OXFORD ECONOMICS

Can India catch up with China?

Executive Summary

- Although it is only since 2000 that the growing economic power of the Chinese ‘dragon’ has emerged fully into the media spotlight, its GDP has in fact been growing at an average rate of close to 10% pa for the last 30 years. On a PPP basis, China is already the second largest economy in the world. The Indian ‘elephant’, on the other hand, has grown at a more sedate pace, but following a burst in the 2000s it now has the fourth largest GDP in the world on a PPP basis and has been close to emulating Chinese growth rates.
- With the global economy perhaps now starting to recover slowly from the deep recession, it is possible that India is better placed than China to benefit from what may prove to be a fairly slow period of growth in the developed economies in the years ahead, with the latter’s huge exports of manufactured goods struggling to recapture the momentum of the last ten years.
- For China, net trade will probably be a significant drag on growth in the year ahead, while the stimulus from state-led investment may begin to peter out. In order to maintain earlier rapid growth, the Chinese economy will need to rely much more heavily on domestic demand than before, especially if global over-capacity appears in certain key industries. Despite the apparent resilience of the economy to the global recession, there are a number of question marks over whether this shift can be made quickly.
- India’s fundamentals have become more favourable given the rise in its service sector and climbing FDI inflows (albeit both of these remain well below Chinese levels), and its lower reliance on trade will also mean that it is less exposed to what may be a lengthy period of sluggish world demand. But it also faces problems, including an inefficient agricultural sector, a still-burdensome bureaucracy and a cautious stance towards privatisation. Its fiscal position is also much weaker than China, which may be a long-term threat to greater foreign investment.
- India also has the benefit of being a democracy – although to date this has probably hampered rather than helped growth performance, it should facilitate faster growth in the longer term. China’s authoritarian regime has enabled policies to be implemented more quickly and with little regard to public popularity, but this may be storing up socio-political problems for the longer term, especially if growth were to slow sharply.
- Demographic factors should also favour India, but again over the long term rather than the next decade. China’s decision to start to reverse its one-child policy indicates mounting concern about its ageing population and labour shortages in the future. India on the other hand may be able to turn population growth trends to its advantage, as long as it can improve the skills base.
- In conclusion, although India’s growth trend is forecast to pick-up to 7-8% over the next decade, this is not likely to be enough to overtake China’s pace of expansion. But India’s recent surge in growth was achieved with few reforms – if it can manage to implement further liberalisation measures, attract increasing FDI inflows and turn its more favourable demographics to its advantage, then the ‘elephant’ may begin to catch up with the ‘dragon’ after 2020, although by that time the gap will be even wider than it is now.

Introduction

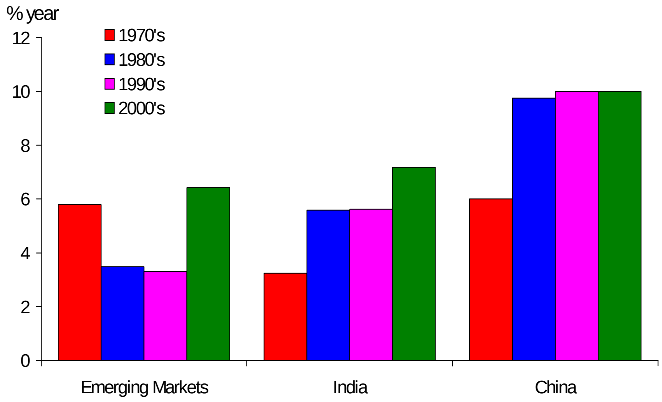
Although both the emerging market giants, China and India, are currently experiencing slower growth as a result of the global financial crisis and subsequent deep world recession, it is hoped that together they can help lead the world recovery. This is in stark contrast to fears of less than two years ago that their continued dramatic economic success would be taking jobs and industries from the west. China's economic growth has outpaced that of India since the 1970s and many expect this differential to persist over the medium term. But with the world economy probably facing a period of slower growth and lower trade flows than in recent years, this article revisits the long-term growth prospects of both countries and asks whether the Indian 'elephant' can begin to catch up with the Chinese 'dragon' in the race to challenge the US as the world's leading economic power.

China has outgrown India for 40 years…

Although it is only since 2000 that the growing economic power of the Chinese 'dragon' has come fully into the media spotlight, its GDP has in fact been growing at an average rate of close to 10% pa for the last 30 years. Since 1980, the Chinese economy has thus expanded by a massive 1,400%. As a result, its GDP of US$4.4 trillion in constant US$ terms in 2008 was the third largest in the world and closing rapidly on Japan. On a purchasing power parity (PPP) basis, it is already the second largest economy in the world, at US$7.9 trillion, and could overtake the US by 2020 if it continues to grow at rates of around 10% pa.

