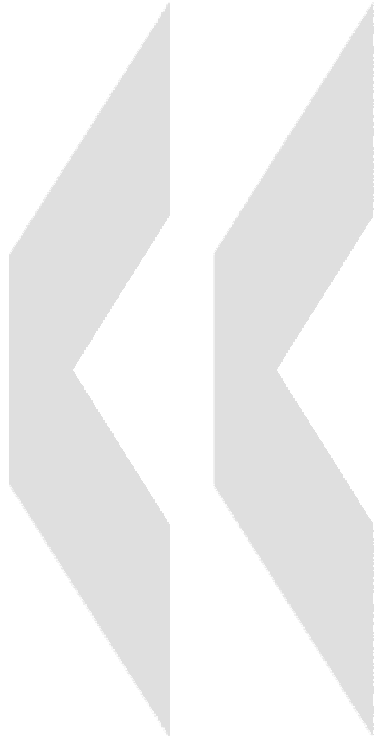


China and India's Innovative Potential



The Dragon and the Elephant
National Academy of Sciences
Washington, DC
September 24-25, 2007

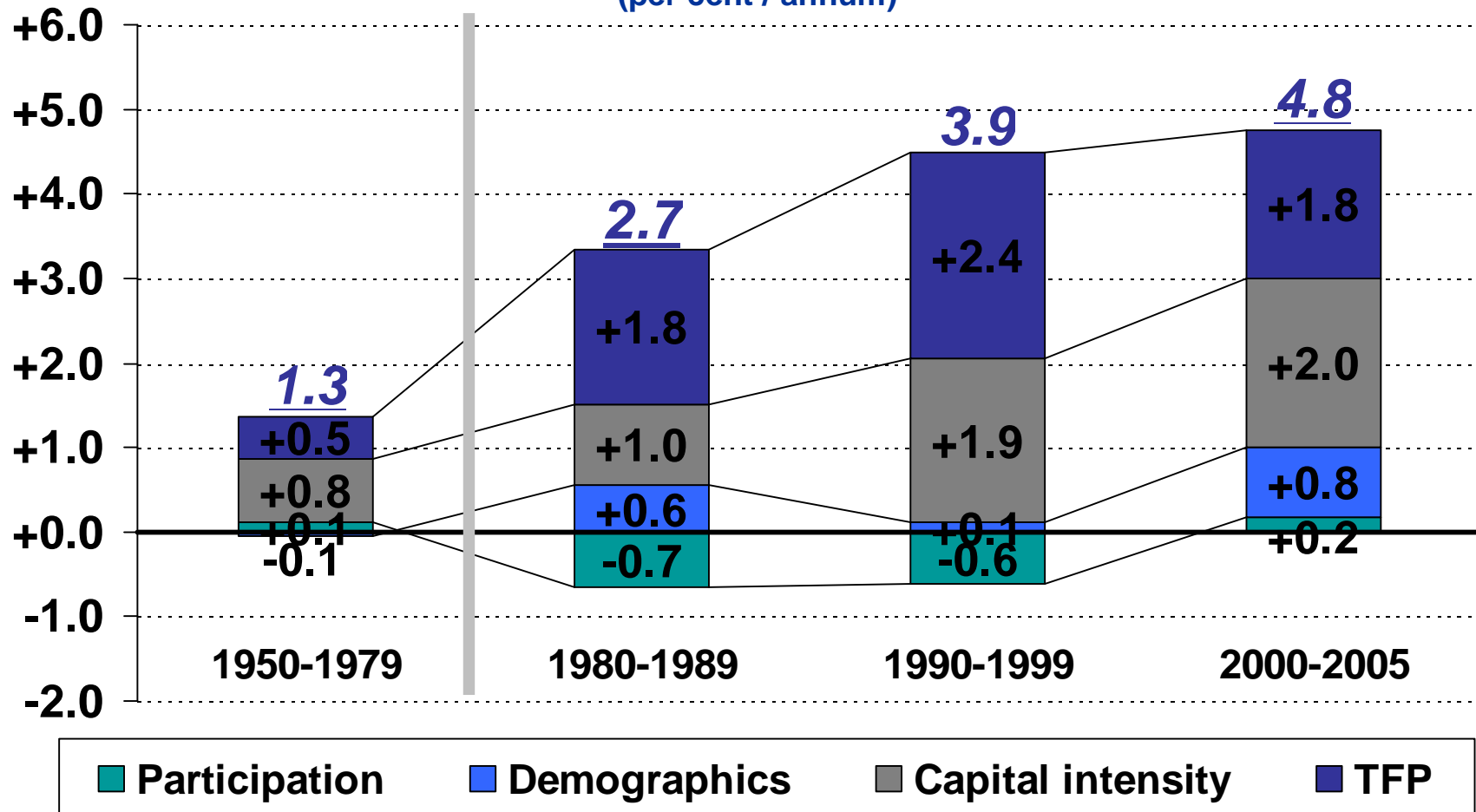
Sean Dougherty, Senior Economist
OECD Economics Department

