Comparing India and China Growth Strategies: Chaotic Or Planned?

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Introduction

Despite different political systems, China and India are aggressively pursuing economic liberalization for growth. Both the countries tout science and technology, and exports as a basis for their growth. Yet, their strategic paths for economic development are remarkably different. China’s strategy is methodical and deliberate, while that of India’s is chaotic and opportunistic. This article compares the growth strategies of China and India since they will impact a third of humankind by 2050, influence world-wide job migration, and provide valuable lessons for other developing countries.

China is marching ahead with over 10% gross domestic product (GDP) growth rates over the last two decades. China has followed a conventional path in transiting from an agricultural economy to a robust industrial economy – an evolution observed in many developed countries including the U.S., Japan, South Korea and Taiwan. China is building vital linkages among its agricultural, industrial and service sectors, and systematically encouraging domestic consumption in parallel with a sharp focus on exports. Guided by the firm hand of the government, China’s approach to development has been methodical and deliberate. The results may be far from perfect. The urban-rural economic divide and the impact on the environment may be worsening. On the positive side, though, China’s per capita GDP is now double that of India, although both nations had similar numbers as late as 1991.

In contrast, India is attempting to leapfrog from a predominantly agricultural economy to a knowledge-based service economy. This approach is highlighted as the “shining” beacon of a 21st century economic development model. Bureaucrats and business leaders cite India’s 6% GDP
growth over the last decade and the strong growth of India’s software and IT-enabled services (SITS, henceforth) sector in support of the leapfrogging approach. However, they ignore the lack of vital linkages of SITS with the remainder of the Indian economy and the fact that less than 10% of the GDP growth is actually due to the SITS sector. Linkages with other economic sectors are essential since they exert a ripple or multiplier effect and create large numbers of jobs for the entire spectrum of workforce. The SITS sector employs mainly the educated, urban youth, leaving a large fraction of the India’s population further behind. If a country is to pursue a politically and economically stable development strategy in largely rural, unskilled agricultural economy it must focus on such linkages.

Some have argued that focusing on building a “knowledge economy” will power India ahead of China. However, there is little evidence that short term gains from SITS can be translated into long term sustainable advantages. In fact, despite a robust GDP growth that exceeded 8%, the Bharatiya Janata Party that had overseen the economic policies of the government in the recent past was voted out of power in May 2004. The party’s “India Shining” slogan was rejected by a disaffected electorate that had seen limited improvement in their daily living conditions.

Contrast this with the confidence the world has placed on China in awarding her the Olympics in 2008 and the World Trade Fair in 2010. China has demonstrated that it has the will and the resources to host the Olympics, which calls for a massive infusion of resources to create a first-world infrastructure. The public and private sector investments in China towards preparing for the Olympics are expected to touch $180 billion by 2008. The impact of infrastructure development projects for the Olympics will be significant: jobs for millions of low income and low skilled workers. Further, hosting the Olympics will help enhance the nation’s psyche and its confidence. China is also using the Olympics to prepare its inefficient state owned enterprises (SOE) to compete
in the global economy. Such a significant physical and psychological transformation is much needed in the Indian context if India is to compete effectively in the global economy.

China’s success is highlighted by another interesting statistic. Research findings suggest that a country’s performance in the Olympic Games depends not just on its population, but also on per capita gross domestic product (GDP).\(^1\) China’s recent 63 (32 gold, 17 silver and 14 bronze) medals – third highest total tally after US and Russia – at the 2004 Olympics in Athens suggest the growing economic progress and confidence. In contrast, India won one silver medal at the Olympics.

A study by Goldman Sachs suggests that India will be the third largest economy by 2032 behind the U.S. and China.\(^2\) However, the real measure of economic well-being is per capita GDP. Consider this – while China’s per capita GDP exceeds that of India by $550 today – that gap is expected to increase to a substantial $13,991 by 2050!