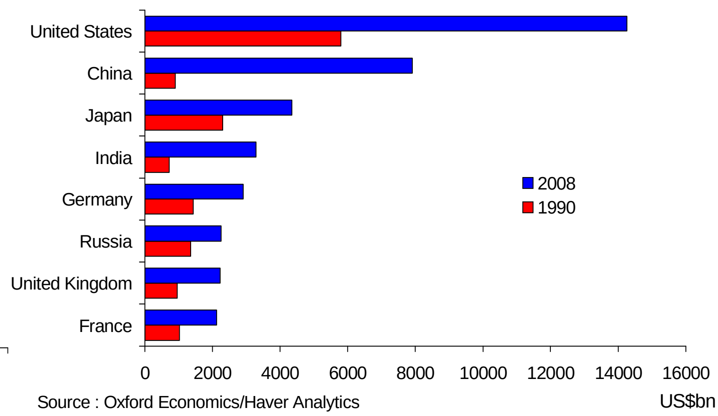
In comparison, the Indian 'elephant' has progressed at a more sedate pace, but still fairly strongly at just over 6% pa in the last 30 years. After a modest performance in the 1970s and the 1980s, when growth averaged close to 5%, the pace of expansion picked up following the burst of economic reforms in the early-1990s under the then finance minister Manmohan Singh (now prime minister). And the acceleration has been more pronounced in the last six years, with growth averaging 8.4% pa, although as yet it has failed to emulate the double-digit pace that China has managed in five of the last six years. India's GDP now ranks fourth in the world on a PPP basis, albeit well behind China.

Average real GDP growth



Source : Oxford Economics/Haver Analytics

Total GDP, PPP basis

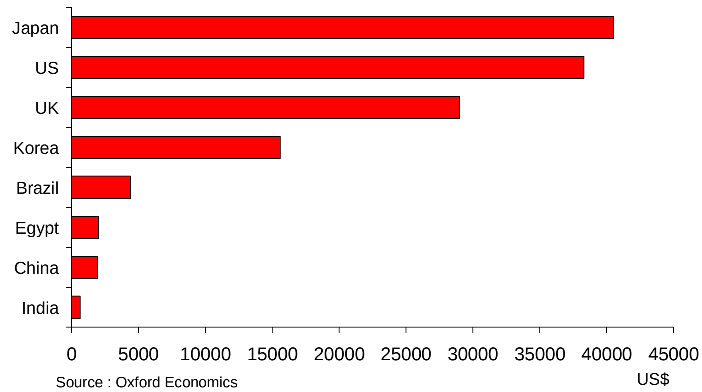


Source : Oxford Economics/Haver Analytics

…but the vast majority in both countries remain poor

But despite the rapid pace of GDP growth in these two emerging market giants, both still face major problems when it comes to adjusting to the massive increase in wealth that their economies are generating. Much of the new wealth lies in the hands of the few, especially in the urban areas, and the vast majority in both countries live very close to the poverty line. Of the 1.3bn population in China, about 60% or 750m live in the rural areas and some of these areas have taken little part in the economic success of the nation as a whole. Yet although India's GDP per capita has grown impressively at around 4% pa since 1980, this is less than half the pace seen in China. The IMF puts China's GDP per capita on a PPP basis at US$5,963 in 2008, lower than Albania and Algeria and only just above Egypt. India fares rather worse, with 75% of its 1.1 billion population in rural areas and with an average per capita GDP (also on a PPP basis) of just US$2,762, the same as in Pakistan. Other measures of economic wellbeing – such as poverty rates, levels of malnutrition and literacy rates – also illustrate the lead that China currently holds over India. Although much has been made of India's IT and service outsourcing sector, this employs just 0.2% of the population.

GDP per capita in 2008



Source : Oxford Economics

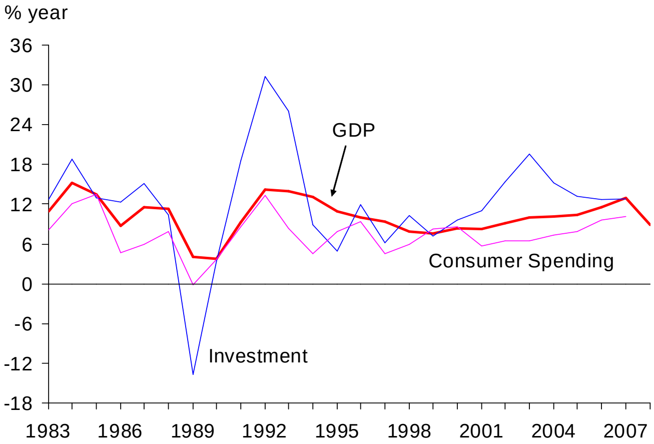
The strains of rapid economic growth and very large wealth differentials in the two countries pose major challenges, both economic and political, and the ability to react to these challenges will play a major role in determining how these two giants progress in the next 20-30 years. Conventional wisdom holds that China will continue to grow more rapidly than India once the current downturn is over, but there are a range of considerations that need to be taken into account before coming to a definitive conclusion. Factors such as savings ratios and investment patterns, structural drivers of growth, levels of corruption, openness to foreign investment, ability to adapt to changing global trends and strength of political structures and the role of government will all play an important part in deciding whether the dragon will continue to outpace the elephant in the race to challenge the US as the world's leading economic power.

Chinese growth driven by investment and exports…

In the early period of emergence from the isolation of the 1960s and 1970s, agricultural reform and the growth of village enterprises initiated a period of strong GDP performance in the 1980s, which was quickly followed by improvements in manufacturing and services. By 1990, the economy started to open up and this process rapidly accelerated through the 1990s, spurred by China's accession to the WTO (completed in 2001) and helped by reforms such as the unification of the currency rates and opening up of the current account and food and fuel price liberalisation. As a result of this greater openness, the importance of exports to the economy has risen rapidly in the last ten years – exports are now close to 40% of GDP, double the ratio of 10 years ago.

