

Is India better off?

Rather than fearing the rise of China as a manufacturing giant, India needs to focus on those sectors and products where it has a comparative advantage

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MUCH of China's economic success is due to the rapid growth in its exports. The share of China's GDP in world GDP quintupled - from 3.62 per cent in 2000 to 14.80 per cent in 2015 - even as India's share rose from just 1.43 per cent to 2.82 per cent during the same period.

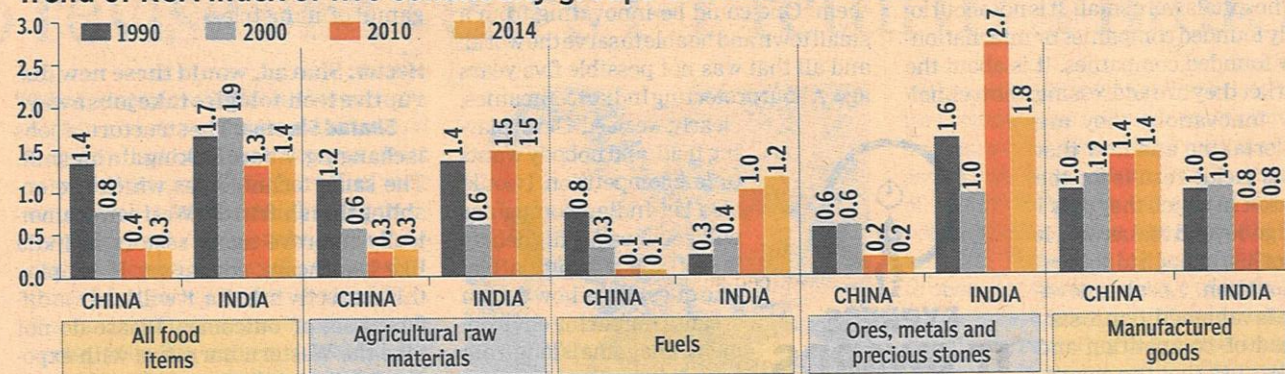
Ironically this sharp divergence in their respective export performance has come despite the fact that while India was a founding member of WTO in 1995 China became a member only in 2001. Theory tells us that trade competitiveness in world markets is a function of comparative cost advantage; hence this wide divergence in export performance is a bit puzzling. True, China's economy is more than five times larger than India's and its manufacturing sector is ten times India's but do these factors alone explain China's success in exports? Or does one need to delve a little deeper? After all, India has some of the world's largest reserves of iron ore, bauxite and manganese.

China's growing comparative advantage in export of manufacturing products is well-documented. But what is less well-known is that in many other commodities such as food items, agricultural raw materials, fuels and ores, metals and precious stone, India has comparative advantage in the world market. Consequently even as India and China compete fiercely in world markets, our export baskets are complementary rather than competitive.

So, rather than fear the rise of China as a manufacturing giant, India needs to focus on those sectors and products where it has a comparative advantage vis-a-vis China. The key therefore, is to identify these sectors properly.

It is here that Balassa's revealed comparative advantage (RCA) index can come to our aid. Using the RCA to assess the comparative advantage of the two countries relative to the world average shows that, contrary to widespread belief, there are a number of areas where India has a comparative advantage vis-a-vis China.

Trend of RCA index of five commodity groups of India and China



Thus, when it comes to commodities like food, agricultural raw materials, ores, metals, precious stones and fuels, Indian exports enjoy a distinct advantage vis-a-vis China. It is only in respect of manufactured goods that China has an edge over India. While this is, perhaps, only to be expected and gels with the widely-accepted view that China is a far more industrially advanced country compared to India, what it suggests is that India could benefit from a focus.

The graph below gives the RCA index for five main commodity groups during the period 1990-2014. The index is defined as the ratio of two shares. The numerator is the share of country's total exports of the commodity in question to its total exports. The denominator is the share of the world exports of the same commodity in total exports. To compare the competitiveness of each country in the export of a particular commodity group, the RCA index has been computed for five commodity groups viz: (i) all food items, (ii) agricultural raw materials, (iii) ores, metals and precious stones, (iv) fuels, and (v) manufactured goods.

If the RCA Index is 1 for a given sector or product in respect of a given

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country, the percentage share of that sector or product is identical to the world average. When the RCA Index is above 1, the country is said to have a comparative advantage (and can specialise) in that sector or product.

All food items

The analysis reveals that India has a significant comparative advantage over China, as the RCA indexes are well above one in the case of 'all food items' in all the years under consideration.

In 1990, the RCA index for China was 1.37; however, it declined to 0.34 in 2014; likewise the RCA index for India, too, declined, but from 1.67 in 1990 to 1.43 in 2014.

Agricultural raw material

In 1990, India's RCA index for 'agricultural raw material' was 1.37 and declined to 0.63 in 2000. It then increased to 1.47 in 2010, and has since remained the same in 2014. In case of China, the RCA index for agricultural raw material was 1.17 in 1990, and continuously declined to 0.33 in 2014.

Ores, metals and precious stones

The RCA index for India in the case of

'Ores, Metals and precious stones', is well above 1 in all the years under the study period. India performed much better during the period 2005-2010. China's RCA index was 0.58 in 1990, and declined to 0.22 in 2014. The RCA index for India is considerably higher than unity indicating that, this is a competitive export item for India in the world market. This is not surprising as India has world's largest reserves of iron ore, bauxite, etc.

Fuels

India's comparative advantage in export of 'fuels' shows continuous increase with the RCA index rising from 0.26 in 1990 to 1.17 in 2014. In contrast China, was at comparative disadvantage throughout the period as the RCA index continuously declined from 0.76 in 1990 to 0.09 in 2014.

Manufactured goods

China has been performing much better in manufacturing sector compared to India. Its RCA index for manufacturing rose from 1.01 in 1990 to 1.45 in 2014, even as the index for India fell from 0.99 in 1990 to 0.85 in 2014.

Thus, even as India and China compete fiercely for global markets, by focusing on the sectors/products where each one has comparative advantage, both countries could simultaneously grow their exports without fearing each other.

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