China. Coupled with exports, incoming FDI also states that India is far behind China. The Chinese leadership totally relied on foreign investments to carry out their reform. Foreign investment filled the vacuum in the capital market and also brought capitalistic institutions in China. In the case of India, the need for foreign investment was quite low due to presence of domestic capital market and market institutions existed before the reform. The reliance on foreign resources gave China a jump-start in the beginning.

Some facts about China

China's scale of growth is both unprecedented in both duration and scale. If look at Indian market, everything is imported from China. Above all, the festive seasons, which are celebrated in India only, and not in China, are becoming "Chinese festivals". By that, what is meant is the predominance of Chinese product during these festive seasons. Be it images of Gods, be it idols, be it lighting series, be it crackers, be it another items of decoration etc., all of them are having Chinese origin. Thus, export rate of China is much more than India.

The rise in investment is also much more if we compare it with national income. There is another very big economies in Asia, Japan and South Korea. But it is also much behind China in this respect.

The Chinese economy has grown at an average annual rate of 9.8 per cent for two and a half decades, showing volatility around high trend. India's economy has grown at around 5-6 per cent per year over the same period, but very recently the average growth rate for the last four years is just above 8 per cent.

Thus, growth of Indian economy is the reason for worry.

Point of worry for China

At present time, Chinese economy is going turmoil. There are many reasons behind it. They are as follows:

China has debt at a very fast pace in recent years. If look at the past figures, all the countries that have followed the same path have witnessed similar downturns. Experts believe that, all the companies in China are heavily ridden by debts, in their overzealous attempt to take over the economy of other countries, particularly India.

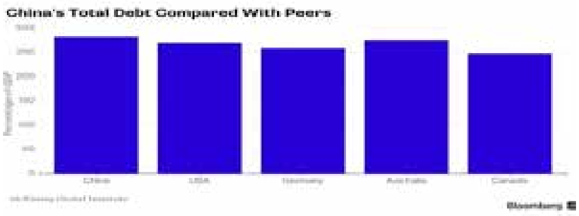

Fig Courtesy: Bloomberg Business

Two economics students from Queens University Belfast explained what's happened to the Chinese financial markets.

Firstly it is very much important to recognize that China is a new financial giant in the world. It opened its Shanghai Stock Exchange in 1990 and some experts believe that there is lack of experience in China when it comes to running the stock exchange in Shanghai. As normally stated "old rice is always better that a new one". If we compare running of other stock exchanges with this stock exchange, we can see the difference.

And the influence of international companies is restricted in China. If anybody wants to open a company in China, that is strict "no no" from the government of China. If anybody wants to sell their product or service in China, the answer remains the same.

Fig courtesy: China's money crisis explained with colouring pencils and two economics students, BBC

So after decades of massive growth, China's economy started slowing down and in order to save it, the Chinese government introduced schemes to help prop it up, or in other words, reverse the situation. In order to protect and support the economy the Chinese government has introduced measures to ease the rate of 'slowing down'.

Fig courtesy: China's money crisis explained with colouring pencils and two economics students, BBC

But they never loosen their control on the companies. This is the basic reason for the downturn of China economy.

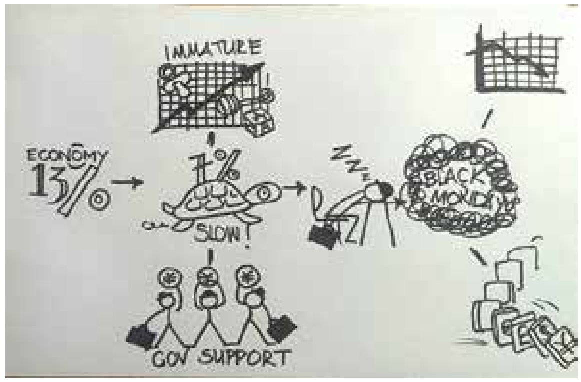

Fig courtesy: China's money crisis explained with colouring pencils and two economics students, BBC

In the end, a combination of a fall in investor confidence and slow response from the government to support the market, led to a crash, which is being referred to as Black Monday. This was shown in the picture on the top.