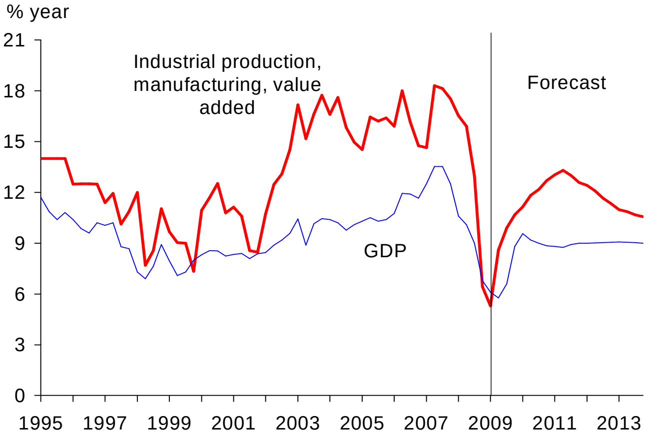
Economic cycles in China have in the past been driven predominantly by shifts in investment. A slowdown in GDP growth to around 4% in 1989 and 1990, the most serious downturn since its reforms began in earnest in 1979, was driven by a sharp drop in investment growth as the government restructured many of the state-owned enterprises (SOEs). And during the Asian crisis, growth slowed only modestly to below 8% as a surge in government investment offset weaker private investment and net trade. The above-trend growth since 2003 was characterised by strong private sector and government investment, but the widely-anticipated downturn in domestic investment after the 2008 Olympics played a significant part in the current slowdown, spurred by a tightening in credit on concerns of overheating and a bursting of a bubble in commercial property, while also coinciding with the downturn in the global economy and a collapse in exports to the west.

China: Real GDP, investment & consumption



Source: Oxford Economics

China: GDP and industrial production



Source: Oxford Economics

China has often been labelled a 'world assembler' with its large and cheap labour force used to assemble imported inputs into final goods to be sold aboard. This role may explain why changes in external demand had little impact on growth in China – any change in exports was offset by a change in imports. But in recent years China has moved up the value chain in terms of its exports and domestic production capabilities have expanded, helped by large FDI inflows. As a result, in the period 2006-08 it enjoyed a large positive contribution from net trade as demand in its trading partners was robust. But this meant that it was more exposed to the global downturn – while imports initially fell more than exports in late-2008 as the global slowdown led to destocking, net trade subtracted significantly from GDP growth in H1 2009 as exports slowed sharply and import volumes recovered as the destocking process unwound. And given that domestic growth is much stronger than in the rest of the world – with the large fiscal stimulus announced in November 2008, coupled with a surge in credit growth, helping to lift GDP growth to almost 8% in Q2 2009 from about 6% in Q1 – net trade may remain a drag on growth for some time and there are doubts that such high growth can be sustained while external demand remains so weak. Any emergence of global over-capacity in key industries over the next few years could become an important issue for China.

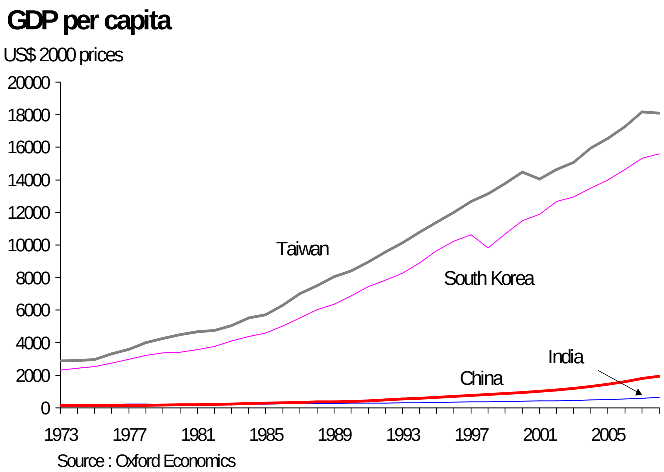
…but consumer demand will be increasingly important

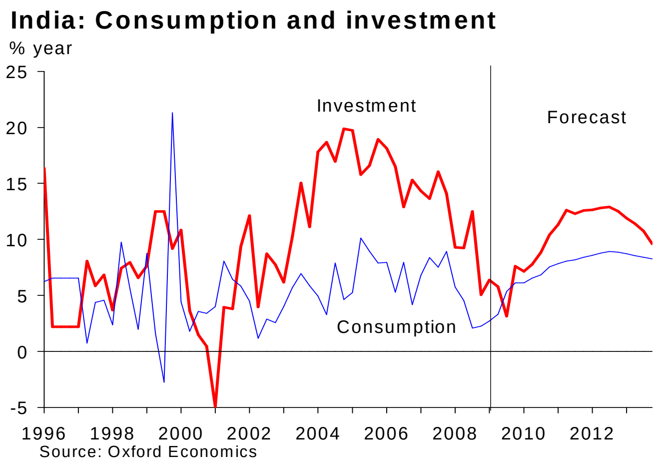
For now, investment remains key. Currently equal to over 40% of GDP, investment is largely domestically financed out of profits, reflecting a high domestic savings rate. However, the medium-term prospects for the Chinese economy will depend increasingly on domestic consumption, which in turn will be driven by the saving patterns of households. Consumption as a percentage of GDP has actually fallen from around 50% in 1990 to below 40% currently, in contrast to other major economies such as the UK, Japan or Germany where the proportion is close to 60%, as the savings rate has remained high and indeed has risen in recent years. One of the most important developments for households has been the increase in urbanisation. Employment in urban areas has grown rapidly with the increase in FDI and the development of private enterprise, with a vast amount of migration from rural areas to urban areas increasing the ratio of urban to rural population since 1990.