So, why is India falling behind? Why can the SITS sector not resolve India’s sharp disparities in wealth and widespread poverty? And what can India and other developing economies learn from this situation? A deeper look at the growth paths of the Indian and Chinese economies provides some insights in this context.

**India’s SITS Sector: Planned or Accidental?**

While China’s growth is primarily the result of specific policies targeting manufacturing activities, India’s growth in the SITS sector in 1990s has been primarily accidental and reflects the hard work of few companies and individuals. The growth is attributable to enormous demand from the U.S. and other developed countries due to three generations of IT innovation – client-server, Internet

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and the World-Wide Web (WWW), and wireless communication revolution – within a decade leading to fundamental changes in computing and business practices. The Year 2000 (Y2K) problem also hung over businesses like a specter through the 1990s, and regulations forced numerous sectors to recode legacy computer systems to ensure Y2K compliance.

During the 1990s software programmers with expertise in enterprise software programming were hired at $100 - $150 per hour, with some consulting firms charging clients as much as $300 per hour. Faced with a shortage of skilled labor, U.S. firms lobbied the government to increase the number of work visas for foreign talent under the H1-B program. The annual number of visas available under this program, which allows foreign citizens to work in the U.S. for six years, temporarily increased from 65,000 to 115,000 for 1999 and 2000, and to 195,000 for 2001-2003.

This demand for information and software services provided the opportunity for Indian software companies to showcase their skilled and relatively cheap workforce. The offsite software development model of Indian IT companies grew rapidly as coordination costs – due to global IT infrastructure like the Internet and learning experience – fell rapidly. U.S. firms also realized that not only software services could be obtained from Indian firms, but also any information-related business processes (i.e., IT-enabled services) could be offshored to India to benefit from lower costs and large English-speaking workforce. Thus, any strategy to build SITS was more opportunistic and a result of bandwagon effect than a planned strategy. In fact, Indian firms can be lauded for their success to take advantage of the opportunities, but their “opportunistic success” should not be deified into being a conscious national strategy.

The proponents of India’s SITS-led strategy highlight some impressive data to champion their vision of India’s economic development led by the SITS sector. For example, India’s SITS sector exported services worth $12.5 billion in 2003-2004, and that figure is projected to grow by
25% over the next year. Some have argued that SITS-related initiatives in India have invigorated the economy as a whole and contributed to its recent growth rate of 6%. Surprisingly, India achieved similar growth in 1980s without the SITS sector being a significant factor! While creation of 800,000 jobs in SITS sector is impressive, it is insignificant in an economy with 470 million workforce. In contrast, China has created over 40 million jobs exporting physical products from footwear to underwear, and hardware and software.

The SITS Sector and India’s Economic Development

While India rides the SITS wave, the growth is chaotic with relatively insignificant domestic linkages and consumption. The argument that the SITS sector can serve as the backbone for India’s resurgence on the global economic front is weak. India lags in creating the infrastructure to sustain and grow economic activities. First world infrastructure – located within the four walls of some leading companies – is not visible in any significant part of any city in India, let alone an entire city or region. Little attention is paid to create jobs for masses, or to formulate policies that touch the masses for sustained development.

A strategy that relies on the movement of white-collar jobs from developed nations to India is difficult to sustain. Many of these jobs, especially those related to business process outsourcing (e.g., call center jobs) create little or no intellectual property for Indian firms. With few barriers to enter or exit, these jobs will shift to other countries for the same reasons they moved to India. In fact, China is potentially the key competitor in this context. China has begun educating its students to speak English in large numbers. As Naren Patni, CEO of Patni computer Systems – the sixth largest software firm in India – noted in a recent interview “I hear China is holding English classes in

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3 Source: India’s National Association of Software and Service Companies (NASSCOM).
The case for sustainability is only marginally stronger in the software development sector, where tacit and explicit knowledge regarding software design and processes, can provide some sustainable competitive advantage.

