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India and China: A Comparative Study of Economic Growth and Development- Divergences, Gaps, and Future Prospects

Prakhar Gupta
Student,
Amity Institution of Social Sciences,
Amity University,
Noida (Uttar Pradesh, India)

Nilanjana Shah
Assistant Professor,
Amity Institution of Social Sciences,
Amity University,
Noida (Uttar Pradesh, India)

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ABSTRACT:

Why are some nations rich while others remain poor? Why do some achieve growth, development, and prosperity while others lag? Scholars have debated this for decades, citing factors like history, culture, geography, institutions, and political systems. This analysis also depends on time—nations wealthy in the 16th and 17th centuries, like India and China, are relatively poorer in the 20th and 21st centuries. No single factor determines a nation's fate; multiple elements must be considered. This paper compares the political, social, and economic trajectories of two ancient civilizations and modern giants: India and China. It focuses on their political systems—democratic and authoritarian—and their impact on economic policies, particularly in manufacturing, services, and agriculture.Since the 1980s, India and China have followed divergent development paths, with China leading in GDP, literacy, healthcare, living conditions, military power, and global influence. Is this primarily due to their political systems? India, a multi-party democracy with fundamental rights, rule of law, and free elections, trails China in various indicators. Meanwhile, China, an authoritarian one-party state with political repression, has witnessed unprecedented economic growth.This paper contrasts governance in India and China, examining the role of political structures alongside other factors and their consequences on economic and social development.

Keywords: *India, China, Inclusive, Extractive, Democracy, Authoritarianism, Development*

1. Introduction:

Two Ancient Civilizations:

China and India are the only nation states that can also claim to have been ancient civilizations. That means both civilizations have seen many ups and downs over hundreds of years, but they have been continuous over this period unlike Roman or Greek Civilization which have vanished or modern states like USA which are only few hundred years old.

They both saw rise and fall of empires, long periods of prosperity and years of brutal wars and conflicts. Then both came under the control of imperial and colonial rule which completely drained them out of their wealth, prosperity and resources which left both of themweak and humiliated. From being the richest regions in 17th and 18th century and having the largest share in world trade, both were reduced to shambles.(Acemoglu, 2012)(Fenby, 2008)(Naughton, MIT Press)

Independence:

However, in 1940s, both emerged out of years of subjugation to become sovereign and independent nations through two completely different ways. On one hand, India got her independence from the British Raj through a peaceful nationalist movement culminating in peaceful transfer of power in 1947. The joy of Independence was short lived in India, as it was followed by its tragic partition along religious lines into India and Pakistan. Lakhs of people died in the ensuing communal riots and many more were displaced across the borders (largest migration in the modern human history).

On the other hand, China first won a brutal war against the Imperial Japan in 1945 which was followed by a Civil War in which Communists (Communist Party of China led by Mao Zedong) defeated the Nationalists (Kuomintang Nationalist Party led by Chiang Kai Shek) in 1949. The Nationalist went to Taiwan creating Republic of China while the Communists created People's Republic of China in the mainland.(Fenby, 2008)

Beginning of Journey as Sovereign States:

So, the journey of these two sovereign nations began around the same time. However, these newly independent nations chose completely different paths to move forward. India chose the path of Democracy by adopting its Constitution on 26 January,1950. This Constitution made India a multi-party democracy with its citizens having fundamental rights and universal adult franchise. China, on the other hand, chose the path of Communism dominated by a single party i.e Communist Party of China. In China, citizens have very limited rights and there are no direct elections. This shows the completely contrasting paths chosen by them.

However, there was one commonality between them. They both agreed that government's intervention was crucial for their economic and social development. This means they both believed in idea of Socialism and most of their ideas were inspired form USSR. The only difference was in the degree of state intervention.

Period of Chaos:

The initial decades of their independence were full of chaos and instability. India fought three wars (1947 and 1965 with Pakistan, 1962 with China) and went through an acute food crisis in 1960s. This was followed by the political instability of 1970s culminating in the Emergency imposed by Indira Gandhi in 1975. China's instability was more self-inflicted. Mao Zedong policies of '**great leap forward**' and '**cultural revolution**' in 1960s and 1970s destroyed the Chinese economy and society. It is estimated that millions of people died in the famine caused by the 'land collectivization' scheme launched by Mao. Red Guards unleashed by Mao on his own party and people, created fear and oppression in the society.