While household expenditure has increased rapidly for urban households, the savings rate remains high. Other factors behind the high savings rate include the lack of development of financial markets; most households do not own homes and for rural households there is limited ability to trade land rights and land cannot be used as collateral so borrowing constraints are widespread (although the government has recently started experimenting with land reforms in some rural areas). The low return on bank deposits and limited access to other types of savings instruments means that households need to save more to maintain the same level of real wealth. In addition, the restructuring of state-owned enterprises and the low levels of government spending on health and education have driven an increase in precautionary household savings. And as more of the housing stock has been privatised, consumers have had to save more in order to purchase houses.

India less dynamic than China…

India's growth performance has been less dynamic than China and other parts of East Asia, but it has performed considerably better than many had predicted – in the 1970s and 1980s, it was widely thought that India would struggle to break away from a rate of growth of around 3½% that had predominated for most of the period from 1950 to the late-1980s. As a result of this mediocre performance, India's income per head fell well behind levels in China and even further behind the Asian tigers.





The real progress in India has come since 1991, which represented the first attempt to end the Raj economy and open up to market forces and the growing move towards globalisation. Under the centrally-managed system of licences and subsidies, private enterprise was not allowed to flourish, but unlike in China the government in India was unable to drive a faster pace of economic growth. Exports and imports of goods and services were equal to just 5.9% and 8.8% of GDP respectively in the mid-1980s and were still only 11.7% and 14.4% at the end of the 1990s. In comparison, China's exports and imports had risen from broadly comparable levels of under 10% of GDP in the mid-1980s to 20-25% of GDP.

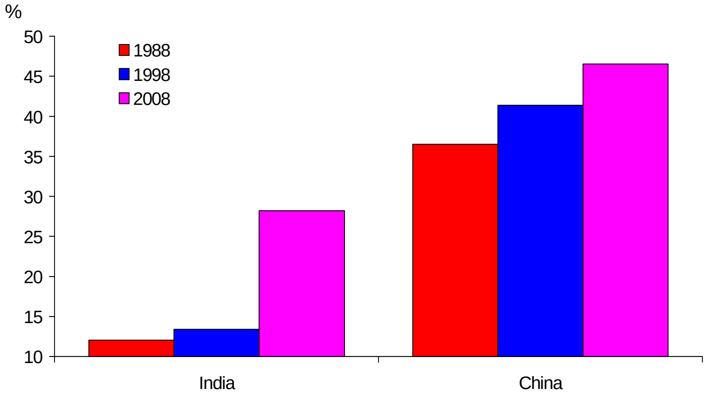
Investment was another great failing of successive governments in India. Gross capital formation in India was only 18.5% of GDP in 1980, below the developing country average of 26% at that time and even further below the level of 35% in China. The figure for India at the end of the 1990s was still only about 23% of GDP, whereas China was posting rates of close to 40% for much of that decade. And much of India's capital spending was poorly directed, with little coherent attempt to build up a solid industrial base. The reluctance of successive governments in India to encourage private enterprise and greater competition and the failure to open up what were deemed to be strategic sectors all acted as a deterrent to private sector investment, both domestic and foreign, while the investment that did take place was partly stifled by the high level of bureaucracy. As a result, the Indian economy was still quite insulated from global trends even in the late-1990s.

…but its fundamentals are increasingly favourable…

This relative international isolation served India well during the Asian crisis of 1997-98, when it was much less affected by the troubles than most countries in the region (although China also emerged relatively unscathed). The growing importance of trade since then has meant that India is more exposed to the current global downturn than would previously have been the case, but still much less so than China. Allied to this is the rise of the service sector, which has been growing very strongly over the last ten years or so and has contributed heavily to export growth. Indeed, the service sector overall recorded annual growth of 8.8% in the decade to 2008, with major expansion in distribution, transport, communication, finance and business services. Construction has also boomed, growing 10.1% pa over the same period. But industry has performed more modestly, with manufacturing recording 6.8% pa growth and utilities a disappointingly slow 4.6% pa. The latter figure highlights one major concern about India's future development – a pressing need to improve the economy's basic infrastructure.

