

**China:**

**India:**

## **India vs. China: Who Has the Edge?**

by Jeremy Siegel, Ph.D., Professor of Finance at the Wharton School of the University of Pennsylvania

China and India are likely to be the dominant economic powers by the middle of this century but in many respects they are remarkably different. Here and in my next column I will analyze the prospects for economic growth and investment in these two emerging giants based in part on a two-week tour of India I just completed and a visit to China eighteen months earlier.

### **First Impressions Can Be Deceiving**

The contrast between your first impression of China and India could scarcely be more extreme. You arrive at China's financial capital, Shanghai's new Pudong International Airport, and walk through spacious, clean corridors to the world's fastest train, the Maglev. Your 30 km (18.6 miles) trip takes only eight minutes on this train that floats magnetically above the tracks and reaches speeds of 430 kph (267 miles per hour). From the Longyang Road Metro Station at the outskirts of the city, an air-conditioned taxi takes you to the Grand Hyatt Hotel. As you exit the car you marvel at the other towering skyscrapers that surround the world's highest hotel, located on the 53rd to 87th floors of the Jin Mao Tower.

Contrast that with a trip to Mumbai, the financial capital of India. You arrive at the decrepit Mumbai International Airport, fight your way through crowds of beggars and unsolicited "helpers" before finding a taxi that takes you to your hotel at the southern edge of Mumbai. Although the trip is only 20 km (12.4 miles), the ride may take 90 minutes or more. There is no direct route as the driver wends his way through side streets trying to find the least crowded route. Abject poverty lines the road. Millions have flocked to this city seeking employment, many with only tents or cardboard walls as housing. No sanitation facilities are to be seen. When the traffic stops, young children and women holding babies approach your car, tapping on the windows, begging for a few rupees. As you progress to the southern end of the city, more substantial buildings come into view. Yet the vast majority of the structures, especially the rental units, are poorly constructed and dirty from the daily assault of polluted air. Most of the architecture of note in Mumbai was built before the First World War, primarily by the British. You finally arrive at your hotel, The Taj Palace on the Arabian Sea, built in 1903.

From these two realities one might wonder why anyone would ever consider investing in India over China. Ranking the two countries on infrastructure - roads, airports, and new buildings, China looks like a ten and India hovers close to zero.

### **Winds are Changing**

But India is changing, and changing rapidly. The Mumbai Stock Exchange's Index of 30 blue chip companies has more than tripled in the last 2½ years, far outpacing China's stock returns. And although China's stupendous economic growth rate still surpasses India's, India has now reached the 6% plus rate of GDP growth that marks the emergence of a developing country. What has caused this new look at India? Underneath the surface, India's ledger is lined with pluses that compensate for its woeful exterior. In my last column I described the ideal growth environment: free access to information and the freedom to act on this information in a climate that respects wealth creation. Although I in no way condone the British occupation and control of India for several centuries until 1947, three British legacies -- the English language, Democracy, and Freedom of the Press -- benefit many Indians today. The fact that the educated classes all know English gives Indians a comparative advantage in the growing informational sciences and services, while the Chinese advantage still resides in manufacturing. The world's lingua franca, especially in the business and scientific world, is English and that unquestionably gives a leg up to those who know it. Our guide in Jodhpur said that there are two things that he wants his son to learn in school: English and computers. That knowledge, he said, opened up the opportunities for his people.

It surprised me that the English language is not taught to many Indians below the top echelon, however. As you travel from the big cities to countryside, the signs change from predominantly English to almost entirely Hindi. And Hindi still remains the language most Indians speak to natives even if they know English. The ability to speak Hindi may therefore be essential for foreigners who wish to work in India. Indians were proud several years ago when President Bush added Hindi as a "world language" that Americans (who woefully lack foreign language skills), should learn if they wish to succeed in global markets.

### **Government**

Eighteen months ago, when I offered an excited view of China's commercial future, doubters frequently asked: "How is this possible under an avowedly 'communist' government." First of all, the current government is extremely efficient at getting things done, something very beneficial when conducting business. Further, I believe China will evolve into a more democratic political system as it pulls itself out of poverty and feels the pressure of a growing middle class. Nevertheless, although this political evolution is likely, it is by no means a sure thing. Yet for India a democracy already exists, and it has withstood many crises. Furthermore India enjoys an independent judiciary, a critical adjunct to a democratic system. In my view, democracy is the best system in which power can evolve from the private sector, not from dictates of the government. These things being said, one must remember that Indian democracy is extremely inefficient, weighed down by a bureaucracy that directed India's economy through its socialist phase from 1947-1991, when it began to slowly shift to a more market-oriented economy.

### **Rule of Law and Meritocracy**

It is well known that the Chinese are master copiers, and openly sell merchandise sporting pirated designer labels or hawk intellectual property that is easily downloaded in our digital world. Although this also exists in India, it does so to a far lesser extent. Private enterprise, private property and the rule of law has been the norm in India since the British occupation. In contrast, until recently, the Chinese government owned and controlled everything. It surprises many that Lakshmi Mittal, an Indian-born steel magnate, is the 3rd richest man in the world after Bill Gates and Warren Buffett. In fact, in Forbes' latest list of the world's wealthiest people, 12 Indians made the list and only two Chinese. And there is a growing consensus in India that this wealth creation can help everybody rise, not just those at the top.

### **Education**

India is built on a meritocracy where performance on exams dictates jobs and admission to the top-ranked schools. At the top, India's education system is as good as any, and the Indian Institute of Technology (IIT) rivals MIT as the world's producer of top scientists. Furthermore the Indian Institute of Management recently had 200,000 applications for only 250 seats at its top Ahmedabad campus, a ratio that puts the Ivy League' selectivity to shame. Although India does have an "affirmative action" program for those in the lowest castes, the private sector is not subject to these quotas and therefore is free to hire "the best and the brightest." Certainly one must acknowledge that the caste system, while officially abolished, has not been extinguished within the culture, and to some extent limits the long term labor pool because many so-called "untouchables" cannot get the education needed to gain needed skills.

Indian education at the lower levels is not nearly as good as at the top. In fact, several experts I talked to put "education" above "infrastructure" as India's number one priority. Nevertheless, the excellence of education at the top has given Indians a great deal of pride in their ability to achieve world-class excellence, and it has been a strong democratizing influence in a society that has been mired in a rigidly hierarchical caste system.