

# China-India Brief

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## *Guest Column*

## Power From the People: India, China and the Implications of Population Size

By Peter Robertson

By April 2023, India is predicted to overtake China as the world's most populous country. Its projected upward trend, along with a rapidly ageing China, suggest that India's population may be **50 percent larger** than China's in just a few decades.

This new status may deliver dividends to India in terms of global political power and economic leverage. Likewise, *The Economist* flagged the potential for **new opportunities** for India if China succumbs to either rising wage costs, political sanctions or high-tech protectionism from the United States (US).

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The *China-India Brief* is a bi-monthly digest focusing on the relationship between Asia's two biggest powers. The Brief provides readers with a key summary of current news articles, reports, analyses, commentaries, and journal articles published in English on the China-India relationship. It features a Guest Column weighing in on key current issues in China-India relations.

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*cont'd p2*

As the world's current title holder of most populous country, China's influence would appear to suggest that country size matters in international relations and politics. China has enjoyed the status of 'world's largest manufacturer' since its reform period and accession to the World Trade Organisation (WTO) in 2000. By 2009, the world was looking to China to pull it out of the mire of the global financial crisis. More recently, China has attempted to project military power into the South China sea and affirm itself as a great power.

To make the point, former Chinese Foreign Minister Yang Jiechi, infamously **reminded** members of ASEAN in 2010 that "China is a big country and other countries are small countries, and that's just a fact."

Nevertheless, history suggests that since the Industrial Revolution, population size has bestowed limited economic or political benefit. China has been the world's most populous economy since the mid-eighteenth century. However, despite a population of over **400 million**, it was bullied by the United Kingdom (UK), during the opium wars, with an estimated population of just 26 million. While China's economic and political clout is undisputed today, as recently as nine years ago, some experts were still arguing that **China was not a global power**, lacking economic sophistication, military power projection and having no international political ambitions beyond Taiwan.

Thus, China has been the world's most populous society since the eighteenth century, but it is only in the last ten years that it has been able to leverage that for significant political gain.

This schism between population size and political influence should not be lost on India. By the time Queen Victoria was proclaimed Empress of India in 1876, the UK had effectively controlled the subcontinent for a hundred years with a population that was never more than 10 percent of India's.

The remarkable fact about both China and India's large populations is that they have meant so little for so long.

### **Economic Size versus Population Size**

China's lack of historical political clout is because of its historically low productivity and low per capita income. In 1600, China had twenty-five times more people, and eighteen times the GDP of the UK. But by 1870, after the Renaissance and at the start of the Industrial Revolution, Britain had more half of China's GDP due to productivity growth, despite a far smaller population. By 1910, the UK economy was the same size as China's with around **a tenth of the population**.





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Indeed, while size does count for a lot in politics, it is ultimately economic size that matters, not population size. Before the Industrial Revolution, these two concepts coincided. After the industrial revolution, the capacity for productivity growth and associated military technologies meant that population became less and less important.

If population size is not so important for politics, it counts for even less in economics. Doubling a country's population and doubling all its capital and resources would make almost no difference to standards of living or per capita economic growth.

With a rapidly increasing population, the best you can hope for is a neutral impact on living standards, since governments have to expand more resources to educate its people, provide infrastructure and attract private investment. So apart from some ability to affect trade deal outcomes or influence world prices, size does not matter in economics.

The more typical experience is that population growth is not matched by growth in education, infrastructure and investment. This leads to a fall in per capita incomes due to the law of diminishing returns.

## The per capita gap

The risk that India faces, therefore, is that population growth will generate GDP growth but stifle growth in per capita income and hence living standards. This is critical for India because having been significantly wealthier than China in the 1960s, it is now far poorer. It also faces additional challenges in terms of its uneven economic development.

Likewise, despite a significant acceleration in growth in recent decades, India's growth in per capita GDP remains significantly below the double-digit rates that China achieved. Over the decade prior to COVID-19, from 2008 to 2018, India's per capita GDP averaged **6.6 percent per annum**. However, over that decade and previous decades, China's average growth was around 9 to 10 percent per annum.

Hence, even though China's growth is now slowing, the per-capita income gap is enormous. Even if per-capita income growth in India continues at its historically impressive rate of around 6.6 percent per annum, its per capita income level (approximately \$2,000 per person in 2021) still wouldn't reach the per capita income that China has today (approximately \$11,000 per person), until the middle of the century.

So while India's growth has improved, it is still far below what China demonstrated is possible, and per capita incomes in India seem set to remain well behind that of China for many decades.

## Uneven Fertility Transition

While India is experiencing stronger population growth than China, it is also enjoying an impressive **fertility transition** with the total fertility rate falling to replacement rate in just two decades. This means that India's population is much younger than China's but also stands to benefit from a so called 'demographic dividend,' as pressure on infrastructure and public goods eases. In contrast, China's one child policy has created a high dependency rate as its large workforce enters retirement with relatively few workers to support them.

Nevertheless, the gain from the demographic dividend is likely to be small relative to India's potential for productivity growth. A change in dependency rate generates a one-off gain in per capita incomes which will typically be **dominated by even a small increase** in the productivity growth rate. The difference between India's growth in per capita income and China's growth since 2000 suggests massive unrealised potential gains. Thus, while a demographic dividend is 'nice to have,' it is not a 'get out of jail free' card in terms of matching China.

In addition, the fertility transition has not been even across India. States where population growth are the highest are generally the poorest. For example, in India's poorest state, Bihar, the total fertility rate is 3.0, which is 50 percent above the national average. Likewise, Uttar Pradesh and Madhya Pradesh, each with only slightly higher per capita GDP than Bihar, have total fertility rates of 2.8 and 2.6 respectively. By contrast, the six wealthiest states of Haryana, Telangana, Karnataka, Kerala, Gujarat and Tamil Nadu, have total fertility rates that are all equal to or below the replacement rate.

The greatest pressure for education and infrastructure is in the poorest states where these inputs are most lacking. This creates significant challenges for India: to reap the benefits of its younger population, it needs to ensure they are well educated and able to engage in the global economy. A greater number of poorly educated people may leave India's democracy more vulnerable to extremism and religious populism. India's overall adult literacy rate, at 75 percent has improved steadily in recent decades but is still behind what China had achieved by 1960.

Likewise, despite massive transformation and success stories, such as Whitefield near Bangalore and Gurugram near Delhi, there remain vast differences in per capita incomes. Wealthier states such as Goa and Sikkim have per capita incomes ten times higher than Bihar. These differences are amplified at the **district level**.

So while India has a lot to celebrate, and has shown remarkable success in picking up the speed of economic development and growth, the title of world's largest population is not one to celebrate. India is becoming a major world power and eventually may be the world's largest economy. But its size, in and of itself, will not do much to help ordinary Indians improve their standards of living. Their future depends on per capita income growth, which requires slower population growth, investment in education and infrastructure, and an acceleration of deregulation. Rather than more people, India needs to fully unlock the talent of its existing 1,425,775,850 inhabitants.

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