So, by mid 1970s, India and China were mired in political and social instability. Social parameters like literacy, health and living conditions were poor for both. The economic growth in terms of GPD was also not enough to provide good living conditions to the millions of people in both the countries. If compared, China was worse than India in most of these parameters at this point of time.

Divergence in Path:

Mid-1970s is where the story of India and China diverge in completely different directions in terms of economic, social and technological growth. In the next few decades, where one of them soared and achieved the greatest ever economic transformation in modern human history, the other stumbled from one domestic crisis to next before being forced to reform its economy. Now, there is no doubt which one is China, and which one is India.

After the death of Mao Zedong, Deng Xiopeng became the de-facto leader of China. Under his leadership, the China completely transformed. The most important action he took was diluting the authoritarianism in the country prevalent under Mao and reducing the role of party in the government to a certain extent. He did this by placing a two term-limit on President of China. He also ensured that the General-Secretary of the CCP and the President of China were two different individuals to prevent the concentration of power in hands of a single person. He completely reformed the economy by opening China to the foreign investment for the first time. He liberalized and privatized the economy and prepared it for the incoming globalization. He increased government expenditure in health and education. This in result created a skilled labor workforce which made China the manufacturing and exporting giant it is today. During 1980s and 1990s, China also focused on investment in indigenous technology in the fields like space and defense. These reforms have paid dividends as in the last few decades, the extraordinary growth China has seen in every field is incomparable in modern history.(Naughton, MIT Press)

In contrast to China, India took a very different path. Under Indira Gandhi, India doubled down on socialism in 1970s and 1980s with increased in government control and regulations. It created the infamous **license raj system** which crippled the economy, foreign investment, ease of doing business and led to huge corruption by the bureaucracy. India's GDP growth was called as 'Hindu Rate of Growth' as it was stuck around just 3%.

However, in 1991 when India faced an acute economic crisis, she was forced to liberalize the economy under the leadership of then PM P.V Narsimha Rao and Finance Minter Manmohan Singh. This led to privatization of the economy and helped India also benefit from the process of globalization that the world was going through. India has made a lot of strides in poverty alleviation, education, health and economic development but it has been considerably slow as compared to China

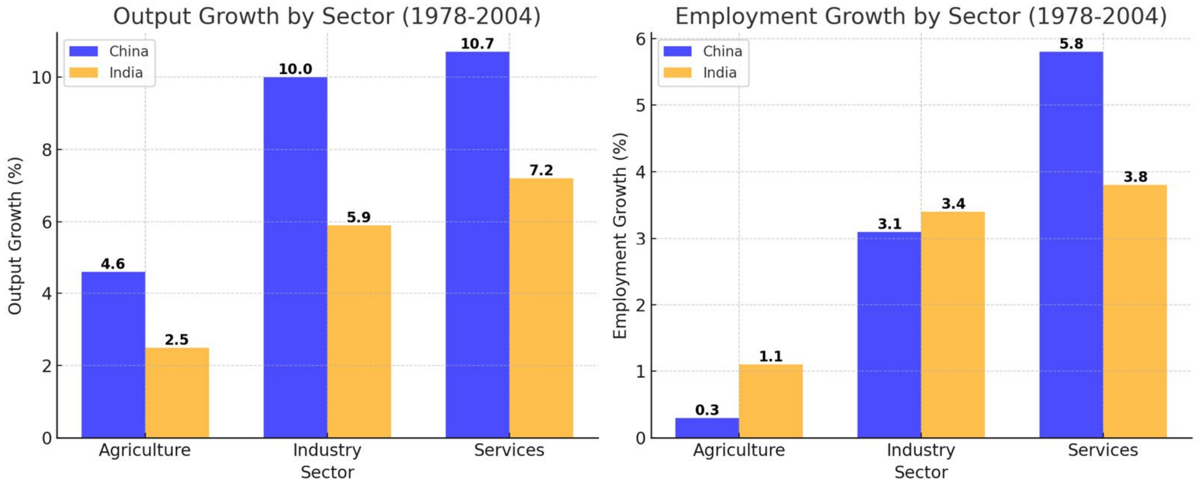
Comparison:

Today, if we compare India and China on every 'development' metric, be it economy, education, military, sport, space etc, China is better than India. Now, the question is why China was able to reform its economy so quickly that it was able to take benefit of the globalization while India was left behind. Is it because China is a one-party authoritarian state where only one opinion matters while India is a diverse democratic state where consensus is required to come before making any decision? Would India be at the same level as China if it was also a totalitarian state where reforms happen quickly or would it have disintegrated into many parts under such system. These are some of the questions this paper tries to answer by studying and comparing China and India's journey in various fields like education, military, foreign policy, economy and their political system.

