Economic power shift: Competition between India and China to become Superpower

Mr. Anuj Kumar

(Assistant Professor, Bharati Vidyapeeth Institute of Management and Research, New Delhi)

Dr. Anoop Pandey

(Associate Professor, Bharati Vidyapeeth Institute of Management and Research, New Delhi)

Abstract

The new truth of the 21st century is that the Western countries are losing their dominance over Asian countries in terms of economic power and consumer market. The researchers, economists and business students believe that India and China will become emerging power by 2050. There has been a steep decline in power of Western countries and that power is shifting towards Asian countries. There has been intense debate between the researchers. Few believe India will become superpower and others believe China will become superpower by 2050. In this paper the authors will try to find the answer of the question whether India or China who will become superpower. The writers will try to see the question on the basis of labour conditions in two countries.

Keywords: Labour market, China, India, Superpower, Globalization

Introduction

In this paper the authors will discuss the impact of multinational firms on the local labour market in two emerging economies of South-East Asia. The author has chosen India and China for this report. In the last two decades India and China have received a higher number of FDIs and the world is seeing them as emerging superpower. The multinational firms are shifting their manufacturing location to these two countries for achieving economies of scale. China and India are the two most populous countries of the world. The economy of both India and China has been liberalized after 1990. The government in both the countries are supporting foreign multinational firms. Previously the foreign firms have entered in China because of cheap labour and abundant resources. But the local labour wages have consistently increased in China. China is no more a cheap labour destination. Similarly, in India the overall wages and labour productivity has been increased. The labour of both the countries are shifting from rural places to the urban places.

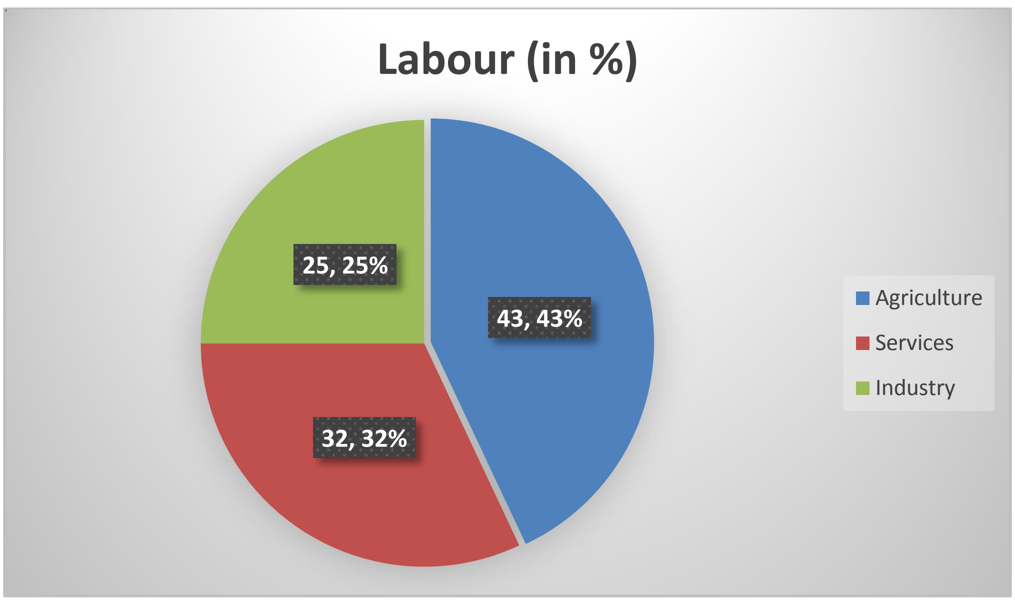
Literature Review

China and globalization

The 21st century is recognised as the century of globalization. It is true that the process of globalization hasn't started recently but the economic globalization after 1990 is much more favourable for developing countries. Previously China was a greatest opponent and disrupter of globalization but post 1990 the Chinese economy has been liberalized. Chinese economy has been much more liberalized and open in comparison to other Asian countries including Japan (Overholt 2005). Since the Chinese government has adopted an open door policy the international trade and economic growth of China has been reached to a new height. The multinational firms are seeing China as a big market for their products and services (Sun and Heshmati 2010). The FDI inflows has been increased tremendously in China during the period of 1992-98. The FDIs inflow in China was around $ 233.9 billion during the period of 1992-98 and it constitute of 91% of total FDIs in that period (Zhang 2001). China is receiving FDI not only from US, Japan and West Europe but also from Taiwan, Singapore and other Asian countries.

