



# China and India's Innovative Potential

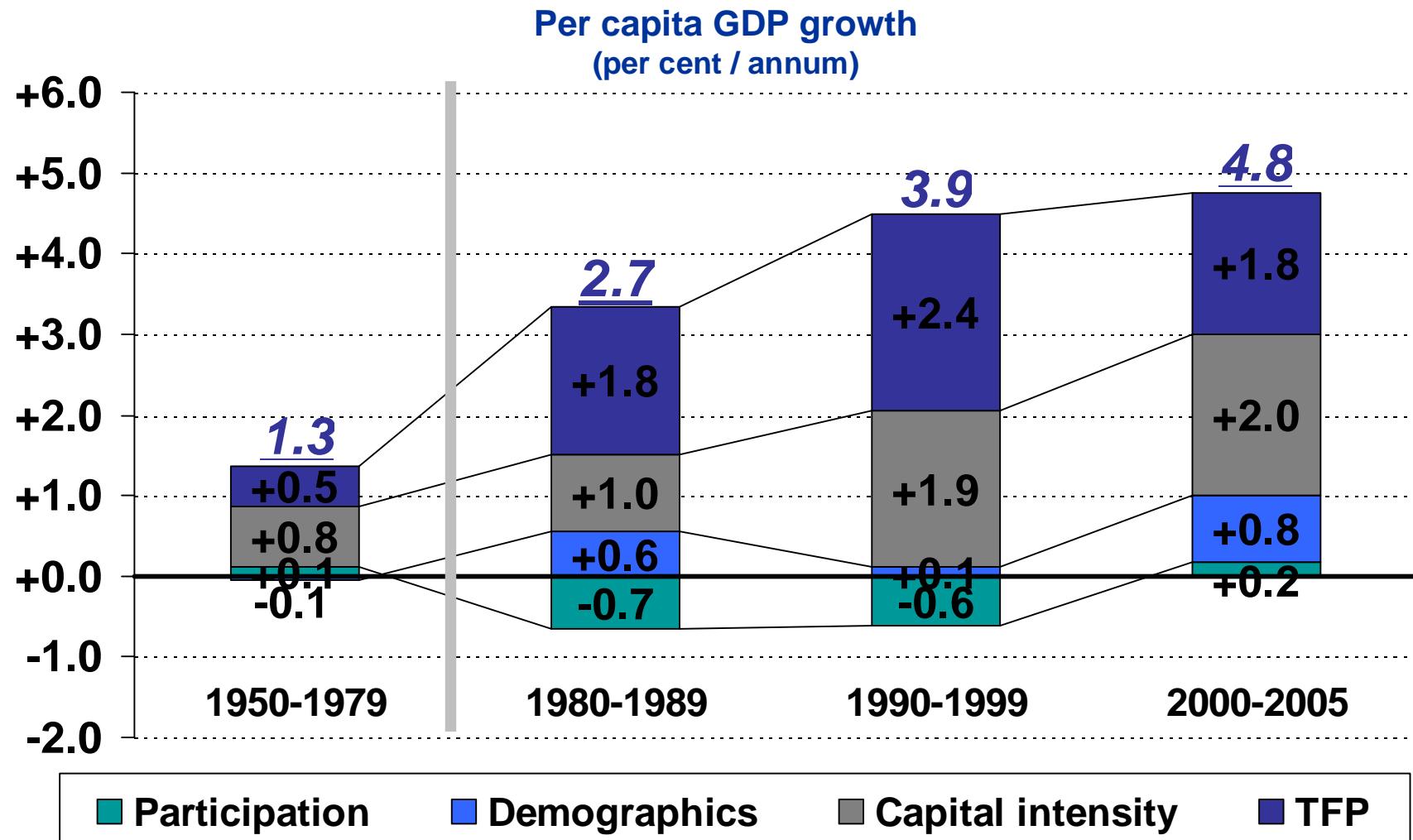
**The Dragon and the Elephant**  
**National Academy of Sciences**  
**Washington, DC**  
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OECD Economics Department

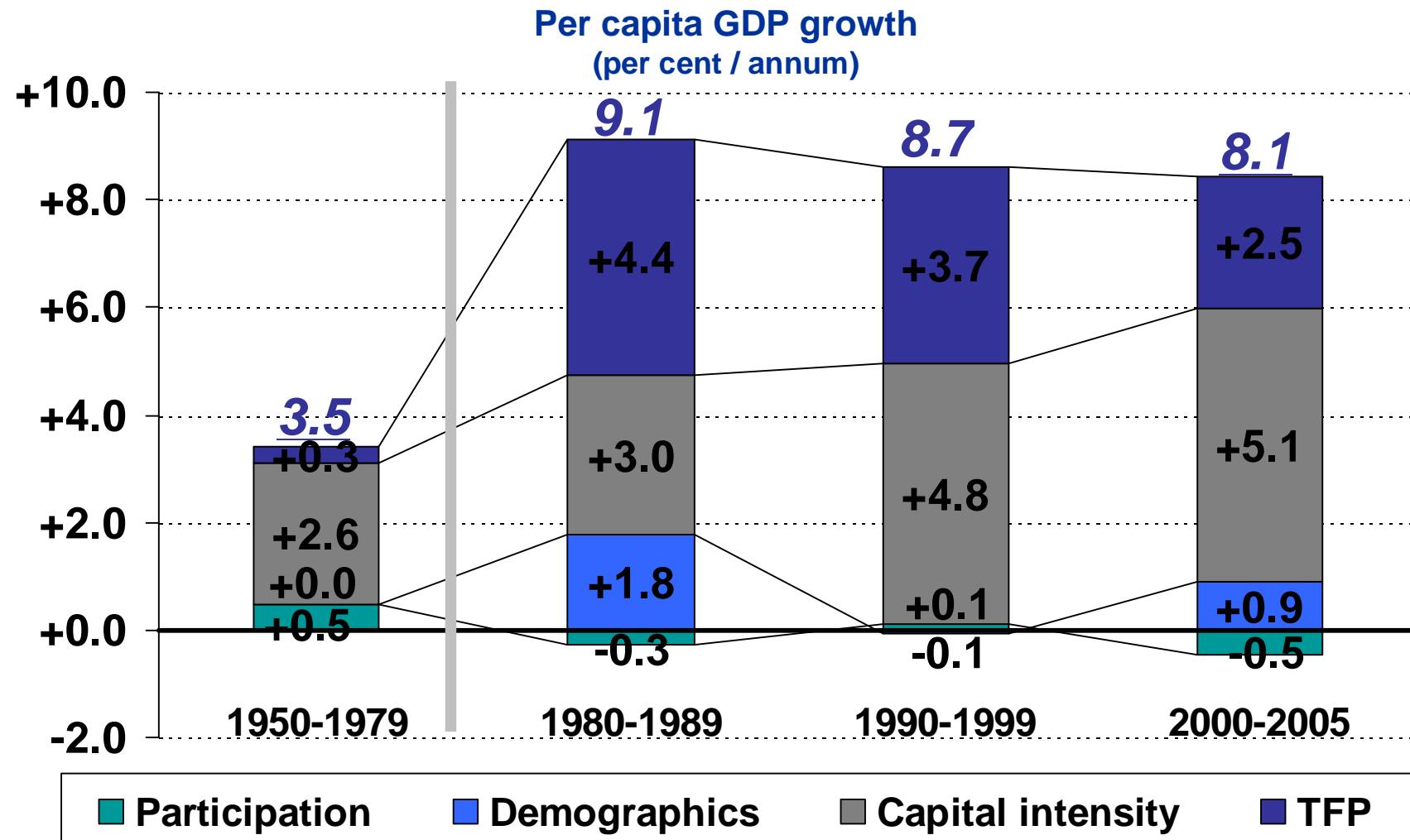
# Overview

- **Growth**
  - Potential and sources
  - R&D capacity
- **Productivity**
  - Drivers
- **Regulatory reforms**
  - Product markets
  - Labour markets
  - The future