Overview

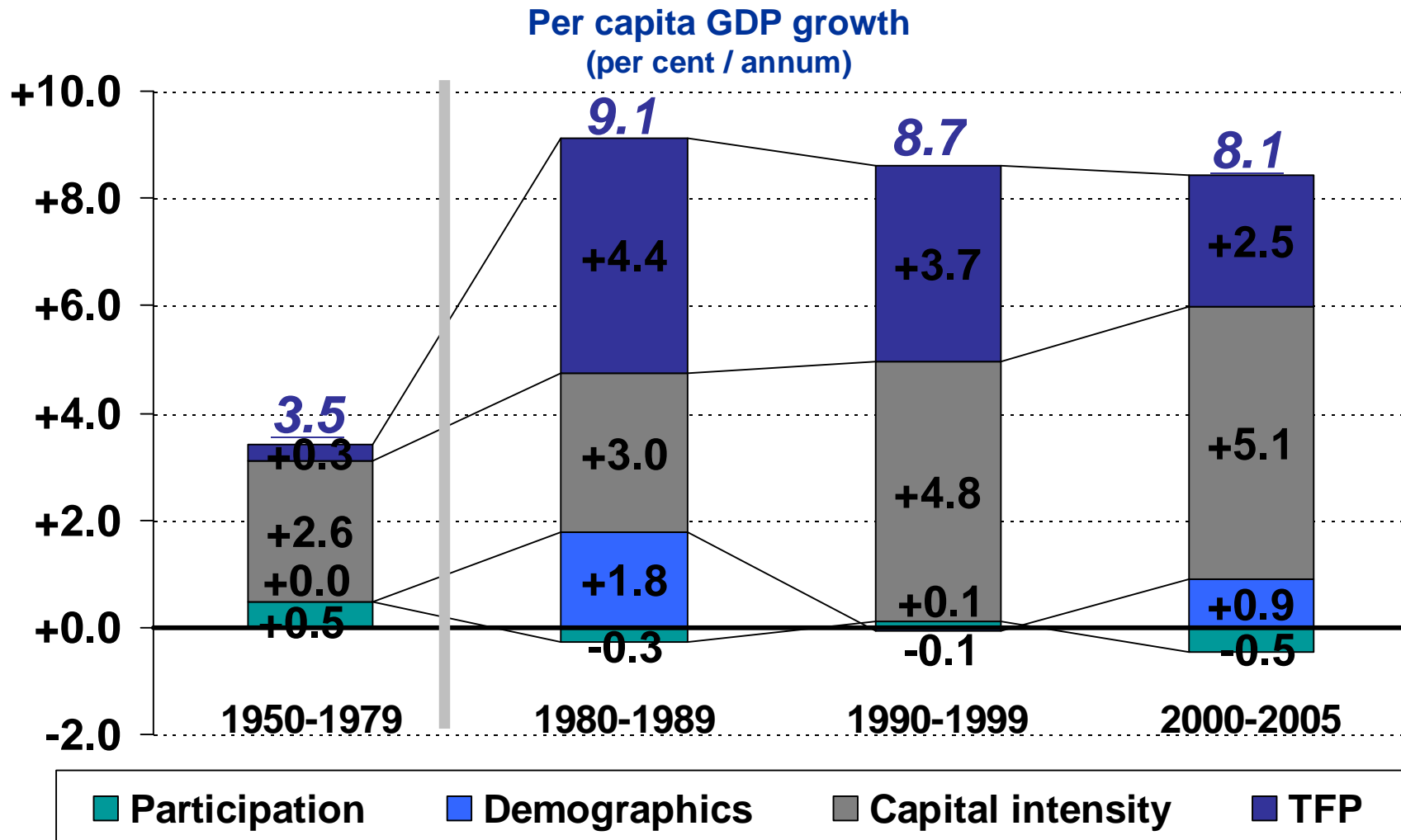
- **Growth**
 - Potential and sources
 - R&D capacity
- **Productivity**
 - Drivers
- **Regulatory reforms**
 - Product markets
 - Labour markets
 - The future

India's growth breakdown

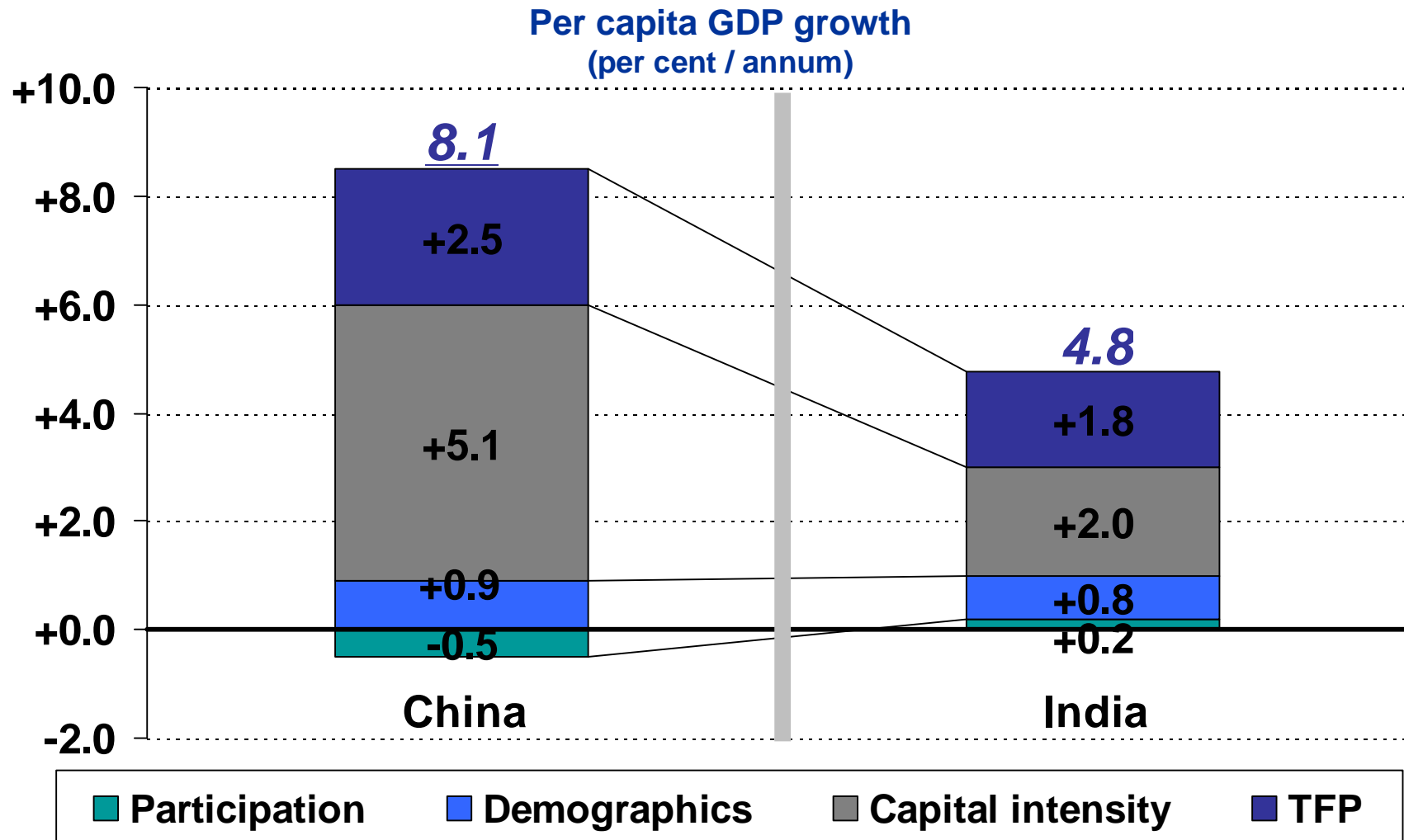
Per capita GDP growth
(per cent / annum)