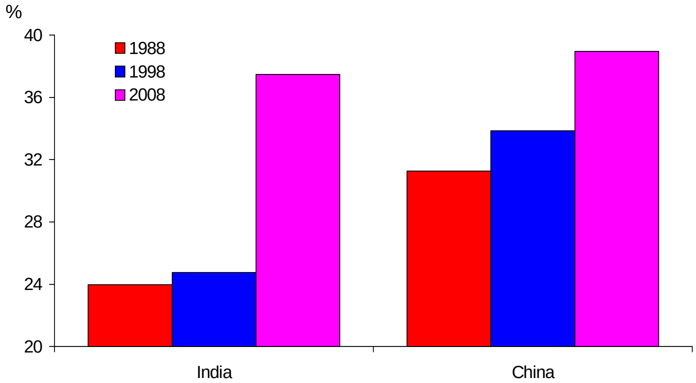
However, the fundamentals of the Indian economy have become increasingly favourable. As noted above, the main growth impetus in recent years has come from a number of sectors, together with strong growth in agriculture on the back of favourable monsoons and private consumption. And the rising levels of domestic savings and investment, which have risen to close to East Asian levels from well below just 15 years ago, are broadening the productive base. The last five years have seen a marked upward shift in the investment to GDP ratio, from 23.8% in 2002/03 to 34.8% in 2008/09, indicating that the sustainable growth rate of the economy is much higher than in the past. And with its low labour costs, these investment gains are now increasingly likely to extend to the manufacturing sector rather than being confined to the service sector. In addition, India's regional location will prove increasingly beneficial as its industrial base expands, leaving it well placed to gain market share in the more strongly growing economies in South Asia.

Savings as a % of GDP



Source : Oxford Economics

Investment as a % of GDP



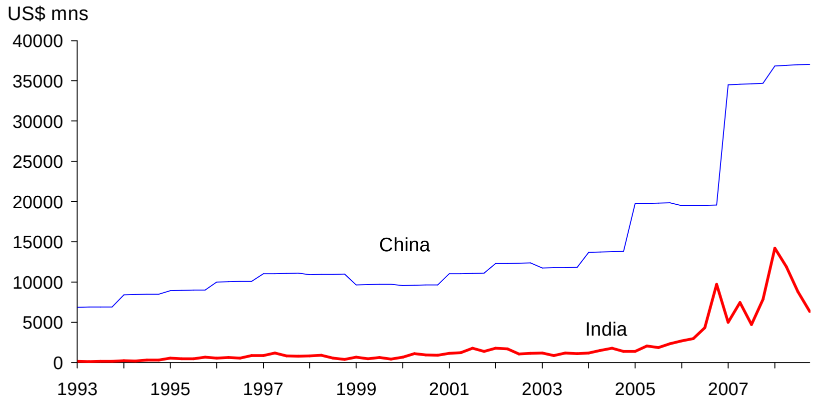
Source : Oxford Economics

…with an increasingly diversified economy

India's financial service sector is already well placed to benefit from the global upturn that seems likely to emanate from the Asian economies, led by China, even though the boom in service outsourcing has slowed sharply in the wake of the global financial crisis. The role of commercial services in India's economy and exports is much higher than in China, where much of activity is based on manufacturing production and exports. Exports of manufactured goods account for 85% of China's total exports of goods and services, whereas in India the ratio is less than 40% and exports of commercial services are equal to about 30% of the total. The large domestic bases in both China and India mean that banks in both countries are still well capitalised, with little exposure to the credit crunch. This in turn should mean that India's largely state-owned banks are able to maintain funding for the manufacturing sector in the coming years, which will become increasingly important over the next 10-20 years. But the perception of a slightly higher level of corruption than in China, together with the much more cumbersome bureaucracy, means that India may still struggle to turn its potential advantages into reality.

Yet India has made progress on liberalisation over the last decade, albeit painstakingly slowly at times, which has resulted in significant integration with the rest of the world. Most notably, exports of services (largely software and business outsourcing) accounted for 8.5% of GDP at market prices in 2008, up from 2.2% in 1997, while the equivalent ratio for merchandise exports increased from 8.8% to 15.5% over the same period. And the government has gone some way to addressing one longstanding deterrent to foreign investment, namely the inability to lay off workers and close down loss-making factories. As a result of this and other reforms, including some very cautious moves towards privatisation, there has been a sharp increase in foreign investment in India, either in the form of FDI or in portfolio flows. FDI inflows into India rose to US$41bn in 2008 – up markedly from annual levels of less thanUS$3bn as recently as 2000 – although even these levels are far behind annual FDI inflows of US$140bn into China in both 2007 and 2008. And it is worth noting that, despite the global crisis squeezing finances and the continuing bureaucratic hurdles associated with FDI flows, foreign multinationals continued to invest heavily in India in Q1 2009 (with the total standing at US$8bn, the fifth strongest quarter on record).