The SITS sector does not have strong linkages to the remainder of the Indian economy. Apart from skilled labor, the key inputs such as computers and software (e.g., database management system, operating system, development tools) are all imported. The absence of a well-developed infrastructure, including power and transportation, makes it difficult to compete globally in the hardware sector. For example, Dell Inc. decided against establishing a manufacturing facility in India since the infrastructure does not allow “just-in-just-out” – inputs arrive just in time and finished goods shipped immediately – production model. For SITS, however, there is little need for forward linkages such as physical transportation systems since the services are largely provided over electronic communication networks to foreign clients. Further, since 85% of the output in the SITS sector is currently exported, there is little internal consumption of its output. As a result, the ripple effects of this sector on the overall economy are severely limited.

There are few opportunities in the SITS sector for the unskilled and semi-skilled labor that constitute the bulk of India’s poverty-stricken sections of society. While some of this labor could be engaged in construction and maintenance of physical infrastructure related to the SITS sector, including buildings and cable connections, the fraction of labor so absorbed is likely to be low. There are, of course, some indirect benefits. For example, SITS sector employees who draw relatively high salaries could engage in spending that leads to indirect employment for such labor. Likewise, this sector could enhance travel-related economic activities involving hotels, restaurants, transportation, and shopping. Placing all this in context, though, it is not clear how a sector that

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1 David Kirkpatrick, *Outsourcing could get the better of India too*, Fortune 16, 2004
comprises 3.2% of the GDP can yield significant trickle down effects, even if the sector grows at a strong rate for the next decade.

The growth of the SITS sector is likely to exacerbate regional imbalances within India. Almost without exception, this sector is based in the urban, more developed parts of the nation and targets the well-educated work force. Efforts to geographically diversify this sector have failed. For instance, efforts to set up a software park in Hubli, the second largest city in the state of Karnataka – home of IT giants like Infosys and Wipro which are based in the state capital of Bangalore – have not been successful. Software industry targets an educated workforce who value quality of life and basic amenities that are absent in cities like Hubli.

Finally, there is the question of whether the SITS sector offers the most productive deployment of skilled human resources at the national level. Many of the call center and back office workers in India are over qualified for their jobs. College graduates, chartered accountants, MBAs and engineers are at work answering customer questions during odd hours – the same jobs are held by high school graduates in the West. Although these jobs pay relatively high wages and provide employment opportunities for new graduates, the opportunity costs of such employment from a societal viewpoint may be high. There is evidence that annual churn rate is reaching 40-50% for call center jobs. There is increased dissatisfaction with the type of work, and there is no clear path for personal development that matches the qualifications of the workers. These skilled employees may contribute more strongly to economic development in a broad sense if they were encouraged to be entrepreneurs or focused their energies on the infrastructure and core manufacturing sectors.

In summary, it is doubtful whether the SITS sector will serve as a platform for India’s economic development. While Indian software firms must be lauded for taking advantage of the global opportunities related to information technology, it is not clear that such corporate success will
translate into robust and balanced growth at the national level. In this context, China’s manufacturing sector offers a striking contrast to the SITS sector in India.

### The Path of China

In contrast with India’s SITS strategy, China’s manufacturing-led strategy is less problematic. “Made in China” is as ubiquitous as air in the global economy. China engaged in over $850 billion worth imports and exports in 2003, almost 10 times the trade volume of India. Even though 60% of the population still lives in poverty-rich western China, anyone who has stepped into China will admit the existence of First world, state-of-art, infrastructure and living standards in many parts of the eastern coastal belt. China has a planned approach to develop interior areas gradually through large industrial parks and infrastructure for movement of physical goods.

Recent trade numbers best reflect China’s manufacturing-based economic power. Over $1 trillion worth of manufacturing output has moved from Japan to China, with companies like Toshiba shifting the bulk of their manufacturing to mainland China. Curiously, 60% of all IT and electronics goods from Taiwan, considered a renegade province by Beijing, are actually made in China. In the fast growing LCD panel market, China produces 60% of the world’s output.