China's growth breakdown



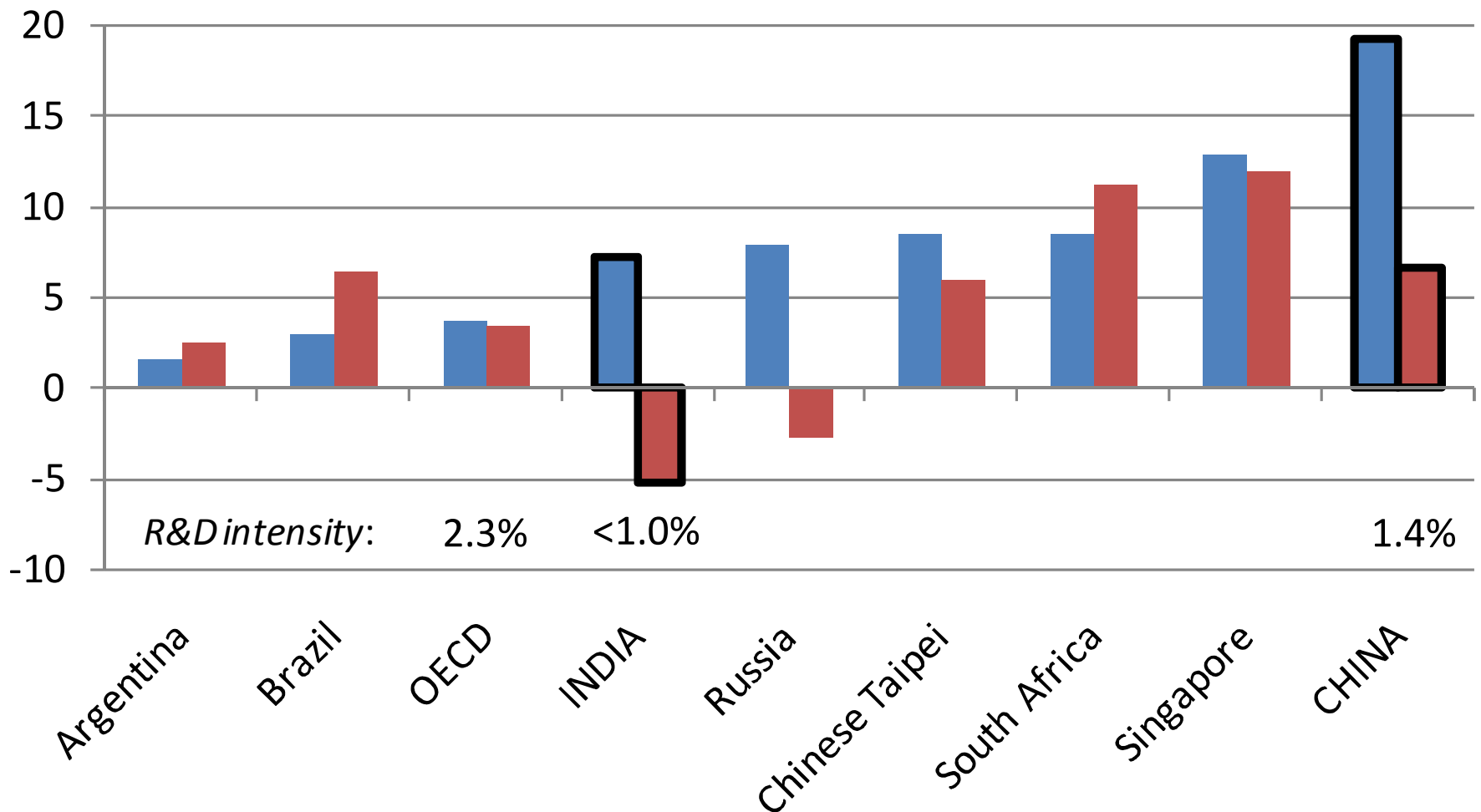
Growth in China vs. India (2000-05)