FDI inflows



Source : Oxford Economics

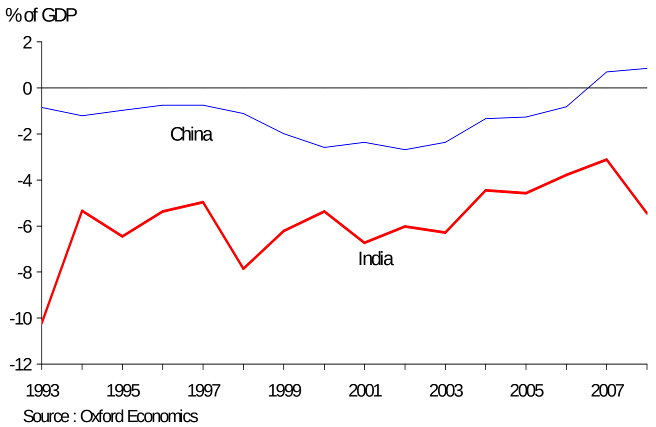
But fiscal frailties still hamper progress, unlike China

But one area that India has failed to make much headway is in lowering its large fiscal deficit. Faster economic growth in 2003-07 brought a sharp fall in the central government's budget deficit, from 5.9% of GDP in 2002/03 to 2.8% in 2007/08, but relatively little was done during this time to widen the tax base. The cyclical nature of the improvement in the budget over these years has been shown up by the speed of the fiscal deterioration since mid-2008 as the economy slowed sharply. As a result, the fiscal deficit in 2009/10 is likely to rise to over 7% of GDP from 6% in the previous year. Notwithstanding this, the fact that subsidies and interest payments in 2009/10 will account for about a third of all government spending shows both the need for a more productive allocation of spending and the necessity of widening the tax base to ensure that the government has more resources.

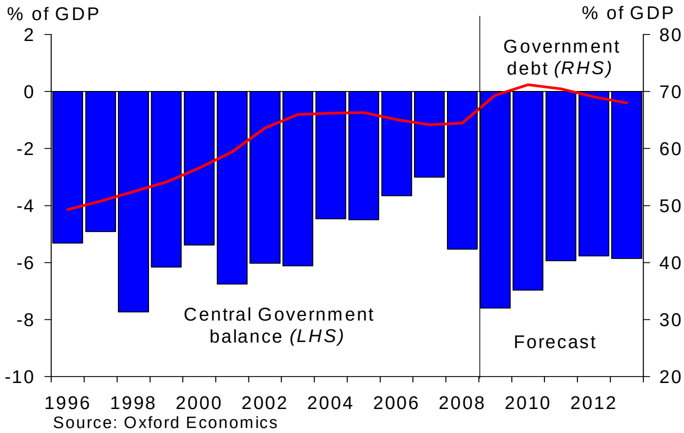
In an attempt to address the fiscal frailties, the Indian government is planning to introduce a unified goods and services tax in 2010/11, which should help to widen the tax base, and it has set up an advisory group to look into a more sustainable system of pricing oil products. But progress on similar reforms under successive governments has been very slow over the years and there remain concerns that if government borrowing continues to rise this will 'crowd out' funds for investment and undermine long-term growth potential. The high level of government spending and the fiscal deficit, and hence the level of government debt, have been key factors in India's relatively modest credit rating, of Baa3 awarded by Moody's and BBB- (with a negative outlook) by Standard & Poor's, both the lowest investment grade rating.

In contrast, China has managed to run small fiscal deficits over the years, with booming revenues resulting in near balance in 2007 and 2008, which in turn has enabled the government to announce its massive fiscal stimulus package to counter the current downturn without the risk of a move into a massive deficit. In turn, China's robust fiscal and external surpluses mean that its sovereign credit rating is five notches above India at A1/A+, which in turn means that it will remain more attractive to foreign investors than India. In addition, the higher level of growth in China means that it can, if necessary, sustain high fiscal deficits and, with a US$330 billion current account surplus and massive US$2.1 trillion of reserves, it has far greater resources at its disposal.

Government budget balance



India: Government budget balance and debt



Role of government crucial in the future

Yet despite the relatively weak role of government in India in terms of driving economic policy over the last 50 years, one clear advantage over China is the fact that it is a democracy. Yet while democracy has brought more political freedom, it has constrained economic reforms because of the need for consensus, meaning that policy reforms that have taken place in India have been very slow and there is still deep suspicion about privatisation. In China, the impact of rapid growth has tended to outweigh the potential resistance to policy changes, although there have been notable periods of tension. These have not only been about political and social issues, but most recently these tensions appear to have been driven by economic factors as unemployment starts to mount and some regions have started to feel excluded from the economic success story.

Whatever its frailties and shortcomings, India has a full-fledged and secular democracy, with robust political institutions, as illustrated by successive election results that appear to show that the electorate votes on the basis of economic and political competence. In contrast, China still has a very authoritarian regime. This has stifled political debate and denied the population a means of influencing the direction of policy. But a centrally controlled system has enabled Beijing to implement reforms more quickly and successfully without having to worry about popular approval or democratic rights. However, in the long term this means that there is greater scope for social unrest, although the government's potential response to this may mean that pressures remain bottled up for longer than might be expected. As a result, the capacity of the Chinese political system to handle such pressures may prove to be less conducive to long-term stability, and hence economic progress, than in India.

The other key role for government in both countries is in setting the business climate. Neither India nor China have particularly good records of governance in terms of establishing a climate conducive to private sector involvement. Decision-making has often been arbitrary and contractual and property rights have been neglected. In addition, both countries have been extremely cautious about opening up sectors considered to be strategic, such as infrastructure and power, in order to complement government supplied services. As with its other liberalising reforms, India has begun to move slowly down this route, which in due course will attract greater foreign investor interest and hence funding. It remains unclear which way China will progress – but it may be even more wary than India about opening up key sectors to foreign investment.

