

Suman Bery: The next twenty years

Suman Bery / New Delhi August 13, 2008, 0:19 IST

The Beijing Olympics commemorate China's arrival as a near-developed country. India needs to hurry.

Last Sunday's Business Standard* carried an edit commenting on the stunning display of organisational capacity manifested in the Opening Ceremony of the Beijing Olympic Games. Instead of mystically attributing this success to cultural superiority, the edit sensibly argued that such organisational capacities are typically associated with attaining "upper middle-income status".

The edit associated this status with a per capita income of around \$3000, but was not very precise in how it defined this threshold. A glance at the World Bank's recent (July 1, 2008) estimates of 2007 per capita Gross National Income (GNI) using the Atlas method shows China at 132nd position at \$2360, while India at \$950 holds a lowly 160th rank. By way of comparison, per capita GNI at purchasing power parity exchange rates from the same source reveals a figure for China of \$5370 (rank 119) while that of India is \$2740 (rank 152).

While not wanting to split hairs, given these numbers, it is difficult to know exactly what to make of the \$3000 figure. But of more interest and importance are two other judgments embedded in the article. The first was that it would take India another twenty years to get to the income levels of China today. The second is that China today is at roughly the same level of per capita income as other past "emerging" hosts such as Mexico, Japan, South Korea and even Italy. Let us examine these two propositions more closely.

Real Per Capita GDP of Olympic Hosts, selected years.

Year	City	Per Capita Real GDP
1936	Berlin	4451
1960	Rome	5916
1964	Tokyo	5668
1968	Mexico City	4073
1988	Seoul	7621

Source: Maddison 2003.

In doing so, one enters into some tricky methodological territory. PPP comparisons across countries (calculated in various benchmark years) do not always relate very precisely to the real growth rates commonly reported by national statistics offices. Also, the International Comparison Project (ICP), on which the World Bank bases its PPP estimates, has not, to my knowledge chosen to go back in history to come up with international comparisons of real living standards over the span of centuries.

For such comparisons, the standard source is the much-cited work of Angus Maddison,** which provides consistent cross-country comparisons of per capita GDP until 2001. He uses what he calls "1990 international Geary-Khamis dollars" which are similar to the ICP in providing consistent measures of real economic activity across time.

The Table gives the date of various recent Olympic games, each designed to be a "coming out" party for the countries in question. As noted, Maddison's calculations only extend until 2001. In that year China's per capita GDP, at G-K1990\$ was \$3583, while India's was \$1957 on the same basis. Conservatively assuming that Chinese per capita income has grown at 7% per year since then, by 2007 it would have been around \$5375, placing it almost exactly where Japan and Italy were in the 1960s. So the fundamental insight of the BS edit is correct. Before our very eyes, over the course of this decade, China has become the kind of country that most of us of a certain age would have called "developed" when we were growing up, the country of Sophia Loren, La Dolce Vita and Fiat.

What then of India? According to Maddison, the last time that China and India were at approximately the same income level was 1978, on the eve of China's reforms. (The ICP by contrast portrays the two countries' per capita income in 1990 as approximately equal.) In 2001, China's per capita income was already almost 80% higher than that of India; this gap would certainly have widened in the intervening period. Assuming average per capita growth of 5% since 2001, India's per capita income in 2007 would be calculated at \$2622, almost exactly half that of China. By way of additional comparison, this is roughly where a country like Italy stood soon after the First World War, in the early 1920s.

That then is the magnitude of the challenge facing India: to transform itself from the kind of rural society that Italy was in the second decade of the 20th century, to the kind of industrial power that it had become by the mid-1960s. With the turmoil of two World Wars and a global depression, the journey took Italy forty years. China has compressed the same evolution into fifteen. So again, the judgment of the edit holds up to scrutiny: assuming we grow slightly more slowly than China's recent record, it will take between fifteen and twenty years for us to reach where China is today.

Of the many challenges that lie along our path, one is likely to be managing urbanisation. A recent joint publication between NCAER and the Future Group*** projects that, by 2050, 45% of India's population will be urban, as compared with 30% today. This amounts to an additional 379 million people being added to urban spaces over the next forty years. This is a transition that China is currently experiencing, and the sheer scale of urban investment underway all over the country is mind-boggling. Sir Arthur Lewis, one of the founders of development economics, and a noted economic historian, observed in one of his lectures that in economic development it is urbanisation, and not industrialisation that absorbs investment. The NCAER-FCH report shows that the underlying drivers of urban growth are so powerful that against the odds many important cities continue to thrive. More focused attention on urban infrastructure and governance is urgently needed to help India close the gap before it becomes unbridgeable. Whether we choose to host the Olympics when the time comes is another matter altogether.

* *"Upper middle-income magic". Business Standard, August 10, 2008*

** *Angus Maddison. 2003. The World Economy: Historical Statistics. Development Centre Studies. OECD, Paris*

*** *Rajesh Shukla and Roopa Purushothaman. 2008. "The Next Urban Frontier: Twenty Cities to Watch". NCAER and Future Capital Holdings*

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