



# THE GROWTH STORY OF THE TWO ASIAN GIANTS- CHINA AND INDIA

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## ABSTRACT

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*China and India are ranked among the top Asian economies of the world. Both these countries had their challenges as developing countries. China's growth take-off occurred around the same time as India's, under the leadership of Deng Xiaoping. Till about 1990, the GDP of the two countries were roughly equal in purchasing power parity (PPP) terms. Consequent upon a balance of payment crisis by the late 1980s, India adopted Liberalisation, Privatisation, and Globalisation, to reform the economy. As two of the most populous countries in the world, China and India have both experienced fast economic growth and a fall in poverty rates in the past four decades. The advent of globalisation aided trade and openness, provided a scope for development. There has been rapid transformation of their economies and also a rise in their per capita income. As per the World Bank, China has reduced poverty levels from 770 million (1978) to 5.5 million people (2018). By 2021, China declared that it has eradicated extreme poverty and boasts of a moderately prosperous society in all respects. Massive investment in education and expansion of health care since the 1950s has resulted in real achievements. Meanwhile, India has overtaken China as the most populous country of the world. The World Bank (June 7<sup>th</sup> 2025), has revised its threshold poverty line to \$3 per day and as per that Extreme poverty in India has declined from 27.11percent in 2011-12 to 5.3percent in 2022-23. China's present GDP is about \$20 trillion in comparison to India's \$4.18 trillion. This paper is an attempt to understand, and relate the growth story of India and China since the last fifty years, particularly after the onset of 1990s troika of liberalisation, privatisation and globalisation (LPG) / openness.*

**KEYWORDS:** Growth, poverty, reforms, population, globalisation

## INTRODUCTION

A recent study by C. Rangarajan and S.Mahendra Dev( 2025) finds that the poverty ratio in India has fallen sharply from 9.5% in 2022-23 to 4.9% in 2023-24 and this has been accounted to the GDP growth rate.

(<https://indianexpress.com/article/opinion/columns/poverty-fell-significantly-last-year-much-of-it-was-driven-by-gdp-growth-10034803/>). The latest NSO reports also show the GDP growth rate is 6.5%, which is a good news. However, this is a service sector led economic growth. India needs to make the growth more sector-balanced and more inclusive, so as to minimise the socio-economic cost of development. This paper is an attempt to understand the growth story of India and China since the last fifty years, particularly after the onset of 1990s troika of liberalisation, privatisation and globalisation (LPG) / openness. Consequent upon a balance of payment crisis by the late 1980s, India adopted Liberalisation, Privatisation, and Globalisation, to reform the economy. As two of the most populous countries in the world, China and India have both experienced fast economic growth and a fall in poverty rates in the past four decades. Meanwhile, India has overtaken China as the most populous country of the world. The advent of globalisation aided trade and openness, and provided a scope

for development. There has been rapid transformation of their economies and also a rise in their per capita income. As per the World Bank, China has reduced poverty levels from 770 million (1978) to 5.5 million people (2018). By 2021, China declared that it has eradicated extreme poverty and boasts of a moderately prosperous society in all respects. Massive investment in education and expansion of health care since the 1950s has resulted in real achievements. Meanwhile, on June 7<sup>th</sup> 2025, the World Bank has revised its threshold poverty line to \$3 per day and as per that Extreme poverty in India has declined from 27.11percent in 2011-12 to 5.3percent in 2022-23

<https://www.livemint.com/economy/indias-extreme-poverty-rate-dropped-sharply-to-5-3-due-to-free-subsidised-food-transfers-world-bank-data-shows-11749308171240.html>

**Why Growth Matters:** It's an undisputed fact that growth matters. Firstly because it directly impacts the average income levels. Secondly, it is the trajectory of growth, that will influence how far a country is able to stand up to global uncertainties and rising protectionism. Thirdly, Growth creates opportunities for employment generation: by ensuring a fast pace and balanced growth, it is possible to create enough decent

jobs for the millions of youths, who are added to the workforce every year. Apart from guaranteeing decent lives, growth also raises domestic purchasing power and aids savings and investment to sustain the next cycle of growth. Thus, Growth not only boosts average income levels but also generates extra funds for welfare programs.