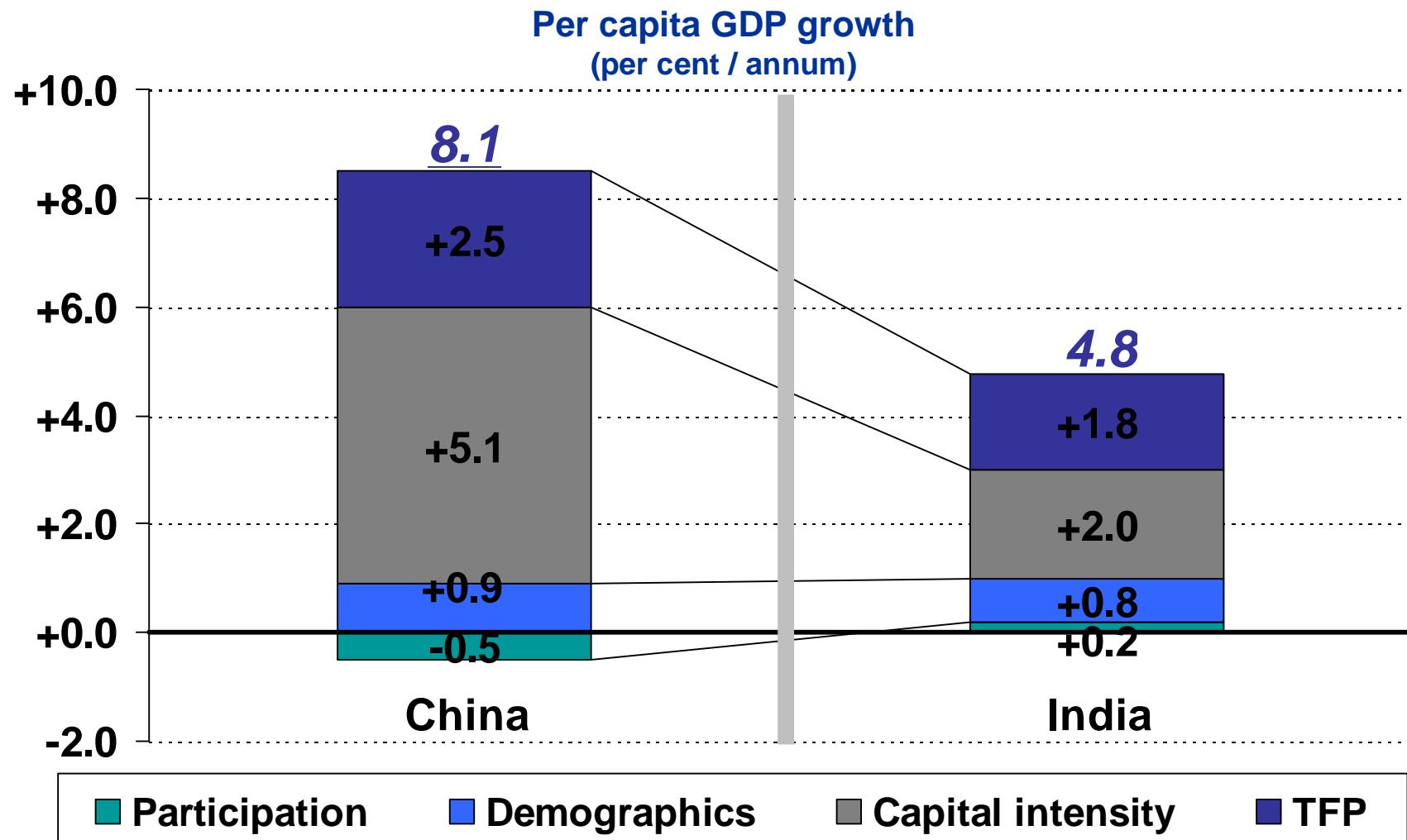
# India's growth breakdown



# China's growth breakdown

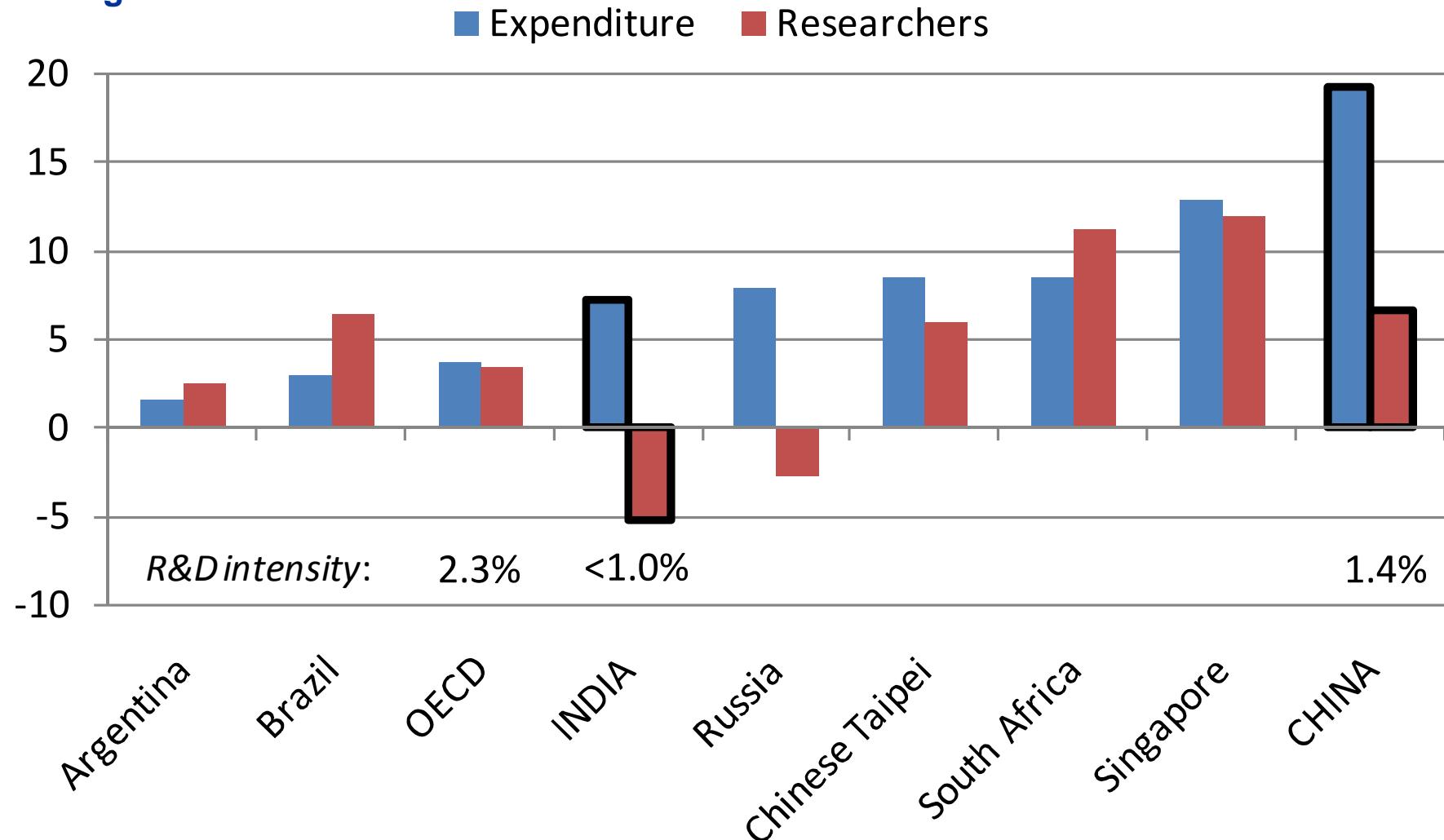