Labour market in China in globalized era

The availability of abundant skilled labour is major attraction for multinational firms in China. The population of China is nearly 1.35 billion, the multinational firms see it as an opportunity to achieve economies of scale by hiring cheap labours. The estimated working population of China is approximately 800 million. The participation ratio of males to female working population is 55:45. The breakup of the working population has been shown in the figure 1.



Positive impacts of MNCs on labour market

China has produced more market oriented labour in past twenty years and the overall labour market has been transformed (Warner 2010). The major impact of multinational firms on Chinese labour market is the shifting or relocation of labour from rural areas to urban areas. Though agriculture sector is still providing the employment to large number of people in China but the overall share of labour has been fell from 71% to 45% during the period of 1978-2005. The share of labour working in the urban areas have been increased from 24% to 36% (Cai, Park and Zhao 2012). The population of urban labour force has been increased from 256.39 million in 2003 to 302.50 million in 2008. The preferences of labour is also changing in Chinese market. The local labour in China is preferring multinational firms over governmental and state owned firms. The labour population in primary industries is continuously decreasing while the labour population in secondary and tertiary industries has been increased over a period of time.

Another major impact is the decline of labour in public owned enterprises. The local labour in China is shifting from public owned enterprises to private and foreign invested units. In 1995 there were around 112.6 million people in state-owned enterprises of China but in 2007 the number reduced to 64.24 million (Ru, Lu and Li 2010). The reason behind this major shift from state owned enterprises to multinational firms is the working conditions and increased wages of the labour. The positive impact of multinational firms and increased FDIs can be seen directly in the increased wages of the local labour. China is no more a cheap labour destination. The overall wages in China has been much more in comparison to other countries. In 2005 the minimum wages of China was US $59 per month and the wages in 2011 in US $160 per month (Mehra 2012). The poverty level also decreased in China because the wages has been increased. The average wages have been increased by 5% for state owned enterprises in China from 1985 to 1998 while the wages for foreign-funded enterprises have been increased by approximately 46% (Wu 2000). The standard of living and purchasing power of middle class people are also increasing. It is true that the average wages is increasing in China but still the wages are lesser in comparison to developed countries. China is the first choice for manufacturing and automobiles companies. The overall productivity and competition is also increasing in the local labour market. The local manufacturers have also increased the wages substantially. Another positive impact of multinational firms is the increase in women employment in China. The multinational firms are treating both men and women equally. The multinational firms are looking for diverse workforce so they are providing equal opportunities to both men and women.

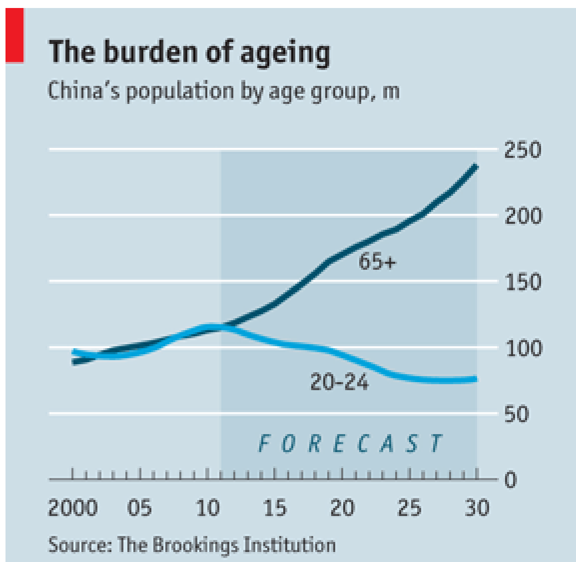
Negative impacts of MNCs on labour market