Creation of adequate decent non-farm jobs is also key to raising farm incomes. The Nobel-winning economist Arthur Lewis theory has shown that by moving surplus labour from the farm to the non-farm sector, developing economies could raise productivity in both sectors, and raise overall savings and growth. Since then, several economies, including the fast-growing economies of East Asia, have followed Lewis model transformation to shift workers from farms to factories, driving up growth and reducing poverty at the same time.

India's growth process over the past four decades has also witnessed a shift away from farm to non-farm jobs but the process has been lop-sided, and the transformation remains incomplete. Even though the share of farm jobs have shrunk over time, the farm sector remains the biggest employer in the country. And unlike in other fast-growing Asian economies, the new non-farm jobs have mostly been in construction and services, rather than in factories.

While the construction sector pays better than the farm sector, it offers only slightly more productive jobs. The services sector does offer some high-productivity jobs (such as in software services) but the bulk of the new service sector jobs in India have been low-end ones, such as in trade, transport, etc which depict lower productivity levels. If India is to create more high-productivity jobs in the future, India will need fast growth spread across more sectors.

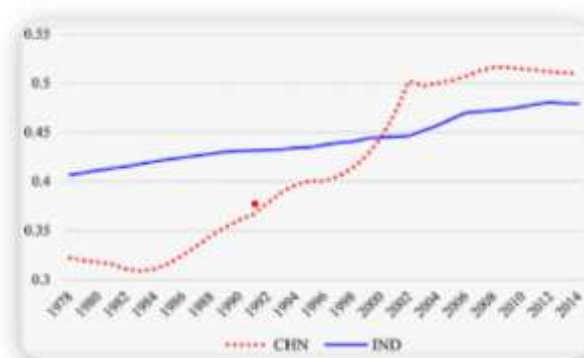
China's growth take-off occurred around the same time as India's, after Deng Xiaoping took charge of the ruling communist party in 1978. Till about 1990, the GDP of the two countries were roughly equal in purchasing power parity (PPP) terms. China's present GDP is about \$20 trillion in comparison to India's \$4.18 trillion.

**The Growth story of both countries- how similar?**

1. Emphasis on exports and manufacturing sector: The formation of WTO in 1995 was a great opportunity for trade and integration for the world. China joined WTO in 2001. While China adopted a more export-oriented development strategy in comparison to India, resulting in faster industrialization and globalization, India saw a rapid growth of its service sector, becoming the dominant sector of its economy. The services

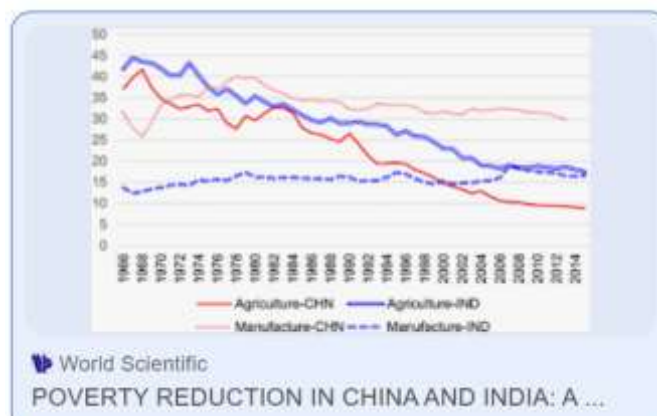
sector has shown rapid growth since the 1990s, by contributing a major share in nation's GDP, trade and FDI inflows. Among other sectors, it is the single largest contributor to economic growth of India. However, rising inequality is also a matter of concern, further aided by technological challenges.

Graph 1: Trends in GDP growth rates



Source: World Bank website

2, Sector-wise contribution to GDP in China and India  
Graph: 2



Source: <https://www.worldscientific.com/doi/full/10.1142/S0217590820440026>

2. Savings

Over the years, India's saving performance has been impressive in comparison to other countries. After touching a peak of 36.9 % of GDP in 2007-08, gross domestic savings has been on a downward path (Table 1), it is presently at 28%. Out of the Gross domestic savings, household savings has been a major component and plays an important role in supporting growth and development.