# Growth in China vs. India (2000-05)

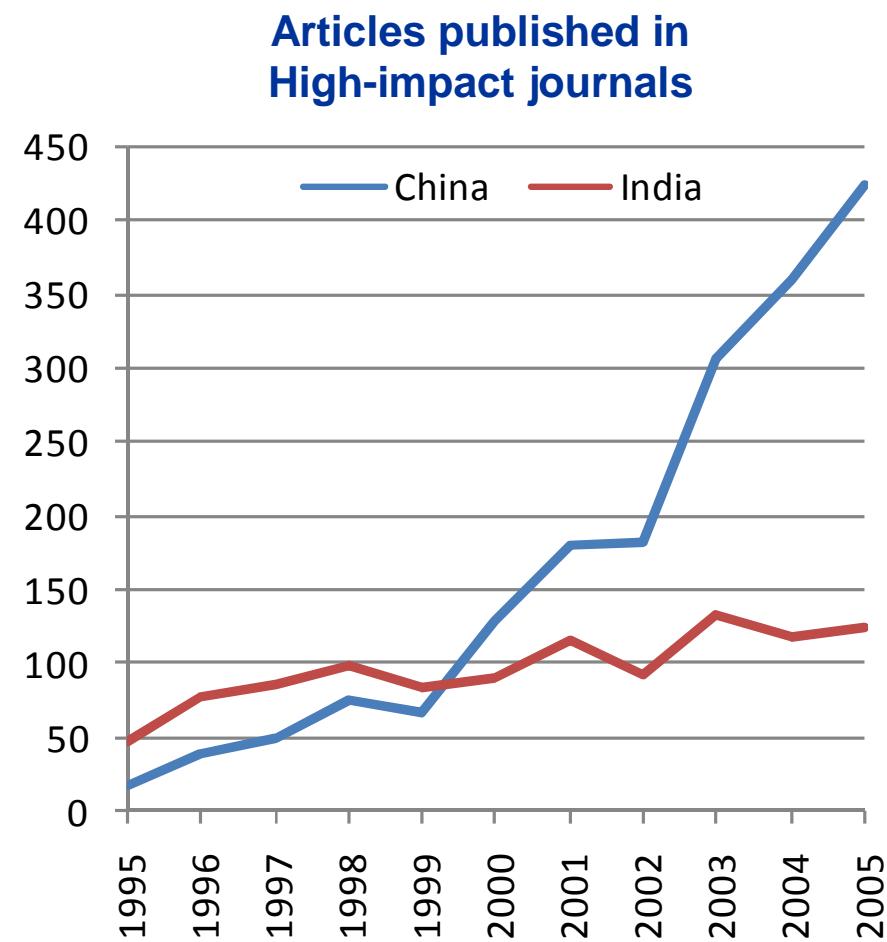
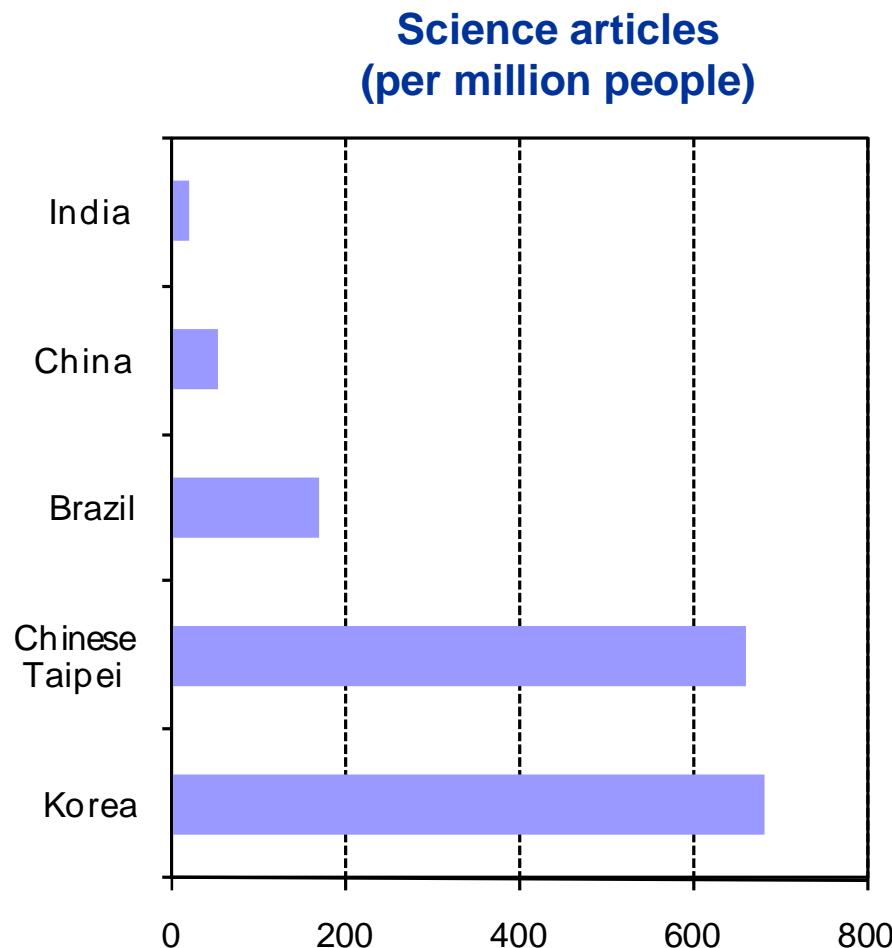