India can grow faster…

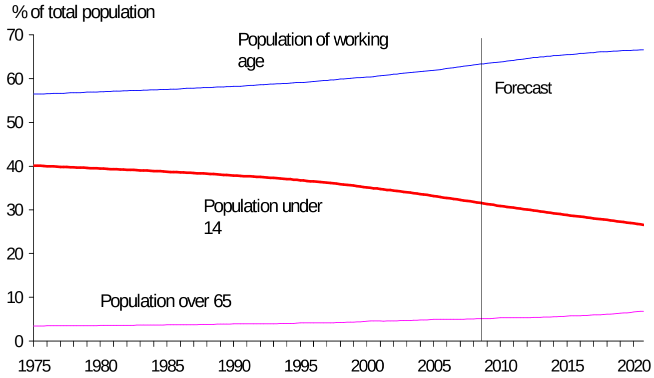
In a recent report prepared by the Asian Development Bank for the Emerging Markets Forum, it was suggested that over the next 30 years Asia would come to dominate the world economy, with the region's economies all benefiting from "neighbourhood effects" as the fastest-growing economies will be closest to home. As a result, this would help to support continued rapid growth in India, which could become a rich country within a generation. Having been elevated by the World Bank from a low-income to a lower-middle income country in 2008, figures put forward by the ADB suggest that it could become an advanced economy by 2039 if it can grow at around 10% pa for the next 30 years. But considering that India has only achieved growth of close to 10% three times in the last 30 years, this seems an unlikely prospect. Not surprisingly, the ADB concludes that attaining this goal will prove daunting, noting that few countries, with the obvious exception of China, have achieved such a sustained pace of growth over such an extended period and that India's record of rapid growth is still relatively short.

…helped by its demographics

In India's favour are its demographics. With the recent boom in the services sector helping to create a relatively affluent middle class, said to be 300m-strong, the links between rural incomes and industrial activity have weakened. Rising incomes and increased access to credit have led to much higher spending on consumer durables such as cars, phones and other electronic items. This in turn has encouraged banks to widen their customer base, allowing more people to buy houses, cars and other consumer durables. And the huge market potential will continue to attract increasing investment inflows. But if the economy is to sustain a high level of growth over several decades, the government will need to ensure that an increasing numbers of people in the rural areas are raised above subsistence living, both by increasing output and productivity growth in agriculture, raising educational standards and making cities more attractive to migrants.

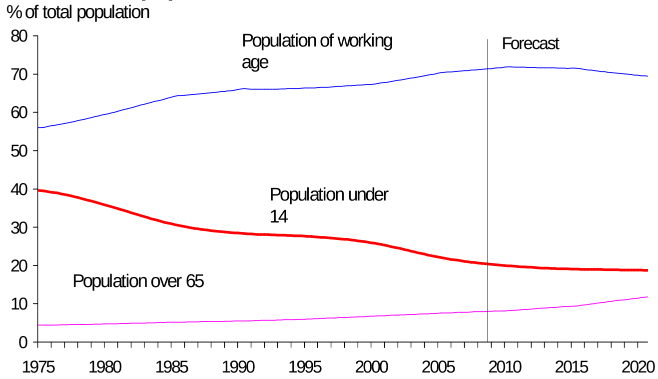
In contrast, China's demographics are becoming less favourable. Indeed, Beijing has just started to reverse its controversial one child policy – for the first time since the 1970s, the authorities are encouraging couples to have two children. This signals mounting concern about an ageing population and a potential shortage in the workforce in the future. Population growth is already very low and is expected to fall towards zero by 2030 – the US-based Centre for Strategic and International Studies has estimated that China will have more than 438m people aged over 60 by 2050, by which time the ratio of working-age adults to every person aged over 60 will be down to just 1.6 compared with 7.7 in 1975. An expected trebling of people aged over 65 by 2040 will impose an increasing strain on the country's pension and health systems, implying a potentially major constraint on China's long-term economic growth potential and another possible source of socio-political tension.

Structure of population, India



Source : Oxford Economics

Structure of population, China

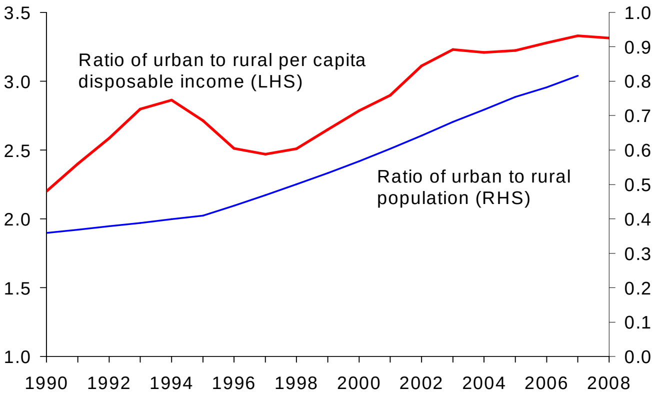


Source : Oxford Economics

Some of the factors noted above will clearly stand India in good stead when it comes to accelerating growth in the next decade or so. Apart from the agricultural sector, which is beset with low productivity, its economy is in some ways better balanced than China's, incorporating a sizeable services sector, especially in financial services and IT, and the implementation of reforms should ensure a steady broadening out from this sector. And if it continues to maintain recent high levels of investment, India is also well placed to build on its manufacturing base, boosting productivity among its cheap workforce. Once the current downturn is over, therefore, India looks capable of generating higher sustainable GDP growth than in the past, probably around 7-8% pa.