The massive influx of manufacturing activities into China has resulted in more than 2.1 billion sq. m. of new building construction, an increase of 133% from 1995. China now consumes 36% and 50% of the world’s steel and cement production, respectively. The economic activity driven by manufacturing has led to a substantial service sector and a corresponding increase in new jobs, travel, and tourism. The increase in disposable income is reflected in the 75% growth in car sales in 2003, coupled with a dramatic increase in spending on consumer goods. China today has
nearly 300 million cell phones, almost 8 times the number in India. Despite its large population, China’s per capita GDP has doubled in the last decade and grown 500% since 1980.

How did China grow this rapidly? There are two key reasons: Foreign Direct Investments (FDI), and the domestic – backward and forward – linkages. China’s growth through FDI, which now stands at $52 billion as opposed to $4 billion for India, has been discussed extensively. The policy shift to grow out of FDI is well summarized by Deng Xiaoping that “it doesn’t matter if the cat is black or white, the important thing is that it can catch mice.” The idea is simple – if growth and well-being of the people can come from attracting FDI and exporting, so be it. The second driver of this growth is China’s ability to build successful backward and forward linkages between manufacturing activity and the rest of its economy. Such linkages, to an extent, are more naturally associated with manufacturing than with software and information services.

China’s strategy of attracting FDI can be classified into four stages. In Stage I, firms established assembly plants in China to benefit from low wages and exported the final product. In Stage II, some low-end imported components were made within China and the infrastructure and expertise to make other inputs were developed. In Stage III, all inputs to the assembly plant were mostly made in China, some through heavy-handed negotiations and pre-condition to access Chinese markets. The final product is assembled for both exports and internal consumption. Stage IV involved the globalization of the Chinese firms itself. Chinese firms will be able to establish foreign subsidiaries and export components from China to these subsidiaries thus capturing a larger fraction of the global value chain. The massive backward linkages in Stages II to IV have created numerous jobs and disposable incomes, which have increased internal consumption of goods and services. Most large firms in China are nearing Stage III.
The linkages have a significant multiplier effect – that is, creation of numerous direct and indirect jobs after the initial FDI. This strategic move is aggressive and almost obsessive, and tackled in a holistic manner. The linkages have created vertical (e.g., supplier base and customers) and value chain integration (e.g., design to manufacturing) within its national boundaries, and resulted in indigenization of imported components. These have enhanced internal consumption even when the final product is exported.

The backward and forward linkages from a manufacturing unit are schematically described in Figure 1. Backward linkages create demand for suppliers who provide input to this unit (e.g., an automobile manufacturing unit creates demand for tires, steel, microprocessors, brake systems, and even software). The demand for component and material suppliers translates into demand for their sub-suppliers and so on. The forward linkages of an industry capture its output that feeds into another industry (e.g., the output of a semi-conductor manufacturing unit may serve as input into computer and photographic equipment manufacturing units). China has focused on leveraging the forward and backward linkages potentially available in the manufacturing sector to multiple the economic effects of the manufacturing units. Tens of millions of Chinese have been employed in supporting these linkages, resulting in higher disposable income and strong internal consumption of the manufactured output.

In parallel with the boom in manufacturing, a large service sector has simultaneously evolved to serve the requirements of the workers employed in factories and other production centers. New hotels, restaurants, entertainment centers, beauty parlors, training institutes, shopping malls, transportation terminals, and other service-oriented establishments have sprung up in proximity to the manufacturing sites.
The semiconductor manufacturing sector provides a good example of how China has built linkages from its manufacturing units to other sectors of the economy. China has encouraged existing local companies, start ups, and foreign companies to invest in semiconductor manufacturing. The output from this sector serves as input to numerous products including toys, color TVs, cell phones, and other durable goods. Much of this output from other sectors is destined for overseas markets. From importing 80% of semiconductors from the U.S., Japan, and Taiwan, China is moving to become self-reliant. China’s push into semiconductor manufacturing also complements the trend towards fab-less design centers in the U.S. Going further, China has attracted many major semiconductor companies including Freescale Semiconductors, Agilent, Texas Instruments, and Infineon to setup design centers there. As a result of these initiatives, China now
has a robust representation in all parts of the semiconductor value chain – from circuit design, to component manufacturing, to finished products that embed the manufactured components.