# R&D expenditure rising

Annual growth 1995-2004

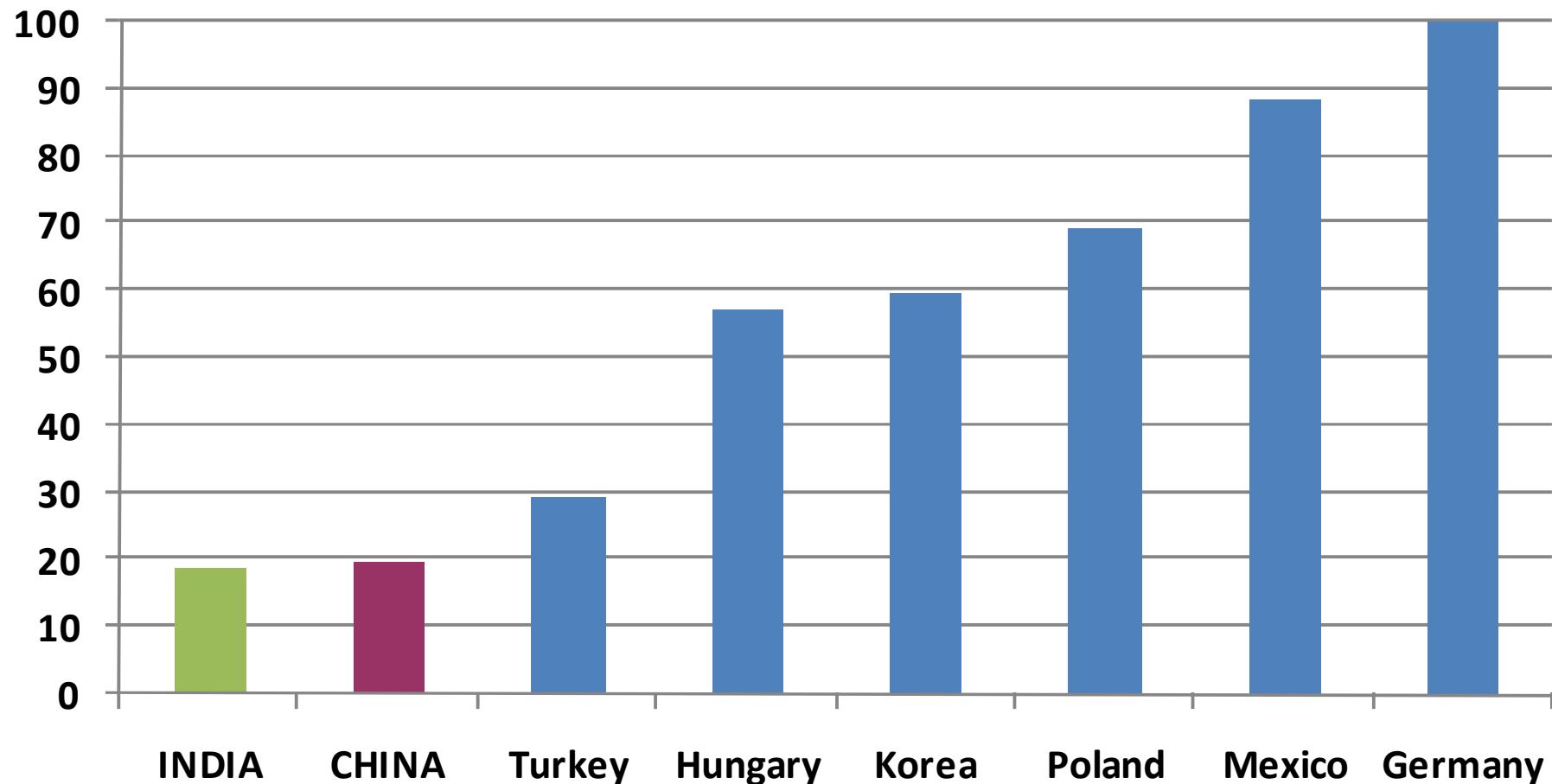


# Research outputs growing

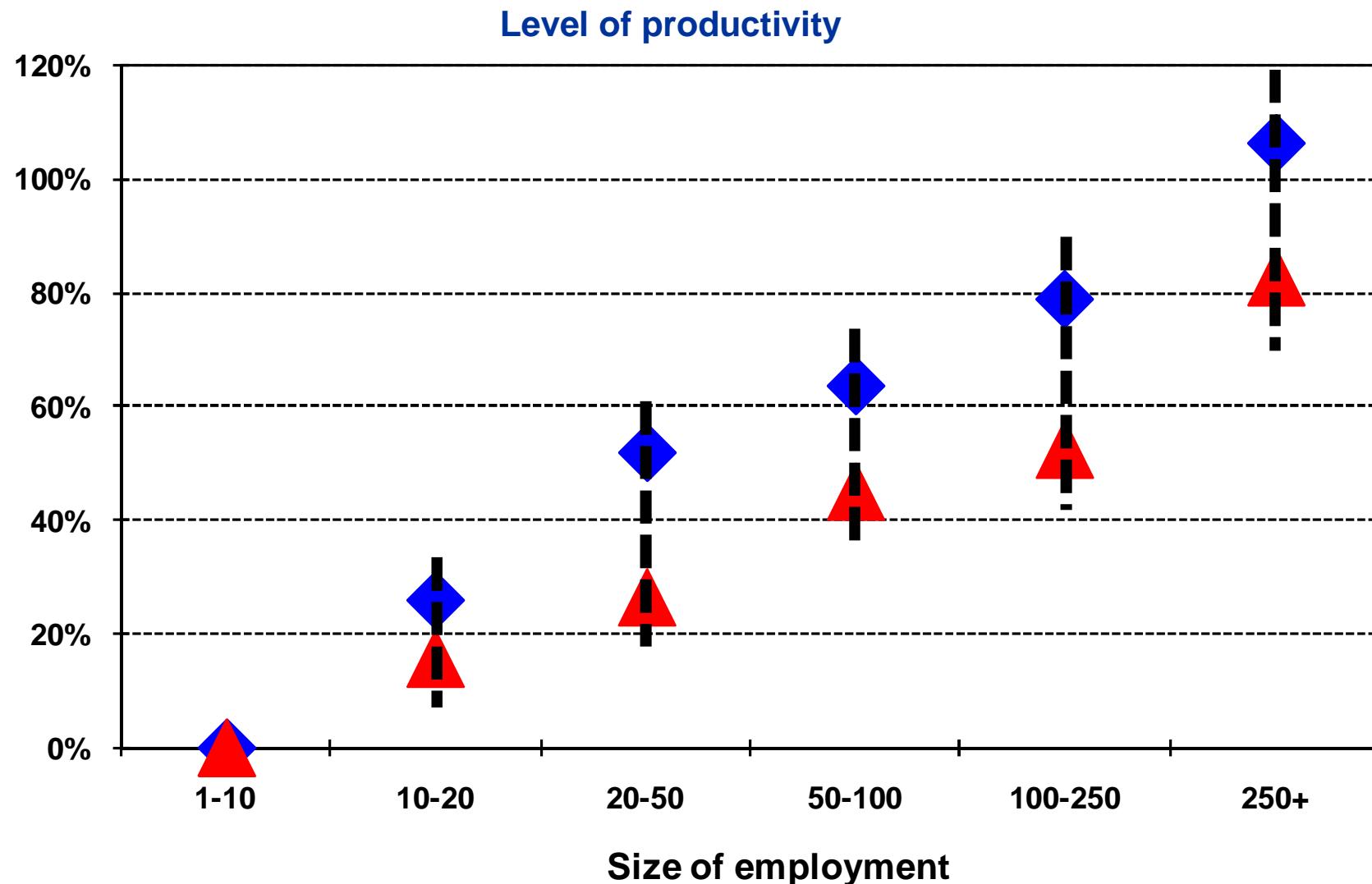


# Rising productivity allows Unit labour costs to remain low

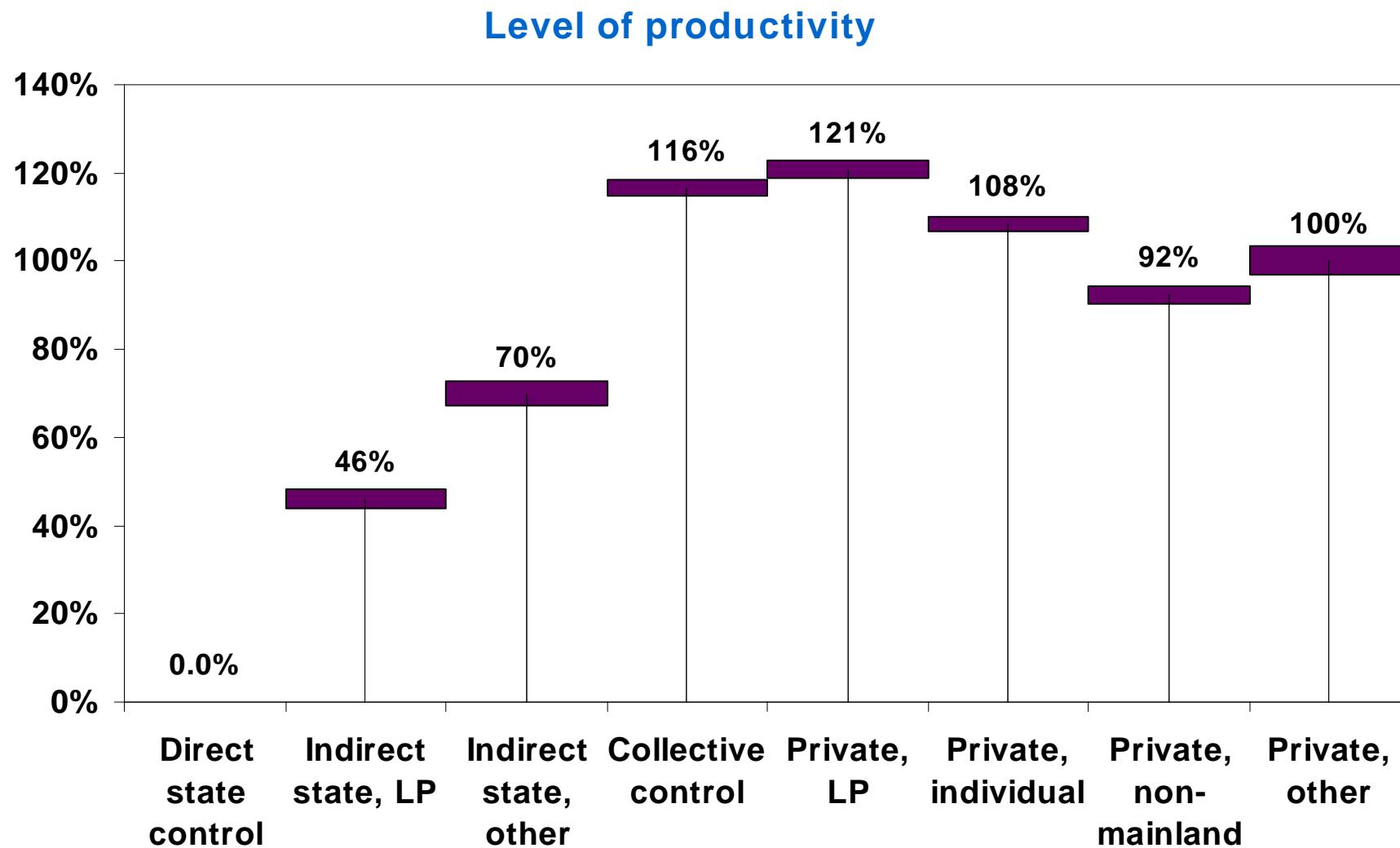
Year 2002 Index (Germany=100)