2. Comparing the Economy of India and China:

China's economic growth since the late 1970s has been marked by rapid transformation, while India's trajectory has been more gradual. In the late 1970s and 1980s, China transitioned from a centrally planned economy to a market-oriented model, establishing Special Economic Zones (SEZs) to attract foreign direct investment (FDI) and boost exports. By the early 1980s, India and China had comparable GDP levels, with India maintaining a higher per capita GDP until around 1990. However, India's major economic liberalization reforms, including trade deregulation and private sector encouragement, began only in 1990. By 2017, China's export of high-tech products was 43 times higher than India's, and by 2018, China's economy had grown to five times the size of India's, with a per capita GDP of $9,771 compared to India's $2,010. Several factors contributed to this divergence. China's economic reforms and export-led growth strategy turned it into a global manufacturing hub, attracting massive FDI and enabling rapid industrial and technological advancements. Additionally, its heavy investments in infrastructure, such as transportation and energy, facilitated efficient production and distribution. In contrast, India's liberalization came later, and its growth was largely service sector-driven, particularly in information technology and business process outsourcing. India's cautious approach to FDI and less aggressive trade policies resulted in lower foreign investment and slower export growth compared to China. These differences in economic strategy and policy implementation led to China's rapid rise as an economic superpower while India's growth remained steady but slower.(Gechev, 2020)

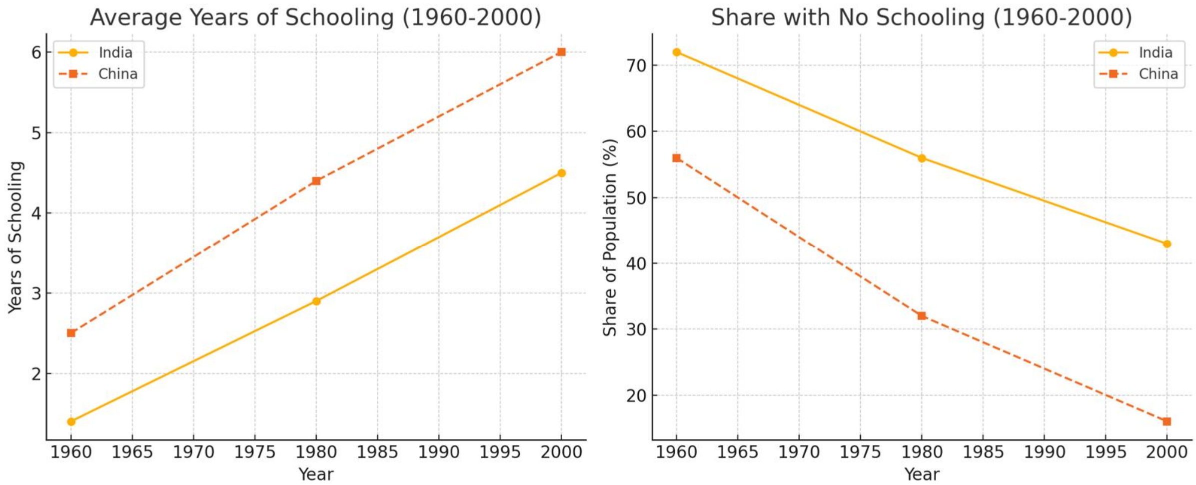
Graph 1



(Bosworth & Collins, 2008, Table 3).(Bosworth, 2008)

This table shows the average growth in percentage in three different sectors i.e agriculture, service and industry. These figures show that although India has grown at an extra-ordinary rate it is nothing compared to China.

Graph 2



(Bosworth & Collins, 2008, Table 2).(Bosworth, 2008)

These graphs show the investment made by India and China in education and how even in this China is far ahead of India. This has resulted in China having a more skilled labour-force which ultimately gave it an advantage over India, especially in the industrial sector.