There are also some negative impacts of multinational firms on the labour market. In this era of globalization, the multinational firms are demanding educated and skilled workers. There has been a positive demand shift from less-skilled labours towards high-skilled labours in China. The wage inequality is also increasing in China because multinational national firms are paying high salaries to educated labours. On the one hand wage inequality is increasing while on the other hand the young generation is looking for quality education. The local labour market has faced some negative impacts of global recession in 2008 (Lam, Liu and Schipke 2015). The average wage rates have been decreased but still it is high than the GDP growth rate of the country. Secondly the number of migrant workers have also been decreased. The demographic pattern of the Chinese labour market is also changing. The fertility rate of the Chinese is low because China has one child policy and the China's working age population is aging. All over the world the developed and developing countries are facing child labour problems. China is also not an exception. There are many cases of child labour in China. The multinational firms are hiring the candidates of less than 16 years at their manufacturing sites. Apple and Samsung are two most reputed companies of the world (BBC 2014, Garside 2013). The supply chain of both the companies have faced the problem of child labour at manufacturing sites.

Aging Population: Emerging Problem of Chinese labour market

China was a developing country in 1950 with its population increasing at rapid pace. From 1950 onwards till 1980 Chinese population growth was faster but two decades ago Chinese government has shown a concern for increased population rate. China has adopted a one child policy in 1979 (PRB, 2010). The main purpose behind the one child policy was the long term planning of China. China faced a dilemma in 1979. On one hand the country was getting stronger economically but on other hand the population of the country was also increasing.In 2000 China's population over 65 was approximately 90 million. It was expected that the number of elderly people will cross-over 300 million by 2050. The aging population is a concern for the economic growth of China as well. In this era of globalization, the economic power is shifting from developed countries to developing countries (Cox 2012). China's GDP and economic growth will be threat for USA and many other nations but increased older age people will be a headache for the country. This is the period of rapid industrialization and urbanization in China but even than China is suffering from problem of ageing population.

Figure 1 (Quinn, 2013)



Indian labour market

Indian economy has also been liberalized post 1980. The immediate impact of Indian economy can be seen on the economic growth of India. The GDP of India is increasing at the rate of over 6% post 1980. The FDI inflows has also increased in India after 1990. Today India is recognised as one of the leading economies of the world after China. The population of India is approximately 1.25 billion. Indian labour force is still recognised as poor in comparison to rest of the world. In India the labour force to population ratio is 56% while in rest of the world this ratio is 64%. The female labour force participation in India is 31% which is extremely low in comparison to rest of the world. The people live at the rural places in India believe that women are good home maker. After the inception of multinational firms, the mentality of the people has been changed. The women in the metro cities are successfully handling the responsibilities of office as well as home. The mind-set is changing and the society is accepting the working women. The labour is divided into three segments agriculture, services and industry. Approximately 49% of Indian working population is working in agriculture sector, 27% of working population is working in service sector and remaining 13% is working in manufacturing sector (IHD 2014).

Multinational firms and Indian labour market

As more number of multinational firms are entering in Indian market, the education level of the local labour is increasing. The reservation system in government jobs has decreased the chances for general caste people. The formal jobs are very much restricted to the people belong to scheduled castes, scheduled tribes and other backward castes. In the last two decades the educated professionals are preferring private jobs in multinational companies in comparison to government jobs. In both the countries India and China, a big number of local labour is shifting towards multinational firms. The people are preferring private jobs in multinational firms because multinational firms ae raising their life standard. The multinational firms have increased the labour productivity in India. The labour productivity in foreign firms is higher in comparison to domestic firms (Banga 2005). The knowledge level of people working in multinational firms have improved because people from many different countries are working together and they are sharing their technical knowledge with each other. The domestic firms are also improving their technical and managerial competencies to remain competitive.