# ...but India needs larger scale firms

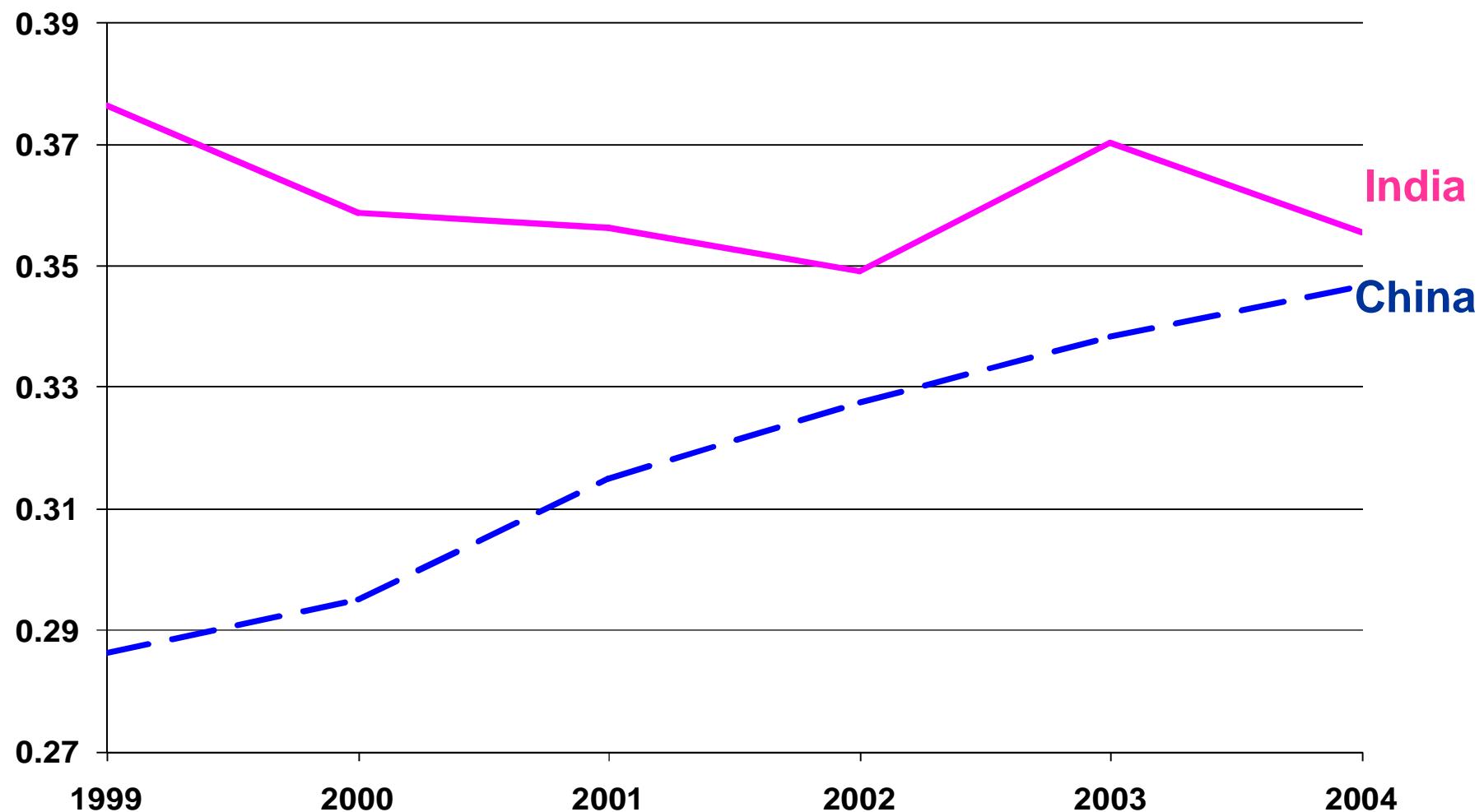


# ...and China more private control



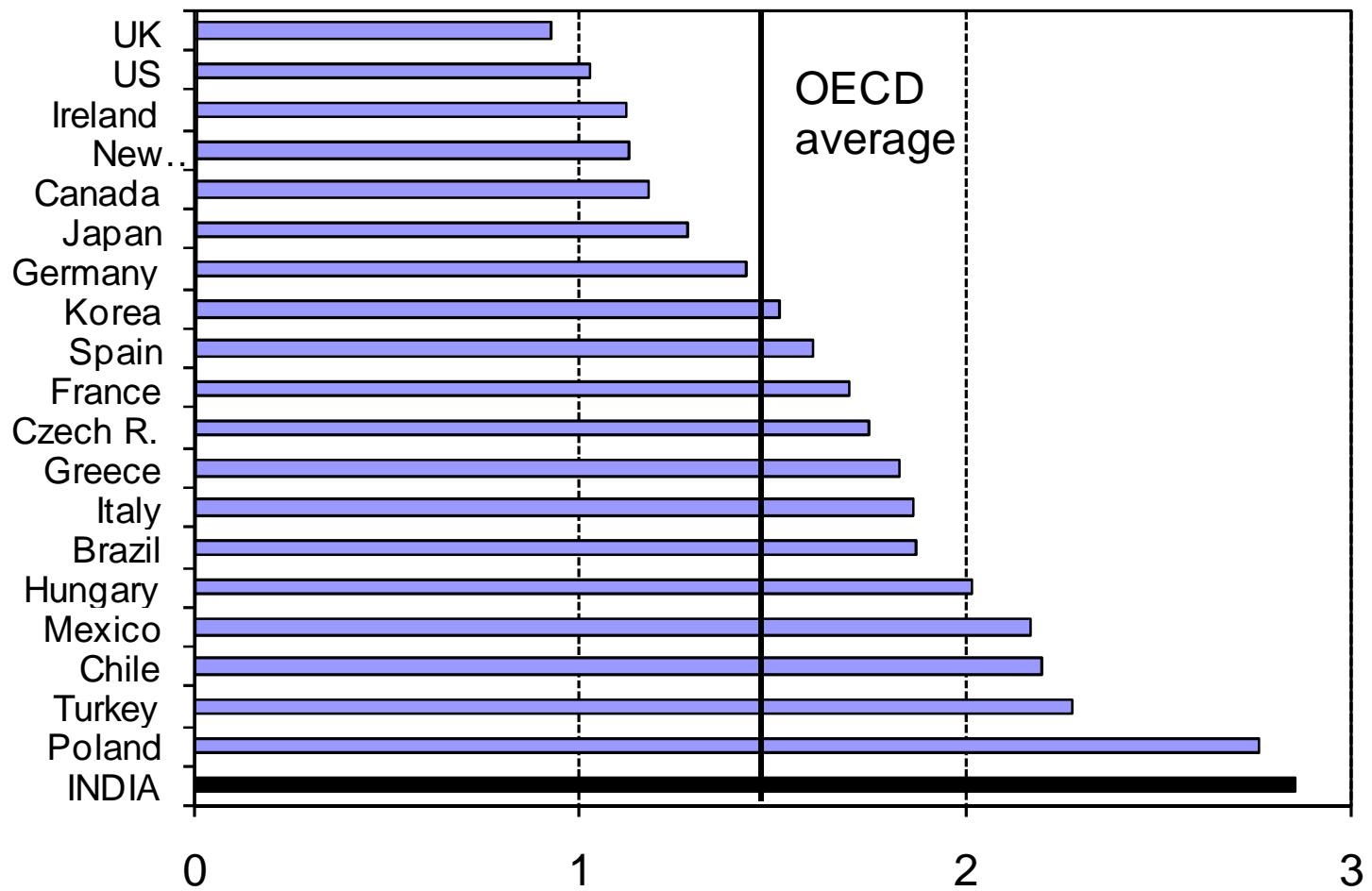
# China is restructuring rapidly

Increasing regional specialization