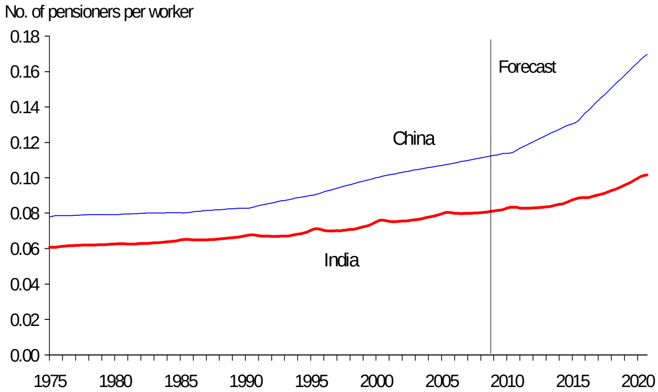
In contrast, China already has a massive manufacturing base and in the absence of more vigorous external demand may struggle to return to its former levels of near double-digit growth. The world economy will be growing more slowly in the next decade than in the last ten years, meaning that China will have to rely more heavily on domestic demand. In addition, there are a number of factors that may keep growth below the impressive rates seen since 2000. The reliance on heavy industry that has been built up may constrain attempts to develop the services and high-tech manufacturing sector; the share of consumption in GDP may remain low, leading to difficulty in developing the financial sector and a proper social safety net; and lack of democracy may lead to heightened regional tensions and concern about widening inequality.

China: Urbanisation and per capita income



Source : Oxford Economics/Haver Analytics

Dependancy ratio: Pensioners to workers

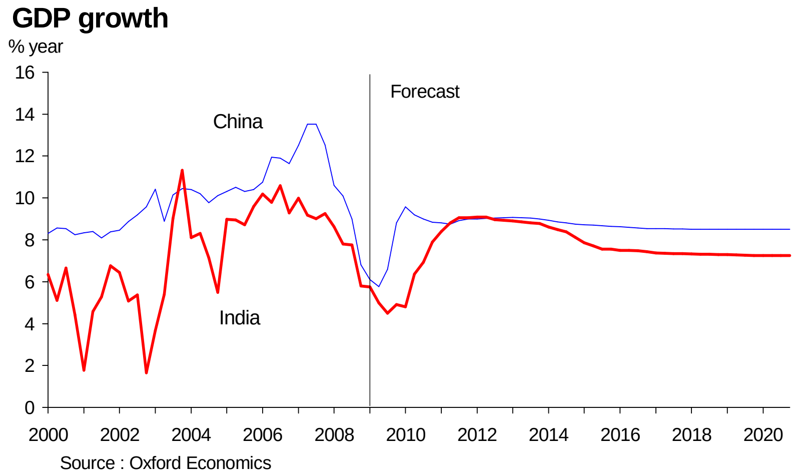


Source : Oxford Economics

But can India close the gap with China?

It is worth noting that the period of buoyant growth and rising FDI inflows in 2003-08 in India was achieved despite a virtual stalling in the reform process. However, the convincing win of the Congress party-led coalition at the recent general election holds out greater hope that at least some reforms will be implemented over the next five years, even if they will probably be less far-reaching than many might hope for. And progress on reforms could bring faster growth and higher inward investment. The emphasis for the latter is most likely to be concentrated in the infrastructure sector given the huge amount of investment that needs to occur in this area, although the government's weak fiscal situation means that it will be looking for significant funding from overseas.

In addition, the government will have to broaden the tax base and reduce the traditionally heavy burden of subsidies in the rural areas on items such as oil and fertilisers – which are inefficient ways of supporting the poor. Instead, spending will have to be redirected towards improving basic standards of welfare, health and education provision, all of which would enhance GDP growth potential significantly over the medium term. This is probably the key to lifting India's economic growth onto a higher plane – while significant parts of the economy have changed radically over the last couple of decades, taking increasing numbers of people into the middle class, the huge agricultural sector has changed much less, creating a very large difference in economic outlook between those working in a modern service sector and those still engaged in near-subsistence farming. Although its share of GDP has fallen significantly (reflecting the modest trend growth in the sector of just under 3%) to 17.6% of GDP in 2008/09 from over 30% some 20 years earlier, agriculture's share of employment has fallen much less. In the long term, productivity growth in the rural sector needs to rise, which will inevitably result in surplus labour – many of whom will have to look for work in the cities either in the construction and manufacturing sectors. If the government can make more rapid progress with the kind of policies outlined above, then India could enjoy a period of even faster growth than is currently envisaged.



Some of these same arguments apply to China also – meaning that Beijing can also probably look forward to equally impressive growth rates for the foreseeable future. India will therefore struggle to close the gap with China over the next 10 years, as the chart above showing our growth forecast for the two countries indicates, although thereafter China's increasingly unfavourable demographics may start to constrain its growth potential. This might then finally enable the 'elephant' to start to catch up with the 'dragon', although it will take a long time to close the gap that will almost certainly continue to open up in the next decade.