China is also aggressively seeking to keep revenues from going out of the country by developing its own proprietary protocols and standards for areas such as 3G (TD-SCDMA), wireless LAN (WAPI), DVD (EVD), and operating systems (Red Dragon). Whether such aggressive strategy will pay-off without subjecting itself to tariffs and sanctions from other nations is subject to debate. It is also unclear whether the proprietary national standards are economically and technically feasible. However, the growing economic power of China will force competing nations to play it safe; otherwise other nations may take advantage by moving first and capturing a significant fraction of the market. Volkswagen of Germany has become the best selling car in China by being the first mover relative to firms from other nations.

The linkages have promoted rapid infrastructure building beyond major cities, and created a culture of innovation through incubators and science and technology parks. The educational system has been revamped to focus on building global relationship through universities and learning English. This strategy has created jobs for the entire spectrum of work force – from unskilled to highly skilled, from illiterate to highly literate, from manual labor to knowledge-intensive. The spectrum of job creation could probably be the single most important indicator for social welfare. Now, large sections of China’s coastal belt have quickly developed, with infrastructure and living standards in some areas now approaching those encountered in developed western economies.

There are some serious regional imbalances in China’s development, and 60% of the population still lives in poverty-stricken western China. However, China has a planned approach to develop interior areas by building large industrial parks and the required infrastructure for the movement of physical goods. For instance, the Chinese government plans to spend $200 billion
during the next 10 years to enhance the infrastructure of Chongqing province. Such investments have the potential to rapidly expand the manufacturing base and create millions of jobs, thereby easing the transition from an agrarian to an industrial society even in the backward regions. Despite disparities in income within regions and disparities in development across regions, there is little doubt that the living standards for a large fraction of Chinese have improved dramatically over the last decade.

While much of China’s growth has been anchored by the manufacturing sector and ancillary activities, several cities in China are now aggressively expanding their presence in the software arena. Dalian, a port city near the North Korean border, has established software parks and information technology programs in major universities. Dalian is investing heavily in tax incentives and other sops to attract software companies. IBM, HP, Sony and Toshiba have moved software development activities, design centers, and business processes management centers to Dalian. Building forward from its success in manufacturing, China is setting itself up to compete aggressively on the SITS front as well.

<table>
<thead>
<tr>
<th></th>
<th>India (%)</th>
<th>China (%)</th>
<th>South Korea (%)</th>
<th>U.S (%)</th>
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<tr>
<td><strong>Growth</strong></td>
<td></td>
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</tr>
<tr>
<td>In GDP</td>
<td>1980-90</td>
<td>5.7</td>
<td>10.3</td>
<td>8.9</td>
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<td></td>
<td>1990-02</td>
<td>5.8</td>
<td>9.7</td>
<td>5.6</td>
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<td>1980-90</td>
<td>3.1</td>
<td>5.9</td>
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<tr>
<td></td>
<td>1990-02</td>
<td>2.7</td>
<td>3.9</td>
<td>1.8</td>
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<tr>
<td>Mfg Growth</td>
<td>1980-90</td>
<td>7.4</td>
<td>10.8</td>
<td>12.1</td>
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<tr>
<td></td>
<td>1990-02</td>
<td>6.6</td>
<td>11.9</td>
<td>7.6</td>
</tr>
<tr>
<td>Service Growth</td>
<td>1980-90</td>
<td>6.9</td>
<td>13.5</td>
<td>8.4</td>
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<tr>
<td></td>
<td>1990-02</td>
<td>7.9</td>
<td>8.8</td>
<td>5.6</td>
</tr>
</tbody>
</table>