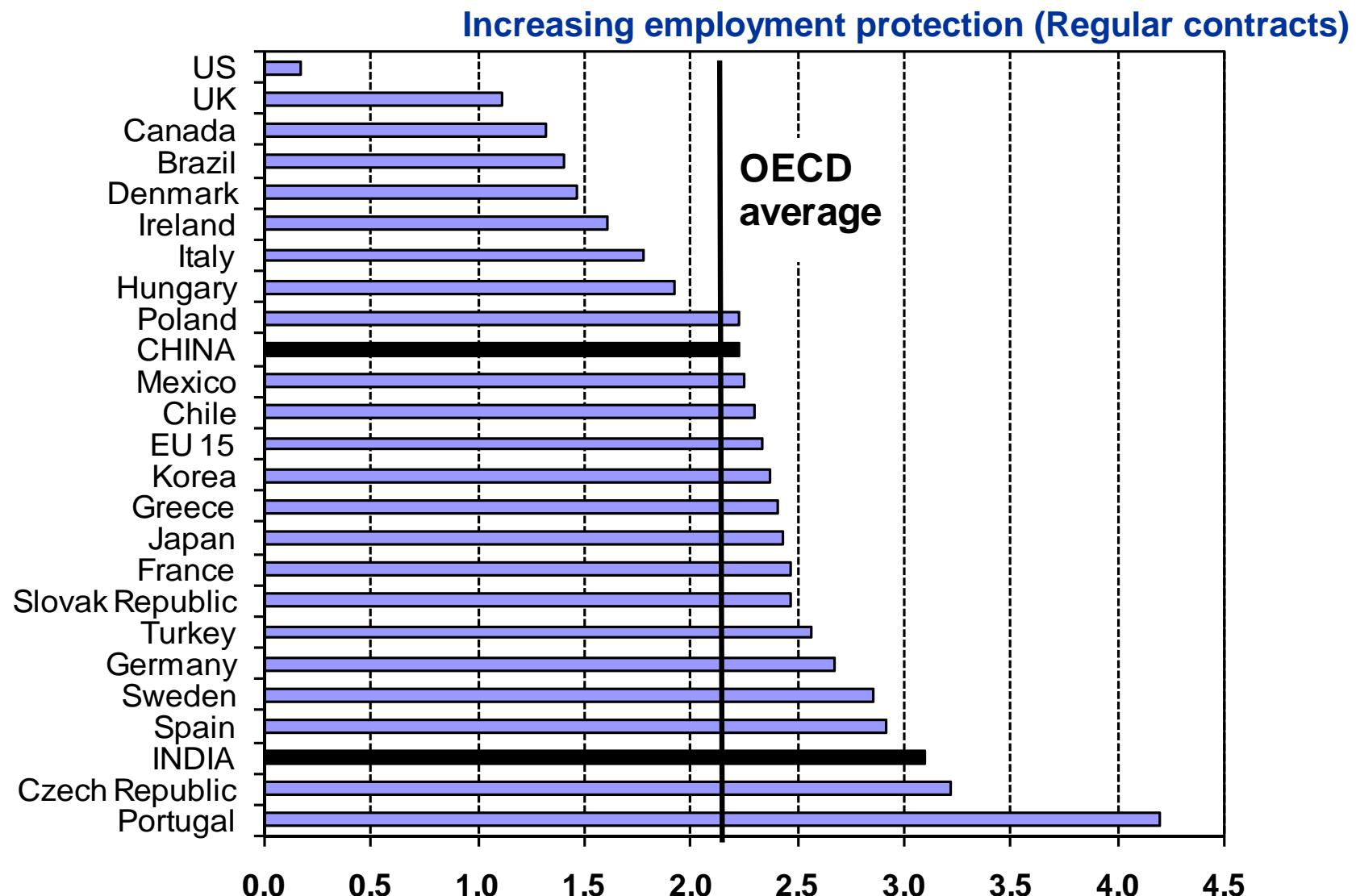


# India's product markets ...

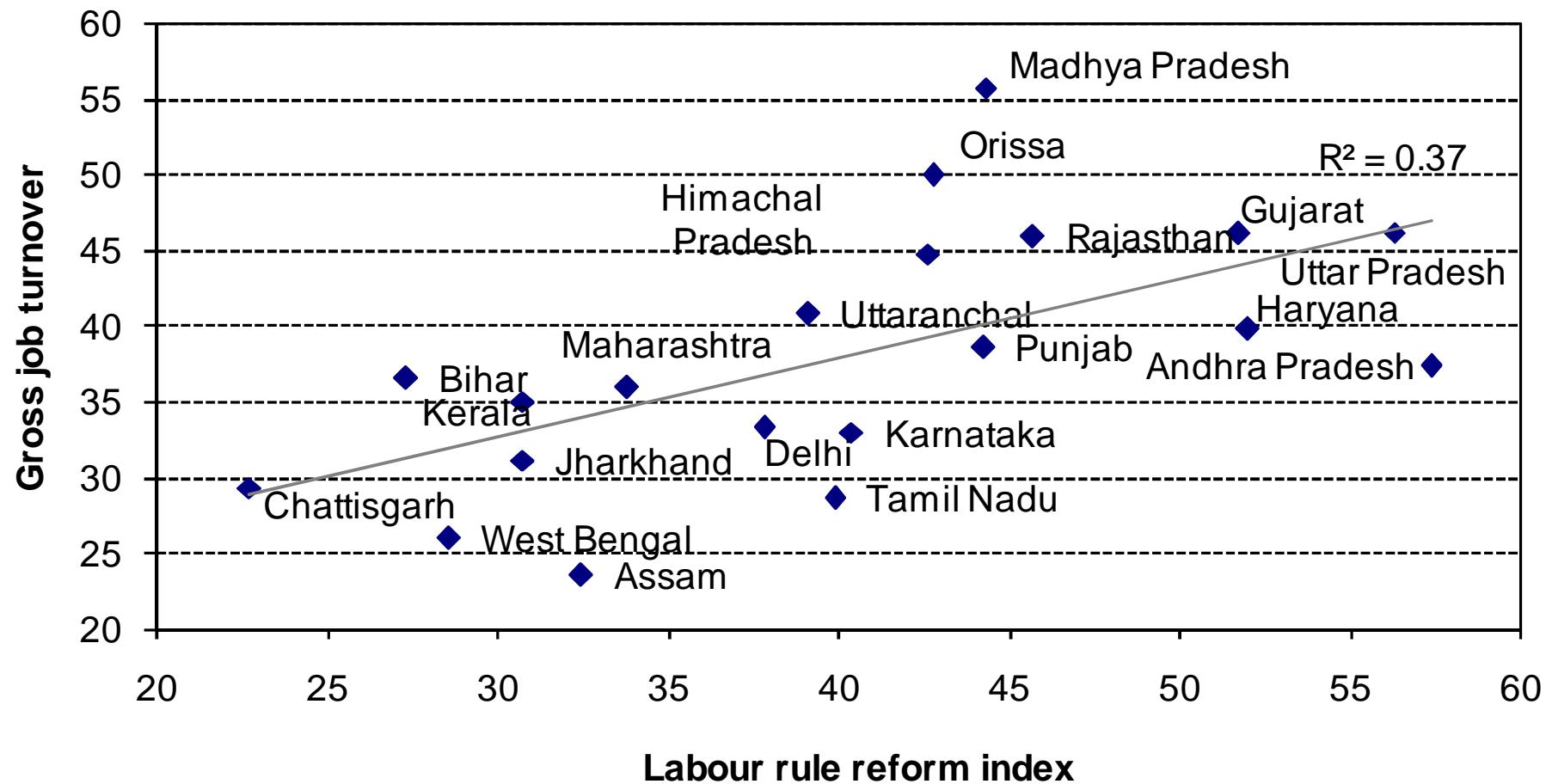
Increasing product market regulation (restrictiveness)



