

They are viable and will abate the consequences of risks related to international commodity prices, thus helping in reducing inflation.

However, Mr. Rawat also pointed out, that quick decision-making and transparency should be built-in features of India's SWF. Given ubiquitous and deeply entrenched corruption in the Indian legislation, it is feared that crores would be cornered into individual pockets and the actual motive would remain engraved only on papers.

SWF's have helped some nations prosper and have degenerated some. India has to travel a long way to achieve the ultimate goal. If stringent measures to combat corruption and enhance transparency are undertaken, not only will the decision safeguard our position in the world, it will also extenuate the incessantly surging inflation and prices of foreign currencies. Otherwise, these funds may prove to be catabolic for the Indian economy. Political will is a bigger imperative than the bulk of money to activate the funds in order to benefit the nation and not just a few resourceful individuals.

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China & India: A Macroeconomic Comparison

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China and India will exercise increasing influence in international affairs in the coming decades. As prominent members of the G-20, their influence will be manifest in the global economy, in global politics, and in the global security environment. Each country's role on the world stage will also be affected by the progress that it makes and by the competition and cooperation that develops between them.

This is a comparative assessment of their prospects in this period in macroeconomic growth. Economic growth in China and India has become a particular focus of attention of the entire world. In recent decades, growth in both countries has exceeded expectations. Between 1980 and 2008, China recorded an average annual GDP growth of 9 percent, while India's growth during the same period was about 6 percent. Both countries face the challenge of sustaining such high rates of growth.

An anthology published by the World Bank (Winters and Yusef, 2007)¹ provides several analytic models for assessing developments in the Chinese and Indian economies and their impact on global markets through 2020. In addition to providing forecasts of the two countries' economic growth, this book analyzes what would occur if China were to grow at an annual average rate of 6.6 percent, and

India at 5.5 percent, through 2020. Several essays explore other facets of China and India's growth, including effects on the geographical location of global industry, changes in the international financial system, effects on the global environment, and the relationship between growth and governments.

A paper from the International Monetary Fund (Rodrik and Subramanian, 2004)² estimates India's annual GDP growth during the 2020–2025 periods using a growth-accounting model based on inputs of capital and labor and increases in factor productivity. Rodrik and Subramanian acknowledge that their estimates may be low if India succeeds in expanding and improving its educational system. They note that India's productivity growth has benefited from its stock of highly educated people, although they do not provide much supporting evidence. They also acknowledge that their growth forecasts rely on continuation of effective economic and social reforms in India. Rodrik and Subramanian also contend that, unlike China, India already has strong economic and political institutions, so that further reform need not be burdensome. Instead, they suggest that India "has done the really hard work of building good economic and political institutions—a stable democratic polity, reasonable rule of law, and protection of property rights," concluding that "countries with good institutions do not in general experience large declines in growth."

As previously noted, not all of the authors agree with this judgment. Some of the other studies contend that the effectiveness of India's institutions leaves much to be desired (e.g., Poddar and Yi, 2007)³. The forecasts made by the international organizations' studies showing a marked advantage in China's

expected growth relative to India's may plausibly be attributed to China's more prominent role in international trade and investment markets relative to India. As a consequence, one might expect international organizations to be particularly cognizant of and sensitive to this in their estimates of the two economies' growth over the next 15 years, resulting in the relatively buoyant forecasts for China.

In turn, these assumptions and the selectivity of their focus affect the inputs to the analytic models that the authors use in generating their respective forecasts. In the process, the forecasts ignore cyclical fluctuations around long-term trend estimates. They ignore the possibility of major shocks such as political disturbances, natural disasters, or military conflict and, on the optimistic side of the spectrum, the possibility of a major technological jump that might trigger a new wave of innovation in either China or India.

Figure 1 below shows the five contrasting GDP growth pairings between China and India in 2020–2025 under the five contrasting scenarios.