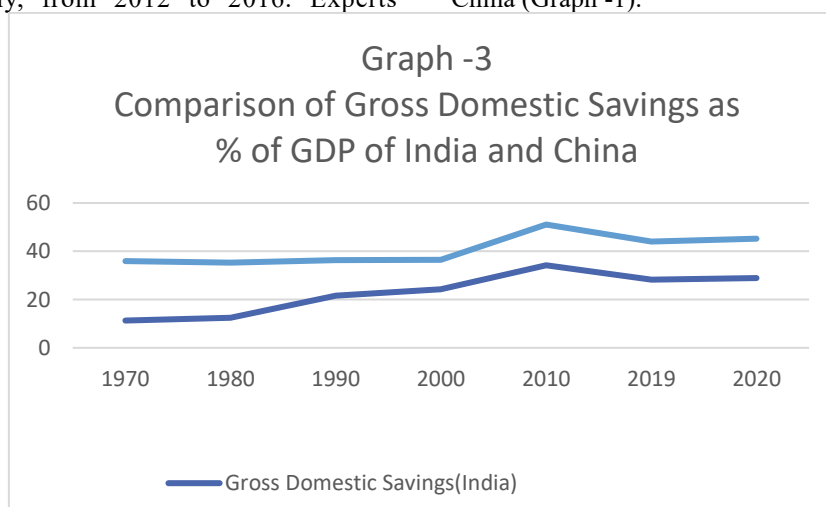
**Table – 1**  
**Components of Gross Domestic Savings (GDS)**

Years	Household Savings	Private Corporate Savings	Public sector savings	Gross Domestic Savings (GDS) as % of GDP
2007-08	22.5	9.4	5	36.9
2008-09	23.6	7.4	1	32
2009-10	25.4	8.2	0.2	33.8
2010-11	23.5	7.9	2.6	34.6
2011-12	22.30	9.5	1.5	33.3
2013-14	20.30	10.70	1	33.9
2014-15	20	11.17	1	32.1
2015-16	19.60	11.19	1	31.2
2016-17	17.1	11.5	1.7	30.3
2017-18	17.2	11.6	1.7	30.5
2018-19	18.4	9.7	2	30.1
2019-20	18.2	10	-	28.2

Source: RBI website. Author has made approximate calculations.

Under macroeconomics, the System of National Accounts (SNA) estimates aggregate savings under three broad categories-Government, Corporates and Households. The term Household is, however much broader and includes unregistered micro and small enterprises besides the households. Household savings comprises of physical and financial savings. Household financial savings refer to currency, bank deposits, investment in insurance, pension funds, mutual funds etc. Household physical savings includes investment in real estate, gold, silver etc. In the early 2000s, there was a shift to physical savings including dwellings and buildings. However, there was a reversal in this pattern particularly, from 2012 to 2016. Experts

believe the possible reasons are, due to the slowdown in the economy, regulatory changes in the real estate sector, measures against unaccounted money in construction activities, demonetization etc. The fall in Household physical savings was, followed by moderate increase in financial savings. The decline in overall household savings is, understandable given the reforms and policy measures in the economy. Broadly, it is a mix of the socio-economic changes happening over the years- continued high consumption, inadequate job creation, increase in financial liabilities ,rising cost of services etc. The trend of gross domestic savings almost 'plateauing off' after 2019, looks similar for both India and China (Graph -1).



Source: World Bank website

Even as concerns mount on the adverse implications of a falling headline savings rate, the rising financial savings is a silver lining and clearly indicates 'increasing formalization and financialisation' of the economy aided by the financial innovations.

**3. Understanding China's Rapid Economic Growth and economic transformation and lessons for India**

In China, the poverty reduction program was accomplished with rapid economic growth and Public Investment in Infrastructure, aiding economic transformation and several poverty alleviation government policies. China's poverty reduction program relied on two pillars-

1. The first pillar was rapid economic growth, supported by broad-based economic transformation. The broad-based economic reforms encompassed -

(a) Agricultural Sector reforms: Reforms began in the agricultural sector, where poor people could benefit directly from improvements in productivity associated with the introduction of market incentives. Since majority of the poor people reside in the rural areas, the onset of reforms in the agricultural sector ensured that poor people could benefit directly from improvements in productivity associated with the introduction of market economy.

(b) Setting up of low-skilled/labour intensive industries: Since labour faces displacement, the development of such industries: provided a source of employment for workers released from

agriculture. Focus on the development of low-skilled, labour intensive industries provided a source of employment for workers released from agriculture.

(c) Promoting Urbanisation: Adopting of market economy and promoting urbanisation helped migrants take advantage of the new opportunities in the towns and cities. Urbanisation helped migrants take advantage of the new opportunities in the cities, and migrant transfers boosted incomes of their relatives remaining in the villages.