# ...and labour markets are restrictive

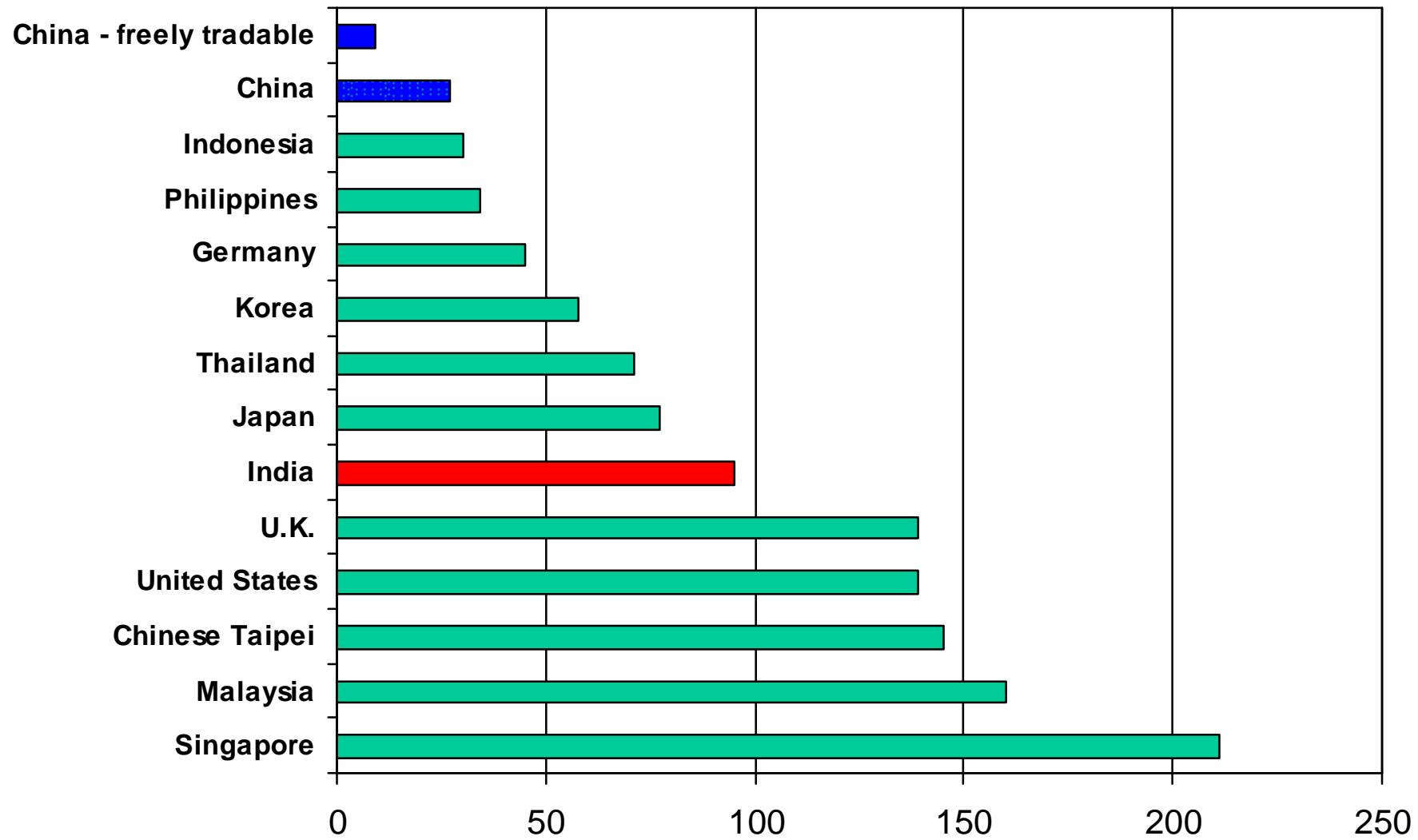


# Deregulation in Indian states is making labour markets more flexible



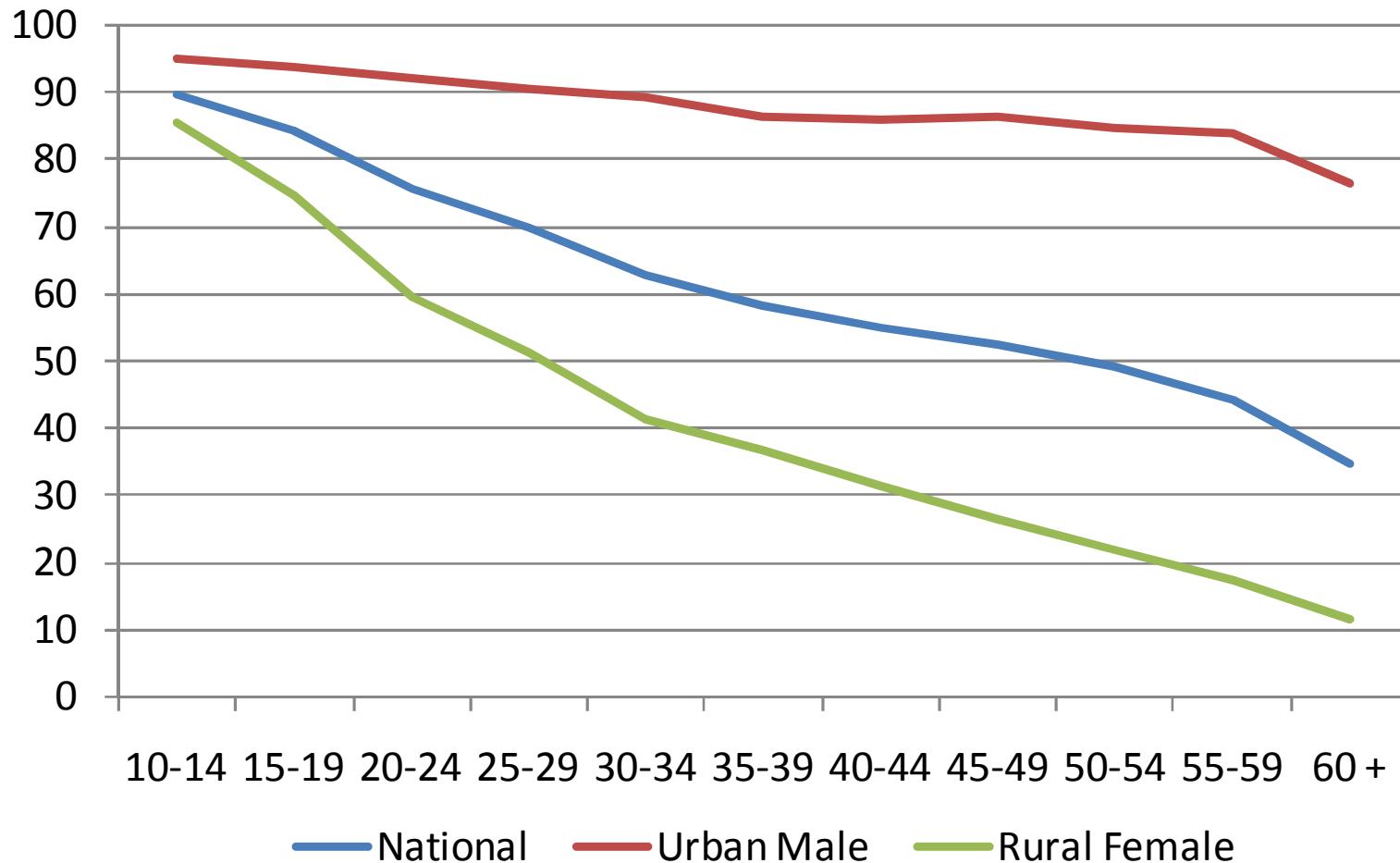
# Financial markets are more Developed in India

Stock market valuation as a share of GDP



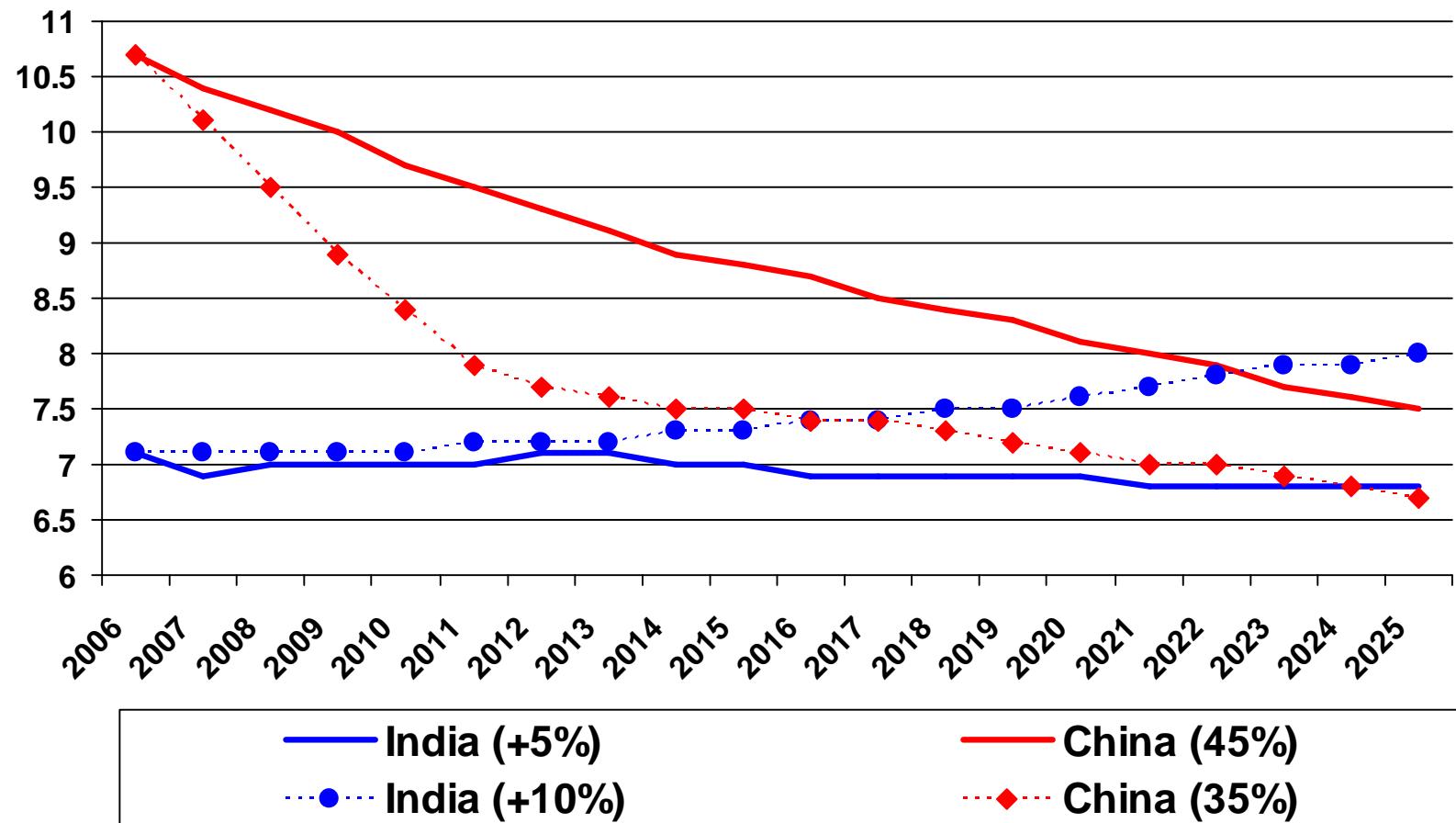
# Educational outcomes are now improving in India, approaching China's

Literacy rate by age group



# The future looks bright for both economies

## Estimated GDP growth rates



Note: Investment rate or change shown in parenthesis. See Herd and Dougherty (2007) in the *European Journal of Comparative Economics*.

# Forthcoming OECD Publications

- *OECD Economic Survey of India (Oct '07)*
- *OECD Innovation Review of China (end-07)*

Also available:

*OECD Economic Survey of China (2005)*

*OECD Science & Technology Outlook (2007)*