**Table 1: Sector Growth Rates** (Source: World Bank)
The result of China’s massive backward and forward linkages is observed in sustained manufacturing sector growth rates of 10.8% and 11.9% in the two preceding decades (Please see Table 1). As expected, the service sector recorded an unprecedented 13.5% growth during 1980s. This reflects the importance of initial manufacturing growth to the service sector. The agricultural sector registered significantly lower growth relative to manufacturing or service sector. One can safely conclude from the data that displaced agricultural labor is absorbed in the growth sectors in large numbers. China’s growth far outpaces that of India and is comparable to that of South Korea during its massive industrialization efforts of 1970s and 1980s.

The Path to Intellectual Capital: China versus India

A culture of innovation is fundamental for global economic leadership. If India and China want to become technological powerhouses, then innovation incubators are essential. Incubators nurture talent among scientists and engineers and provide support during the early years of innovation when the risks of failure are the greatest. China, in this regard, has made substantial progress vis-à-vis India.

In 1988, the Chinese government embarked on a plan to develop and commercialize innovation in high-growth sectors, including information technology, biotechnology, new materials, medicine, and new energy sources. China now boasts of approximately 440 incubators, science and technology parks, and software parks in 53 high-technology industrial zones. Over 24,000 incipient companies have been incubated in these facilities since 1988, of which 6,900 have been spun off as commercial entities, and about 30 of these have gone public. The bulk of these companies engage in developing and commercializing proprietary industrial technologies. Most of the companies are spin-offs from universities, research institutes and state-owned enterprises.
The Chinese Diaspora has gained special privileges to set up new high-tech businesses. China has recognized that students, scientists, and business professionals from abroad constituted a rich source of talent, ideas, and money. The special focus on the Diaspora has paid off handsomely, with the establishment of over 30 overseas Chinese Scholar’s Parks. For example, the Haidian Pioneer Park in Beijing houses 140 companies set up by Chinese returning from overseas. Thus, it is evident that entrepreneurship and culture of innovation is heavily emphasized in the national agenda and all major avenues to promote such innovation are actively pursued. The growth of incubation is not without problems – the lack of venture capital remains a limitation, and incubators are not immune to political interests.

The incubation concept in India is relatively new. A few institutes like the Indian Institute of Science (IISc) and Indian Institutes of Technology have taken the lead in setting up incubators. However, most initiatives are primarily and narrowly focused on software or telecommunications. Much of the innovation in high-technology in India originates from a few, large companies including Dr. Reddy’s Laboratory, Wipro, and Infosys. With some exceptions, innovation in biopharmaceuticals is limited to developing generic drugs. Scientists and businesses from leading companies admit in our discussions that India has a long way to go towards engaging in more fundamental innovation. Several of the leaders suggested fundamental change in the education methods starting from primary education since Indian education focuses intensely on conformance to strict guidelines and rote learning.

The argument has been advanced that India’s entrepreneurship-led growth – mainly from IT and pharmaceutical sectors – is more sustainable than the FDI led growth of China.\(^5\) The growing presence of Indian companies like Dr. Reddy’s Laboratories, Wipro, and Infosys in cited in this

context. However, it is not clear that China is falling behind in this regard either, considering the world-wide invasion of Chinese brands such as Haier and Huawei. Further, the Chinese reach is not necessarily reflected in a Chinese name – RCA is now a “Chinese” brand.

Interestingly, most of China’s FDI funds now come from overseas Chinese investors and Taiwan. Hong Kong, Taiwan and Macao were responsible for 53.9% of all FDI in China in 2002. The Chinese Diaspora in Singapore and Malaysia accounted for an additional 5.6% of China’s FDI. Hong Kong and Taiwan are innovation laboratories of world class stature, and constitute a major asset for China. In contrast, there appears to be no concerted and substantial effort on India’s part to attract non-resident Indians (NRI) who can bring back their experience and resources to India.