R&D expenditure rising

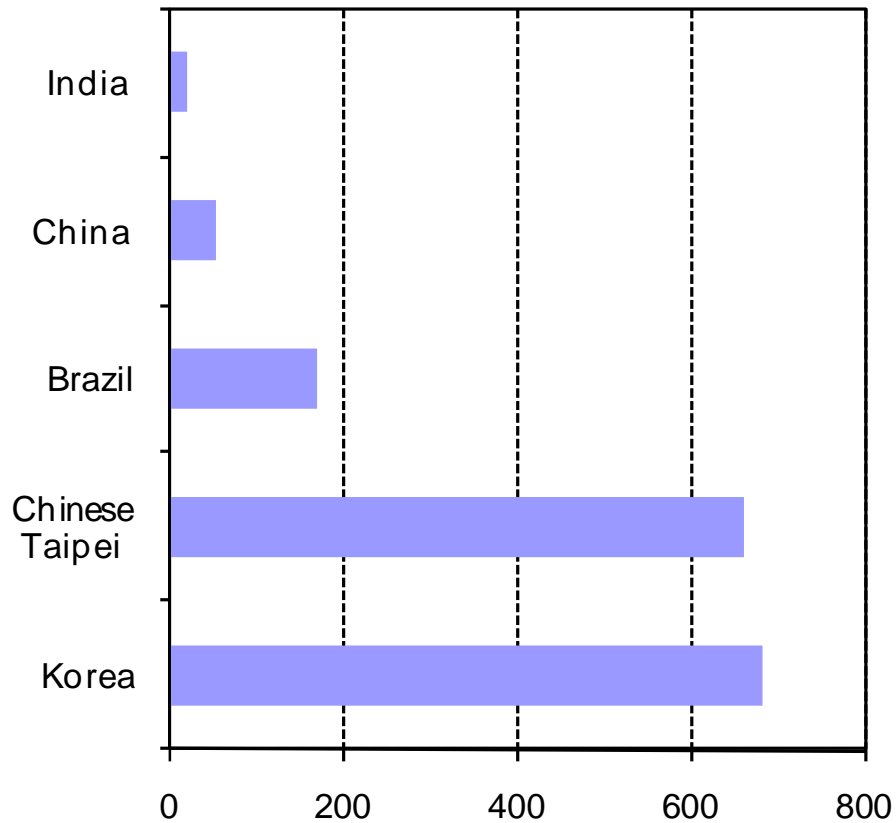
Annual growth 1995-2004

■ Expenditure ■ Researchers

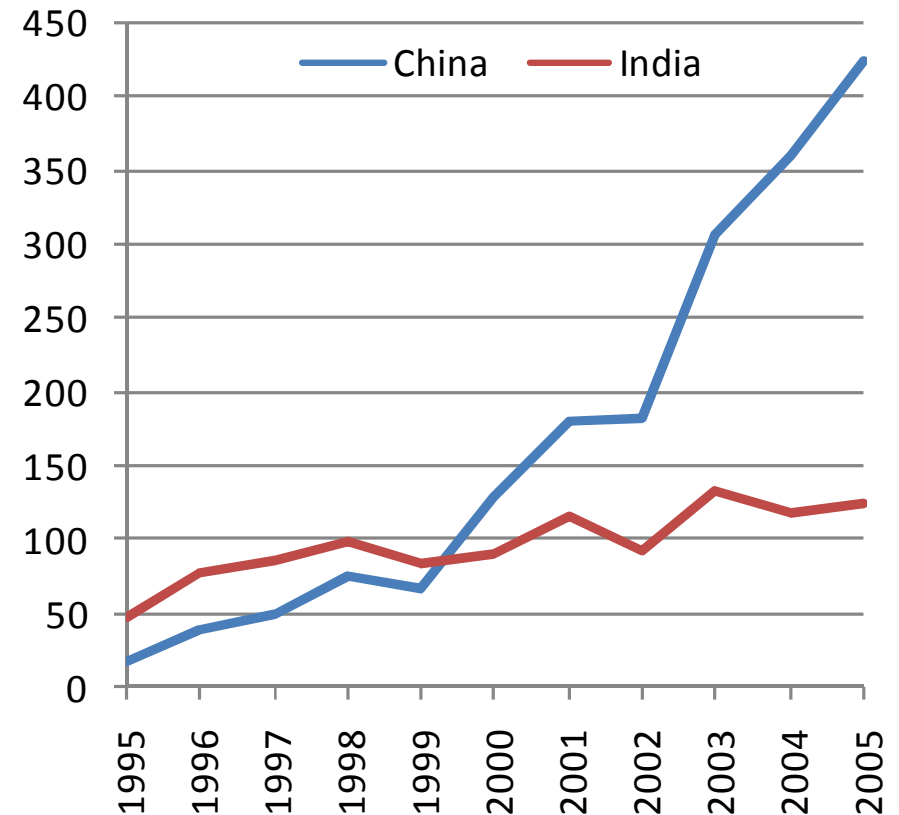


Research outputs growing

**Science articles
(per million people)**

