



To the point!

Cross-Asset- and Strategy-Research

India is not the new China

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The potential is enormous, but education must take priority

Last year, India surpassed China to become the world's most populous country. Since the early 2020s, its economy has been growing faster than China's, and forecasts suggest this trend will continue for the foreseeable future (see Figure 1). This naturally raises the question of whether India could assume the economic role that China held for three decades until the pandemic: as the world's growth engine and a cornucopia of economic opportunities. Especially as the Western world increasingly views China as an unpredictable rival.

India's young population is Delhi's trump card

India's economy is expected to grow faster than China's for a long time. This is supported by the entrenched growth weaknesses in China. Over-indebted companies, often state-owned, a persistent real estate crisis, and a communist government that increasingly intervenes in economic matters: these challenges have shackled the dragon.

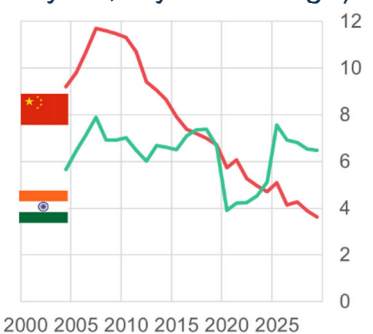
India also benefits from its younger population: China is aging rapidly after nearly two generations of the one-child policy – especially since the birth rate continues to decline. While China is running out of workers, the working-age population in India will grow until the middle of the century (see Figure 2).

China plays in a different league

However, it should not be overlooked that China's economy is still five times larger than India's. Even if the subcontinent grows twice as fast as China, the absolute dollar increase in China is

India grows faster

Fig. 1: GDP Growth (in % per year, 5-year average)



Source: IMF, LBBW Research

China's per capita income is five times higher than India's

still more than twice as large. To catch up, India would need double-digit growth rates until the middle of the century. China remains the more important market for the foreseeable future.

No economic miracle on the subcontinent yet

Nevertheless, India is a land full of hopes and promises. And that's not just because of its demographics. World Bank data show that in the past decade, the quality of economic regulation and the effectiveness of government action have also improved.

However, India is unlikely to replicate China's economic miracle. China's economic reforms were more comprehensive than what the subcontinent dares to implement. And Beijing was also fortunate that its opening-up policy coincided with a period of globalization. Today, however, the headwinds of protectionism and geopolitical rivalries are strong.

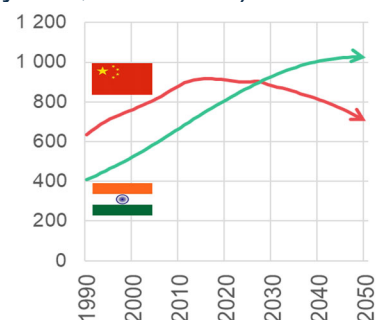
Above all, India's low educational level will limit its ascent. A quarter of all Indians are still illiterate. China was already ahead in 1990. Only one-third of Indians enjoyed tertiary education – half of the proportion in China.

India spends too little on research and development

It is therefore not surprising that India spends only 0.6% of its GDP on research and development – a declining trend. This is a fraction of what China invests in this area (see Figure 3). With the handicap of relatively weak human capital, India will not be able to climb the technological ladder step by step at the same pace as China has.

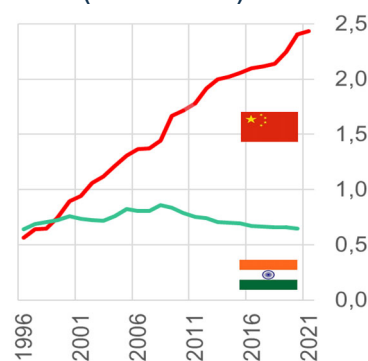
Only if the country undergoes a genuine educational and skills revolution – as many East Asian countries did in the second half of the 20th century – might Lakshmi, the Hindu goddess of prosperity, look upon the subcontinent with a serene smile.

Fig. 2: Working-age Population (Ages 20 to 64 years, in millions)



Source: UN, LBBW Research

Fig. 3: Expenditure on Research and Development (% of GDP)



Source: World Bank; LBBW Research

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