<table>
<thead>
<tr>
<th>Country</th>
<th>Telephone mainlines (per 1000)</th>
<th>Cellular subscribers (per 1000)</th>
<th>Internet users (per 1000)</th>
<th>Patents granted (per million)</th>
<th>R &amp; D as % of GDP (1996-2000)</th>
<th>Scientists &amp; Engineers in R &amp; D (1996-2000) Per million</th>
</tr>
</thead>
<tbody>
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<td>586</td>
<td>588</td>
<td>384.2</td>
<td>1057</td>
<td>3.0</td>
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<td>301.5</td>
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<td>4099</td>
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<td>65*</td>
<td>2</td>
<td>1</td>
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<tr>
<td>India</td>
<td>38</td>
<td>43*</td>
<td>34*</td>
<td>1</td>
<td>1.2</td>
<td>157</td>
</tr>
</tbody>
</table>


Table 2: Knowledge Indicators of Select Countries
Table 2 provides some details regarding the knowledge-intensity of eight countries. While India trumpets its intellectual prowess in the SITS sector, mainland China leads India in most knowledge indicators such as patents issued, PC penetration, and scientists and engineers employed in R&D. The imbalances become more pronounced when one includes the intellectual capital of Taiwan and Hong Kong, which are now increasingly integrated with mainland China at least in the economic context. According to the U.S. Patent and Trademark Office, Taiwan and Hong Kong are granted more US Utility Patents per million than any country besides the U.S. Further, according to the Global Competitiveness index, Taiwan is ranked as the fifth most competitive economy and the third most technologically advanced country in the world. Hong Kong is ranked 24th and 37th, respectively, on these dimensions.

Concluding thoughts

While the progress made in India is laudable, for a huge fraction of the population, the glass must be viewed as “half-empty.” The benefits of SITS sector in India have been constrained to educated elite and to urban areas. On the contrary, with its focus on manufacturing, China has achieved a growth pattern that is more robust and balanced than that of India, and has created employment opportunities to absorb large agricultural workforce in industrial sector.

How has India fared on the manufacturing front? Despite a serious lack of world class infrastructure, the manufacturing sector is evolving in India. Large industrial houses from South Korea, such as LG and Hyundai, are expanding their Indian manufacturing operations at a rapid pace to serve not just the Indian market, but to use India as a base for export to Latin America, Asia, Eastern Europe, and Africa. Indian companies such as Tata Motors, Bajaj Auto Ltd., Mahindra and Mahindra, and Sundaram Clayton Ltd., have begun to venture into global markets. Unfortunately,
while much needs to be done in terms of empowering the manufacturing sector with skilled workers and better infrastructure, this sector has not received the same attention and is hounded by numerous regulatory burdens that are waived for the SITS sector.

Unless the central and state governments in India vigorously work to improve the basic infrastructure related to power, water, communication, and transportation, the manufacturing sector will not grow at a rapid clip. Yet, as China’s experience suggests, for a relatively poor nation with a burgeoning population, rapid growth in manufacturing is the stairway out of the basement of poverty. India’s development policies do not determinedly point in this direction at the moment.

It is important, however, to recognize that India’s choice of placing political freedom ahead of economic liberalization puts a cap on the pace of development. Democracy, poverty, and large agriculture-based voter base has caused Indian governments to massively subsidize agricultural sectors at the expense of industrialization. Indian policy makers have to balance between long-term growth needs and short-term social benefits – China is less constrained in this regard. China’s emphasis on economic freedom before political freedom has served it well in some areas, especially in the context of delivering sustained and methodical growth. Is such a trade-off between political freedom and economic development worthwhile for developing countries? This is a question with no easy answer.

Without a well articulated strategy for balanced economic development, India is destined to fall farther behind China even as it celebrates its shining success in the SITS sector. India’s growth has been sporadic and opportunistic, with no strong central guiding policy. Indian leaders need the vision for an economic agenda that recognizes democracy, sustainability, and wide-spread socioeconomic development. There is something useful to be learned by other developing nations from the experiences of China and India.