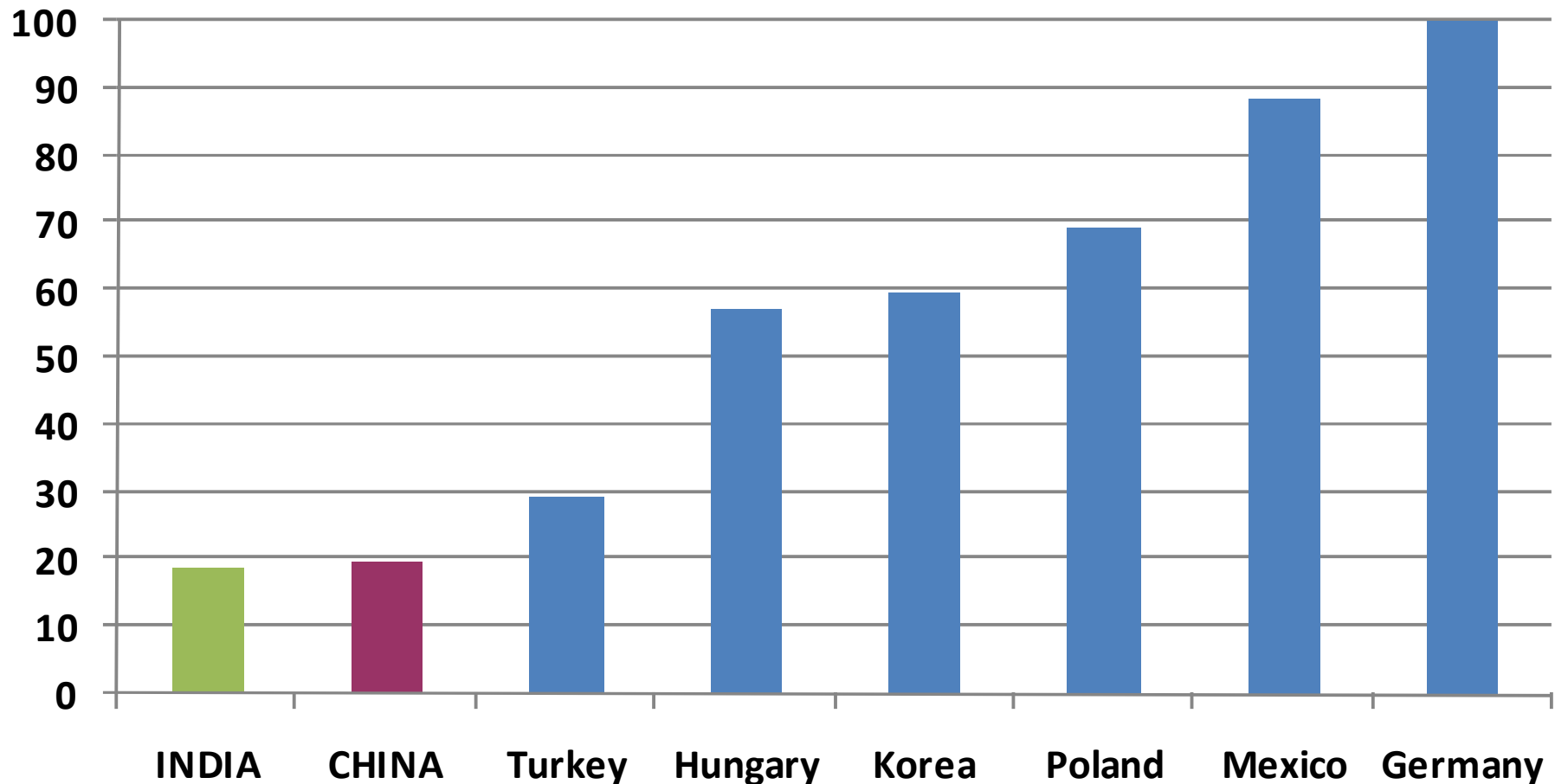


**Articles published in
High-impact journals**

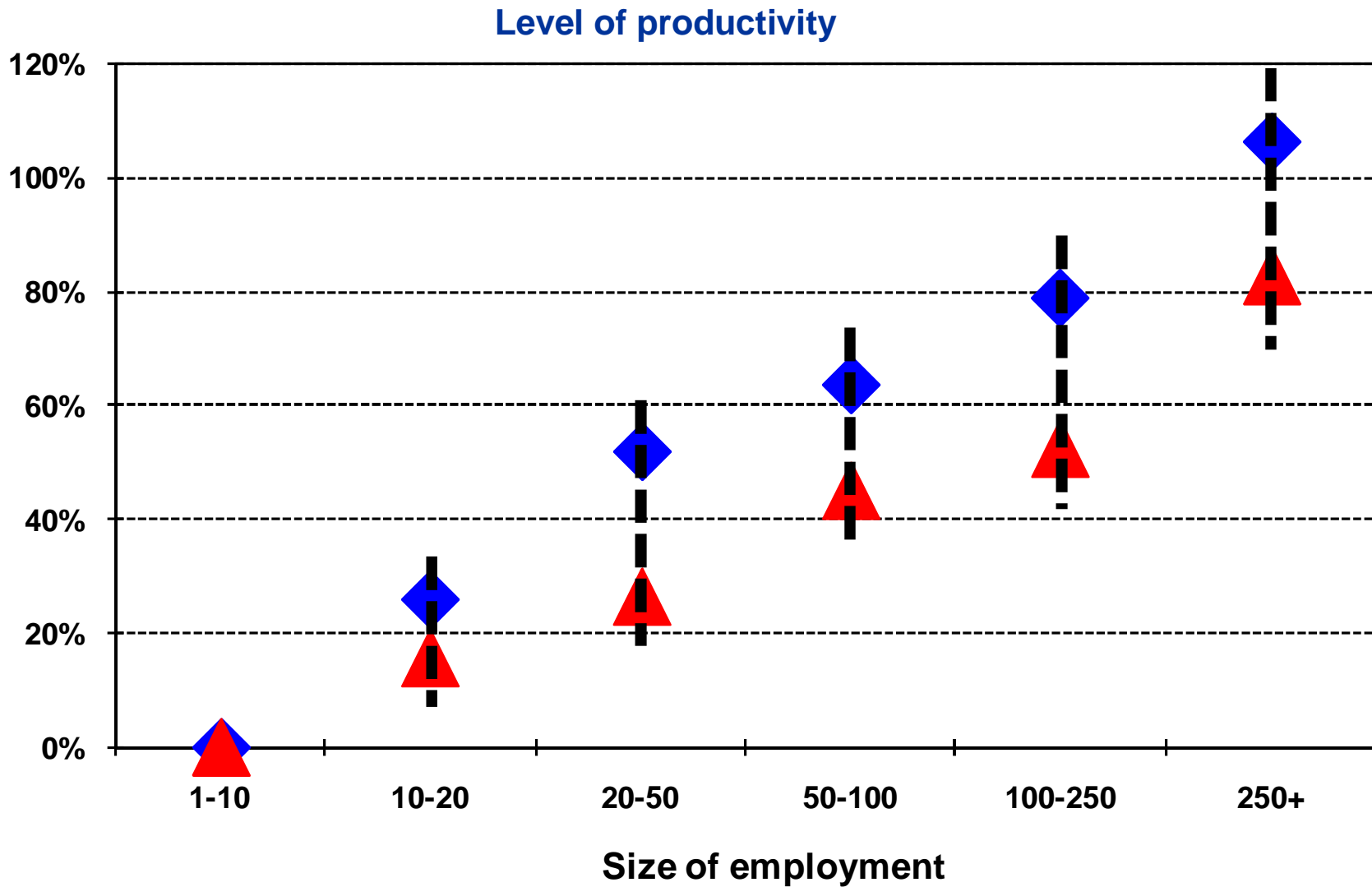


Rising productivity allows Unit labour costs to remain low

Year 2002 Index (Germany=100)