Five GDP Growth Scenarios, India and China, 2020–2025

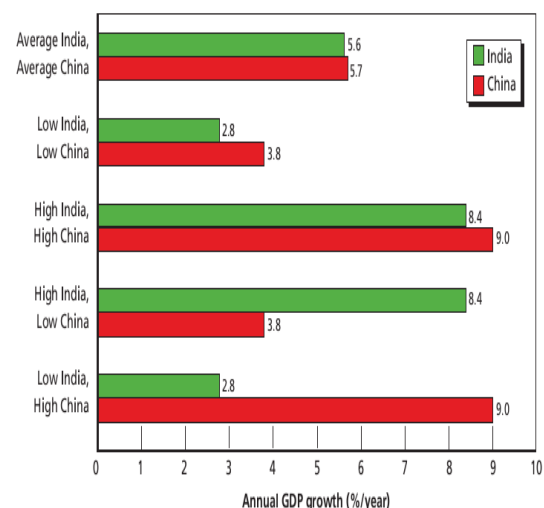
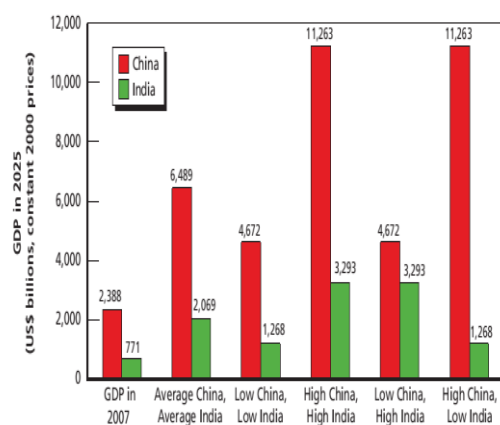


Figure 1

Figure 2 shows the GDPs for India and China in 2025 in terms of market exchange rates (Figure 2) and Purchasing Power Parity (PPP) conversion rates (Figure 3). As Figures 2 and 3 indicate, only in the scenario in which high growth in India is paired with low China growth does India's GDP approach China's. In the four other scenarios, China's predominance is decisive. This outcome is the same whether conversions are calculated with market exchange rates or PPP rates.

Five Scenarios: GDPs of China and India in 2025, Market Exchange Rates



NOTE: Conversion to market exchange rates based on the World Bank's World Development Indicators (World Bank, no date).

Figure 2

Five Scenarios: GDPs of China and India in 2025, Purchasing Power Parity Conversion Rates

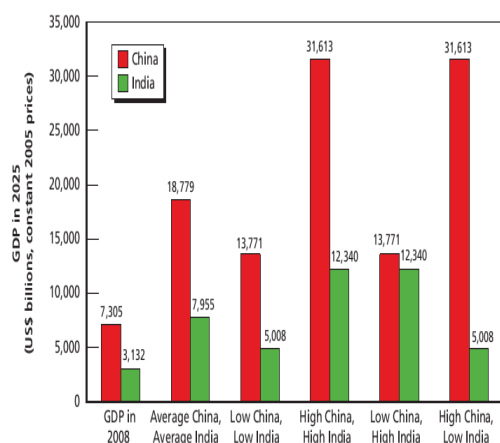


Figure 3

Turning to a more qualitative aspect of the China-India assessment, the table below distills from the meta-analysis our judgment about the advantages and

disadvantages of China and India in their respective institutional and other circumstances. Whether and to what extent the factors listed in the following table will enable India to move closer to, or ahead of, China after 2025 is worthy of separate consideration.

Some Qualitative Factors Affecting China and India's Performance

Factor	Advantage of China or India?
Democracy/rule of law	India
Information technology and service skills	India
Institutions	India
Property rights	India
Productivity growth	China
Foreign investment in and by each country	China
Infrastructure	China

China and India have taken quite different paths in pursuit of their economic development. China has emphasized the expansion of labor-intensive manufacturing, while India has charted a path from agriculture to high-end services with a limited increase in the manufacturing sector. In sum, the wide range of the estimates reflects both the assumptions and behavioral dispositions of the forecasters, the issues they focus on as well as those they ignore, and the deep uncertainties that surround forecasts over the next decade-and-a-half.

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