3. Comparing the Decentralization of Urban Governance:

China's remarkable economic ascent is often attributed to strategic national policies and visionary leadership. However, a deeper examination reveals that the true engine behind China's growth is its extensive bureaucratic decentralization. Local governments in China wield significant authority, enabling them to implement policies tailored to their regions, fostering rapid and diverse economic development.(Ang, 2016)

In contrast, India's governance structure remains highly centralized. City-level governments in India control less than 3% of total government spending, whereas in China, sub-provincial levels account for approximately 51% of government expenditures. This disparity highlights the limited fiscal autonomy of Indian local bodies, restricting their ability to address region-specific challenges effectively.(Kotasthane, 2025)

The Chinese model, often termed 'appointocracy,' was pioneered by Deng Xiaoping. This system emphasizes performance-based accountability, where local officials are granted substantial autonomy but are rigorously evaluated based on economic outcomes. Such a framework encourages innovation and swift decision-making at the local level, propelling economic growth.(Kotasthane, 2025)

For India to emulate China's economic trajectory, a paradigm shift towards decentralization is imperative. Empowering local governments with greater financial resources and decision-making authority can lead to more responsive and effective governance. By enabling city and district administrations to craft and implement policies suited to their unique contexts, India can unlock diverse avenues for economic development and enhance overall growth.

4. Why Nations Succeed ?

In their book *Why Nations Fail*, Daron Acemoglu and James Robinson argue that a nation's economic success is primarily determined by its political institutions. They classify these institutions as either 'inclusive', promoting widespread participation and equitable resource distribution, or 'extractive', where power and wealth are concentrated among a select few. According to their thesis, inclusive institutions foster prosperity, while extractive ones lead to poverty.(Acemoglu, 2012)

However, this framework encounters challenges when applied to countries like China and India. China, under its authoritarian regime, has experienced rapid economic growth, which seems to contradict the idea that inclusive political institutions are necessary for economic development. Conversely, India, the world's largest democracy, has faced hurdles in achieving comparable economic progress, despite having inclusive political institutions.(Acemoglu, 2012)

These examples suggest that the relationship between political institutions and economic outcomes may be more complex than the binary classification of inclusive versus extractive. Factors such as historical context, policy decisions, and global economic dynamics also play crucial roles in shaping a nation's economic trajectory.

In summary, while Acemoglu and Robinson's theory provides a valuable lens for understanding economic disparities, the cases of China and India indicate that additional variables must be considered to fully comprehend why nations succeed or fail.

5. Present and Future of India and China Economic Relationship:

China's Dominance in Global Manufacturing-

The Economic Survey notes that while China's industrial share was a modest 6% in 2000, projections from UNIDO suggest that in just three decades China could account for as much as 45% of global manufacturing. This "once-in-a-century" level of dominance is compared with historical shifts seen during the early phases of the Industrial Revolution in the UK and post–World War II in the US."It means that in an extended war of production, there is no guarantee that the entire world united could defeat China alone."(Government of India, 2025)

Control over Critical Inputs:

China also commands crucial segments of the supply chain for vital raw materials. For example, it processes about 65% of global Nickel, 68% of Cobalt, and 60% of Lithium. In the realm of rare earth minerals, China's grip is even tighter—accounting for 63% of mining output and 90% of processing capacity. These figures underscore the strategic risk for India, which is heavily dependent on Chinese inputs for sectors like renewable energy and advanced electronics.(Government of India, 2025)

Gaps in Domestic Capacity:

The survey highlights that India's current manufacturing capabilities lag behind, particularly in sectors critical for energy transition. For instance, the production capacity for monocrystalline silicon ingots—a key input for solar panels—is expected to quintuple by 2025 from 2 GW in 2023. Yet even this dramatic scale-up may not fully bridge the gap between domestic demand and supply.(Government of India, 2025)

Chief Economic Adviser V. Anantha Nageswaran emphasizes that China's strategic advantages in manufacturing and resource control create both challenges and vulnerabilities for India. The survey makes it clear that India "faces limitations in producing critical goods at the scale and quality required" to meet its growing infrastructure and investment needs.(Government of India, 2025)

Recommendations: The Path Forward for India:

1. **Boost Domestic Manufacturing:**

India must aggressively scale up its production capacities in sectors such as solar energy components, electric vehicle parts, and other advanced manufacturing areas. This means not only expanding capacity but also enhancing quality to meet domestic and global standards.(Government of India, 2025)

2. **Diversify Supply Chains:**

The report advises that India needs to "locate and nurture alternative sources of supply" beyond short-term cost considerations. This involves attracting both domestic and foreign investments to build resilient supply chains for critical inputs.