The overall wages of the labour have been increased because foreign firms are paying higher salaries in comparison to domestic firms of India. The foreign firms are demanding high skilled labour so the employees are also improving their professional and personal skills. The wage inequality is also increasing because high skilled labour are getting more wages in comparison to low skilled labour in the foreign firms. The major difference between Indian and Chinese labour is the adoption of English language. Though Hindi is the national language of India but a large number of Indian people are using English language for communication. English has been adopted as the global business language in India. The people from North India and South India are also using English language for exchanging their views. In comparison to Indian labour the Chinese labour is not very much efficient in English communication. Chinese are still preferring their own local language over English. The Indian software industry have witnessed 30% annual growth in last two decades. The exports in the software industry was around $ 50 million in 1980 and that exports has been reached to $ 60 billion in 2008 (Bhatnagar 2006). The increased FDI in software industry has positively affected the employment level in India. The software industries are providing higher number of jobs in comparison to other industries in India. A large number of graduates are joining software firms after completion of their courses.

The young population of India is attracted towards multinational firms because those firms are providing excellent wages and good working conditions in comparison to local domestic firms of India. There has been a large gap between the wages of domestic firms and multinational firms in India. The working conditions have also improved for India labour, the multinational firms are providing better training and hygienic work environment to the labours. The domestic firms are still following the traditional HR practices which are not benefitting the employees but the multinational firms are following the modern HR practices. The multinational companies are much concerned about safety and health of workers and those firms are providing modern equipment to their workers (Markey and Ravenswood 2009). Similar to China the local labour India is also migrating from rural place towards the urban cities. In the last decade the population in metro cities like Delhi, Hyderabad, Bangalore and Mumbai have been increased rapidly. The women participation has also been increased in the India market. Multinational firms are providing good opportunities to both males and females without any distinction. Slowly and steadily the female labour are also increasing their contribution in the economic growth of India (Mazumdar and Sarkar 2008).

There has been a widespread migration of call centres in India. The multinational firms are opening their call centres at rural places in India to provide employment to the youngsters living at remote places (Taylor and Bain 2005). A large number of population is still residing at rural places in India and their uplifting is necessary. Multinational firms have started many projects at the remote locations to provide skills and employment to the local labours. There negative impact of multinational firms in Indian market is the large imparity in the per worker earnings between the agricultural and non-agricultural sector. It is true that multinational firms have improved the life style and wages of the local labour in Indian market but that transformation is limited to the educated and highly skilled labour. The women employment has been increased but a large number of women are working in low-productivity, low-income and insecure jobs (IHD 2014).

Analysis and Discussion

India is major threat for China and other developed countries because the population of India is second highest in the world (Winters, 2007). In the coming future India will have more number of younger people than China so India will attract more number of FDIs and foreign companies. There is no such one-child policy in India which can affect the growth of the country. China is lacking the structure and framework required to maintain elder age people. China's pension reserve is very low and it will not be able to handle the pressure of aged Chinese people. The pension reserve of Chins is only 2% of total GDP of the country and it will be a major challenge (Huang, 2013). Many countries like United State, Japan and Norway are way ahead in terms pension reserve. Another key facility like nursing home, rehabilitation centre and retirement homes are very rare in China which will also present a challenge in front of management. The ageing population also create opportunity in some areas. For example, the future of healthcare organizations will be brighter in China because those increased number of elderly people will demand top quality of healthcare services from the government. The companies like Pfizer, Merck and Novartis will find greater number of opportunities in Chinese market because cost of medicine will increase with more number of elder people. The concept of urbanization suggest that a greater number of people are moving from rural areas in China to urban cities. This transition of people is already a major challenge for the Chinese government because creating job opportunity and providing competitive salaries is not an easy game (Feng & Mason, 2005). In future the demand of salaries will increase further because a couple have the responsibility of handling their own parents and children. The increased elder age population will create a chaos in the country.

Conclusion and Future Research

On the basis of overall discussion, it can be concluded that if labour force will be taken as criteria than India has an edge over China by 2050. Currently China has leading in terms of workforce but the major problem of China is aged population. India is growing as youth nation and it is the key strength of the country. Indian population is not only young in terms of the age group but also in terms of the overall education and technical skills of the local labour. China and India both are emerging economies and their future is bright but the problem of glass-ceiling is severe in both the countries. Glass ceiling problem is a major obstacle in growth of two countries. Glass-ceiling is the problem associated with women employment in which women are not allowed to go top ladder in the organization. In future research the authors can see the impact of glass ceiling on both the countries and which country is taking appropriate action against this problem.

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