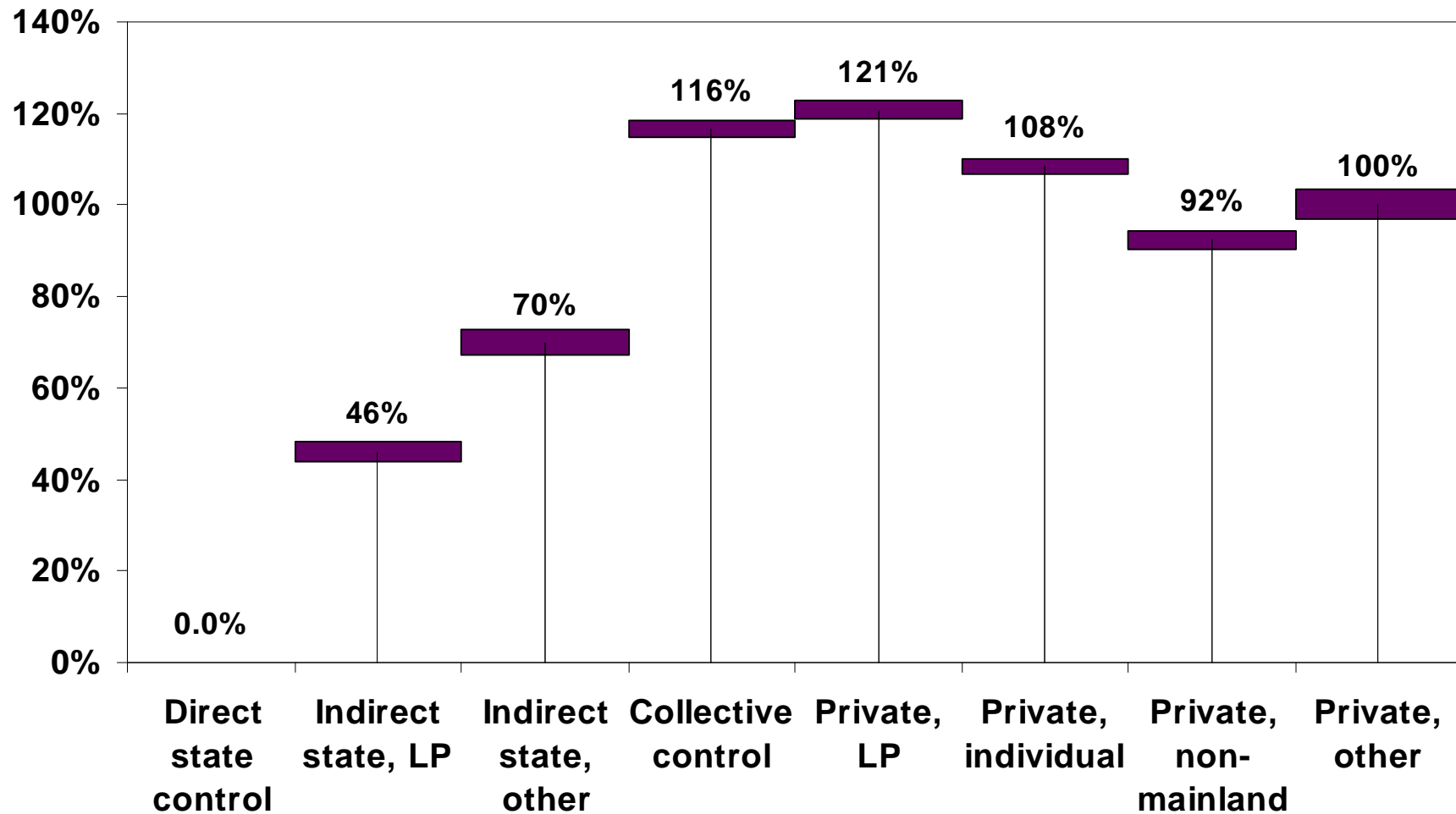


...but India needs larger scale firms



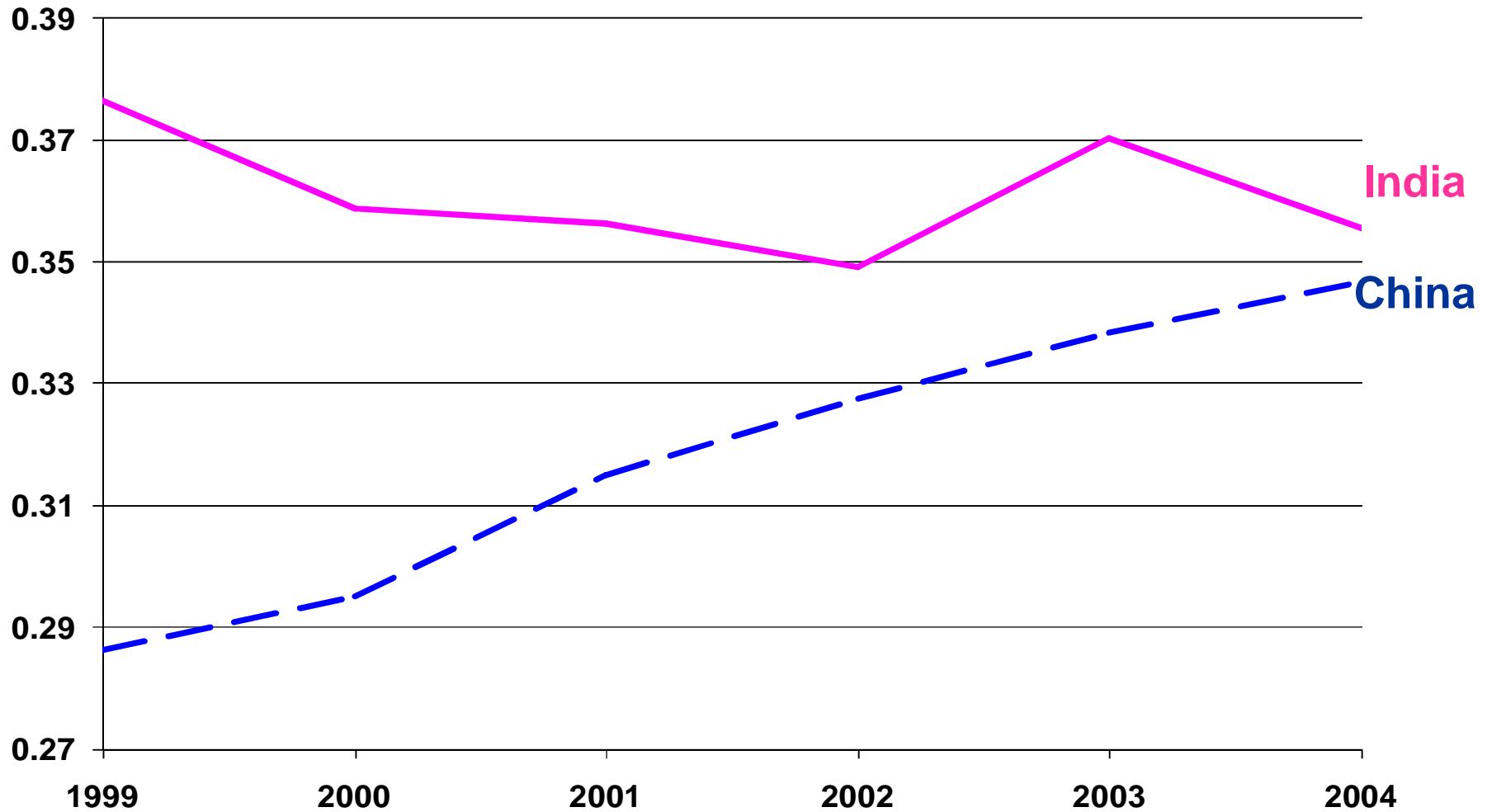