3. **Implement Structural and Regulatory Reforms:**

A sustained program of deregulation and policy reforms is essential to lower the barriers for private investment. Strengthening institutional frameworks will allow the economy to adapt more quickly and foster innovation that can reduce overdependence on any single country.(Government of India, 2025)

4. **Invest for the Long Term:**

There is a need for strategic, long-term investments in areas such as mining and processing capacities for critical minerals. By developing indigenous capabilities, India can mitigate the risks of supply disruptions and price volatility stemming from global geopolitical shifts.

5. **Pursue Strategic Partnerships:**

While reducing vulnerabilities, India must remain open to balanced and security-conscious partnerships that can provide technology transfers and expertise. Such partnerships can help bridge the current gap without compromising national interests.

"Equally, investing in and strengthening domestic supply-chain capability and resilience will be the hallmarks of strategic and long-term thinking on the part of the private sector. Alternative sources of supply, where possible, have to be located and nurtured, going beyond short-term cost considerations."(Government of India, 2025)

In Summary:

India faces a lot of strategic challenges from China's manufacturing dominance and supply chain control. However, there is a roadmap for a more resilient future: by boosting domestic capabilities, diversifying supply sources, reforming regulatory frameworks, and investing for the long term, India can reduce its vulnerabilities and forge a path toward greater economic self-reliance while still engaging in the global marketplace.

Conclusion:

We began this paper by asking a complex question: Why have the rate of development of India and China diverged to such an extent in the last few decades? We tried to answer this question by comparing their political systems and how it affected their policies in various fields like economy, education, health, foreign policy.

Can we answer this question by looking at their **institutions**. The 2024 Nobel Prize in Economics Sciences was given to **Daron Acemoglu, Simon Johnson and James Robinson** for "**studies in how institutions are formed and affect prosperity".** They underscored the importance of institutions for a country's prosperity. They used the word institution to refer to a broad set of rules that govern the behavior of individuals in a country. They distinguished between **inclusive** and **extractive** institutions. (Acemoglu, 2012)

Inclusive institutions refer to the existence of democracy, law and order, protection to right of property rights etc. On the other hand, extractive institutions refer to centralization of power (authoritarianism or dictatorship), lack of rule of law and the associated risks of expropriation. They argue that these two types of institutional frameworks inspire people in an economy or society completely differently. For instance, if people have Right to Property and assurance that their incomes would be protected for generations, then they would invest in long-term growth and prosperity. In the absence of such inclusive institutions, incentives vanish, undermining long-term prosperity. The best example for this assertion is the extraordinary growth in the capitalist USA and the stagnating growth in late years of Communist USSR.

So, what happens if we apply this assertion to India and China. Clearly, we can see that India and China do not fit this narrative. Arvind Subramanian (India's former Chief Economic Advisor) in an article in American Interest argued that India and China, which form a third of the humanity do not conform to this assertion. He argued that China has grown by leaps and bounds despite having an authoritarian government with no inclusive institutional framework. On the other hand, India has relatively grown very less, despite having a Democratic Constitution, holding elections regularly and fairly, having an independent judiciary and a vibrant press. (Subramanian, 2013)

However, he noted in his piece that the counter to this argument can be that China's growth spurt is just a matter of past three decades and India can achieve similar growth levels in the next three- even as China falters. To some extent both things have started happening. This is evident from the growing economic crisis in China under increasingly authoritarian and repressive rule of Xi Jinping while India becoming fastest growing economy of the world in the last few years. In the same vein it can be argued that the extraordinary growth seen by China in the last few decades can be attributed to "policy and institutional reforms" carried out under Deng Xiaoping during 1980s after the end of Mao Zedong's rule. (Subramanian, 2013)

China's institutions are clearly more extractive than those in many of its peer nations in Asia and Africa like India, which have not done quite as well. So, we can conclude that this comparison based on 'institutional framework' only gives a part of picture.

All the factors like culture, history, geography, institutions and politics play a role in determining whether a nation becomes rich or poor whether it fails or succeeds in achieving prosperity. Same is the case for India and China.

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