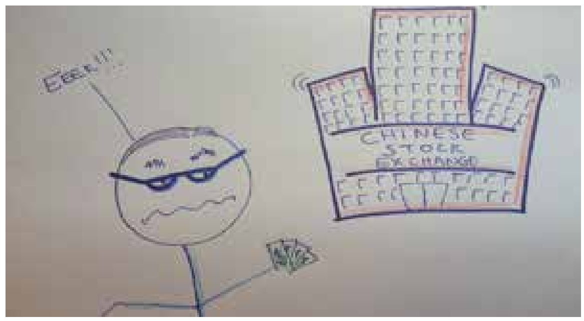

Fig courtesy: China's money crisis explained with colouring pencils and two economics students, BBC

This turmoil meant that China's currency, the Yuan, became less valuable, or in most common terms, devalued. As the Yuan devalue, China now has less money to spend in the world,

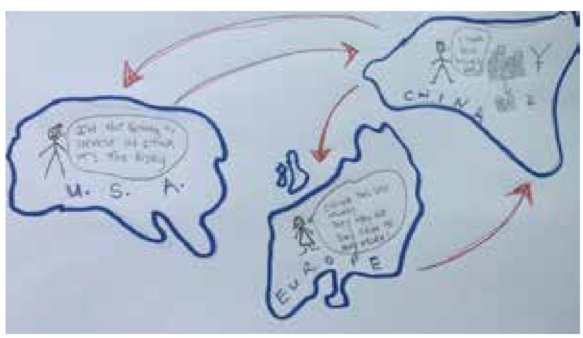

Fig courtesy: China's money crisis explained with colouring pencils and two economics students, BBC

As the side effect, China has less money to buy from the rest of the world. As China's economy and its future looks unstable, many of investors want to hold onto their cash for a while, instead of investing it, which makes the situation even worse.

In a nutshell, economic growth in China is now slowing but no one really knows exactly by how much, as figures released by officials are unreliable. However, in the end, world trade has become extremely sluggish and experts think that China is behind the dip.

Slowing trade affects the rate of economic growth in countries too. The biggest impact of a slowdown is on emerging and developing markets, particularly those in Asia. A weakening Chinese growth, and a slip in China's currency, has combined to put pressure on other emerging economies, especially those whose growth model depends on Chinese demand for industrial and other commodities.

Economic growth of China is projected to decline gradually to 6.2% by 2017.

Fig source: China - Economic forecast summary (November 2015), http://oecd.org/

Fig source: China - Economic forecast summary (November 2015), http://oecd.org/

India is going to overtake China in real GDP growth. For the last ten years or so, China grew at about 9.9%, followed by India at 7% to 7.4%. But now, China is slowing down and India's growth is picking up. Of the large Asian economies, India probably will be the fastest growing over the next decade. Definitely, India has all the elements necessary to overtake China's growth in 2015 or 2016.

So, in the end, India can be regarded as *Tortoise,* with slow but steady growth of economy while China can be related to *Rabbit,* with sharp rise and equally sharp downfall. In the end, slogan given by my daughter wins "*tortoise wins the race and gets money as the prize*".

REFERENCES

1. Comparing India vs China by GDP - StatisticsTimes.com | statisticstimes.com/economy/china-vs-india-gdp.php | 2. India or China: Which Asian Giant Has More Inclusive Growth? | blogs.wsj.com/indiarealtime/.../india-or-china-which-asian-giant-has-more-inclusive-growth | 3. Can India really be the 'next China'? - The Economic Times | economictimes.indiatimes.com › News › Economy › Policy | 4. China and India: A comparison of recent economic growth ... | www.macroscan.org/spfea/jun07/PPT/Jayati_Ghosh.ppt |