...and China more private control

Level of productivity



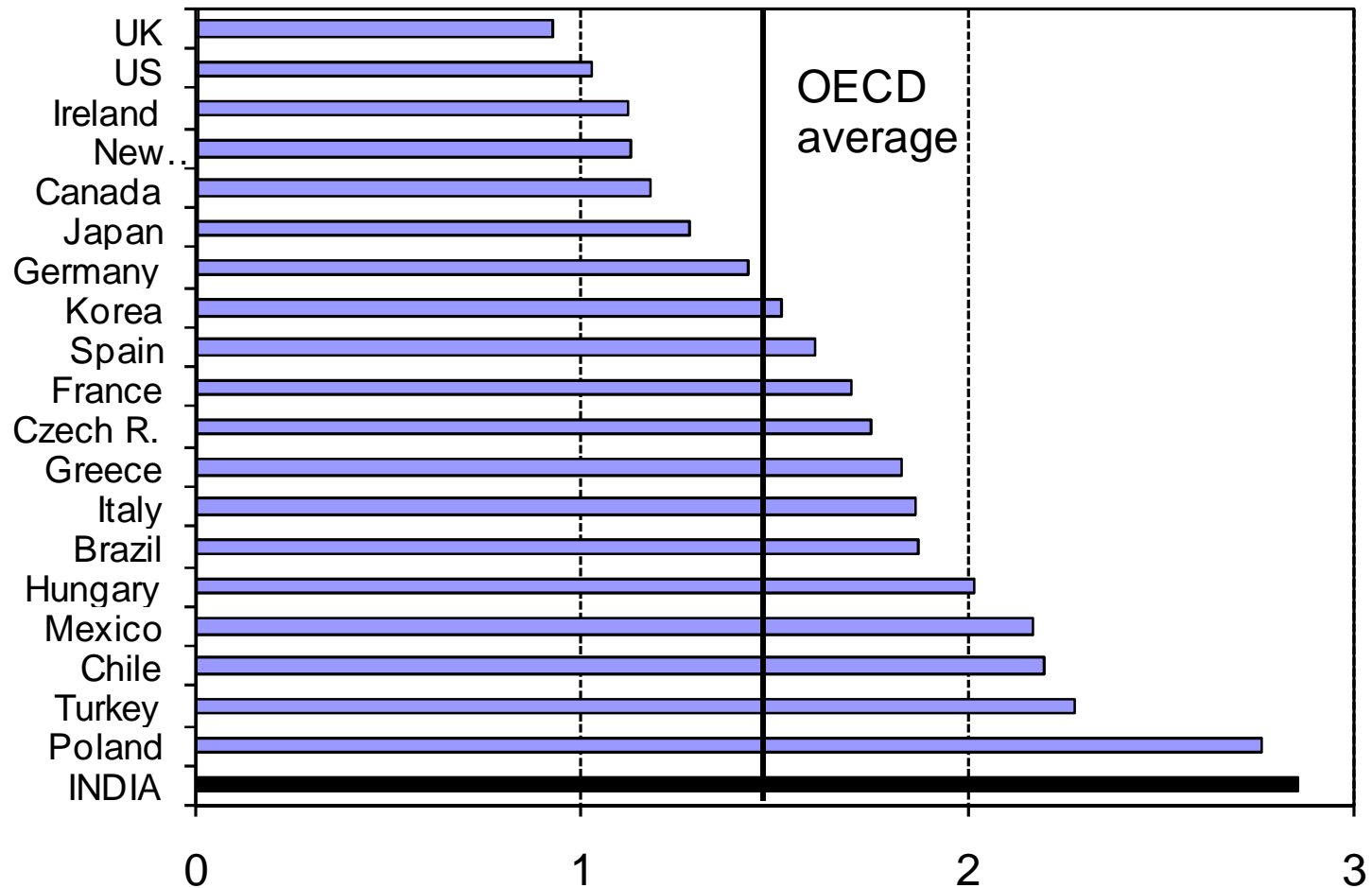
China is restructuring rapidly

Increasing regional specialization