(d) Public investment in infrastructure: The government undertook large scale investment in laying the infrastructure to promote the living conditions in rural areas and enhance the scope for connectivity with urban areas and facilitate trade and integration. Public investment in infrastructure improved living conditions in rural areas but also connected them with urban and export markets.

(2) Poverty alleviation measures:

The second pillar was government policies to alleviate poverty, which initially targeted areas disadvantaged by geography and a lack of economic opportunities, but subsequently focused on poor households irrespective of location. Government policies to correct regional imbalances and alleviate poverty, which initially targeted areas disadvantaged by geography and a lack of economic opportunities, but subsequently focused on poor households irrespective of location. A component of these policies was social protection policies for poor households, including programmes in social assistance, insurance, and welfare.

## DECENTRALISATION OF DEVELOPMENT

One of the most interesting and perhaps also, the most innovative measure in China, was the decentralised policy methods, where scope for local experimentation, Learning and also high degree of competition among local governments, ensured the success of the poverty schemes.

India's growth model too believes in decentralisation. The need for 'grassroots level development' was espoused by Mahatma Gandhi. Countries like China have shown the strength of 'decentralisation, local experimentation, as the path to progress. The goal of 'Viksit Bharat, 2047', which aims to transform the country by getting rid of inequality and backwardness through inclusive/ democratic decentralisation. The dreams of India to become a developed economy is achievable, and for India, the acronym AI Stands for Aspirational India (AI). It is, in this quest there has been launch of several projects, schemes to reach the goal faster and bigger. The Aspirational District program (ADP) launched by the Hon'ble Prime Minister Shri Narendra Modi, in January 2018, is one such effort. It aims to transform 112 most under-developed districts across the country. The Aspirational Districts Programme essentially is, aimed at localizing Sustainable Development Goals, leading to the progress of the nation. The broad parameters of the programme are based on 3 Cs- are Convergence (of Central & State Schemes), Collaboration (of Central, State level Nodal Officers & District Collectors), and Competition among districts through monthly delta ranking. The districts are also encouraged to develop and replicate best practices that drive improvement across the socio-economic themes. With States as the main drivers, this program focuses on the strength of each district, identifying low-hanging fruits for immediate improvement and measuring progress by ranking districts on a

monthly basis. The ranking is based on the incremental progress made across 49 Key Performance Indicators (KPIs) under 5 broad socio-economic themes - Health & Nutrition, Education, Agriculture & Water Resources, Financial Inclusion & Skill Development and Infrastructure. The Government is committed to raising the living standards of its citizens and ensuring inclusive growth for all – "Sabka Saath Sabka Vikas aur Sabka Vishwas". The 'NITI Aayog' works closely with the respective Ministries and various development partners, NGOs to fast-track progress at the district level. To enable utilization of their potential, this program closely focuses on improving people's ability to participate in the development of the economy. The decentralised and grassroots method of development wherein districts are geared up and encouraged to first catch up with the best district within their state, and subsequently aspire to become one of the best in the country, by competing with, and learning from others in the spirit of competitive and cooperative federalism was much needed. The technological innovation and the inclusive development model has the greatest potential for driving development and path to progress.

## CONCLUSION

It has been observed that China adopted a more export-oriented development and deeper globalization strategy, resulting in faster industrialization and high growth. India also undertook major economic reforms in the 1990s to adopt to LPG. India undertook stabilisation measures, to correct the balance of payments disequilibrium and structural reforms, to achieve the goal of economic growth with stability. Though the two Asian giants exhibits many similarities, there are many lessons India can learn from China. India is already the most populous country of the world and has the largest number of young population, who needs to be provided livelihood/employment opportunities. India's GDP is expected to grow by 8% over the next few years, perhaps, one of the fastest rates among major, developing economies, according to S&P Global Ratings. India's present GDP growth rate is around 7-8 %. However, this is a service sector led economic growth. India needs to make the growth more sector-balanced and more inclusive, so as to minimise the socio-economic cost of development. The major conclusion of this comparative study is that developing countries must prioritize employment generation in secondary and tertiary industries, through industrialization and globalization, in order to absorb surplus agricultural labour, helping reduce poverty in the rural areas. Along with emphasis on economic growth, there is a need to focus on education, health, to accelerate the social growth. China facilitated its growth story by focussing on both economic and social factors. India needs to expedite the growth through more investment in education, health and other aspects of social sector spending so to achieve a more sustainable and broad-based growth story.

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