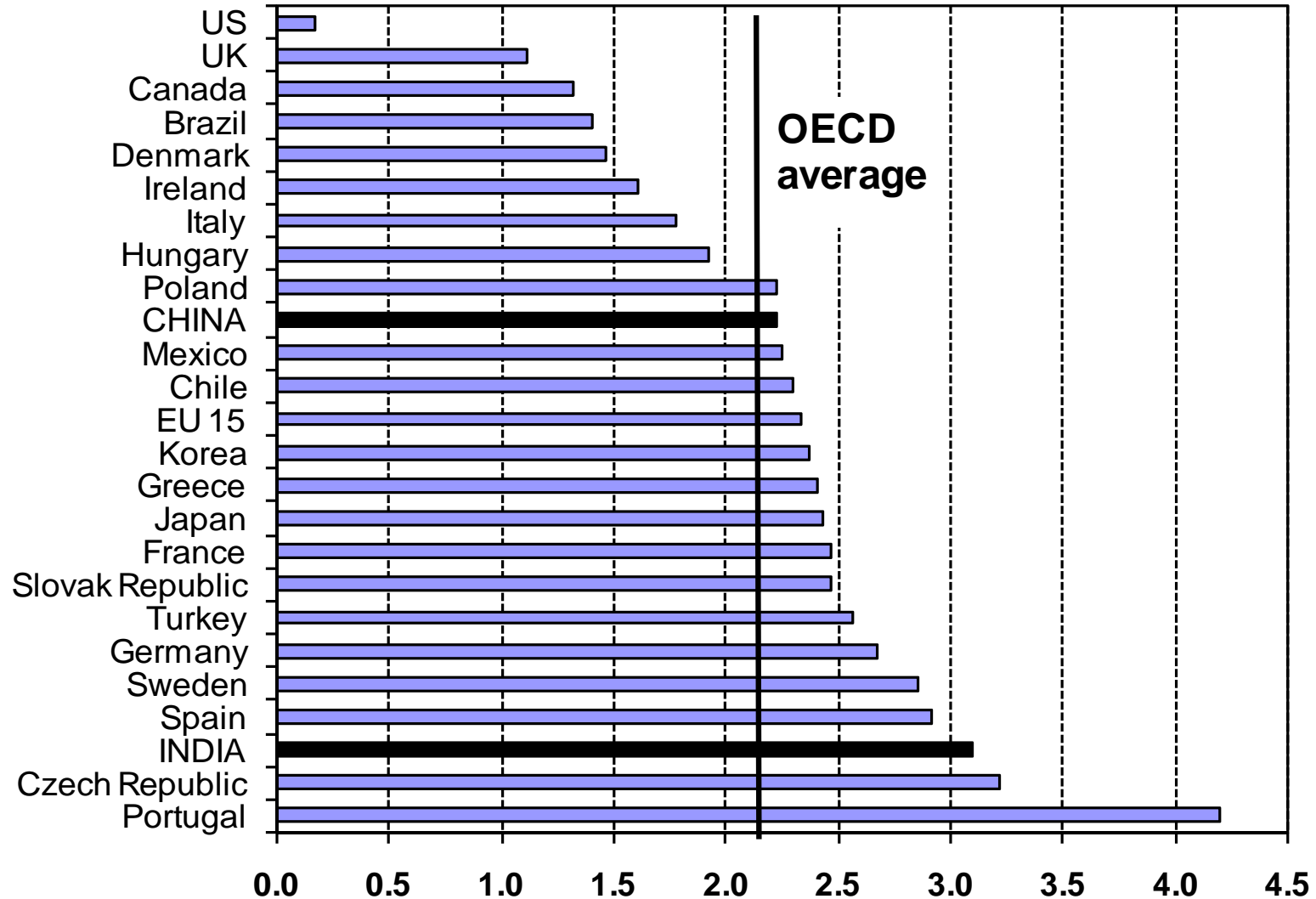
India's product markets ...

Increasing product market regulation (restrictiveness)

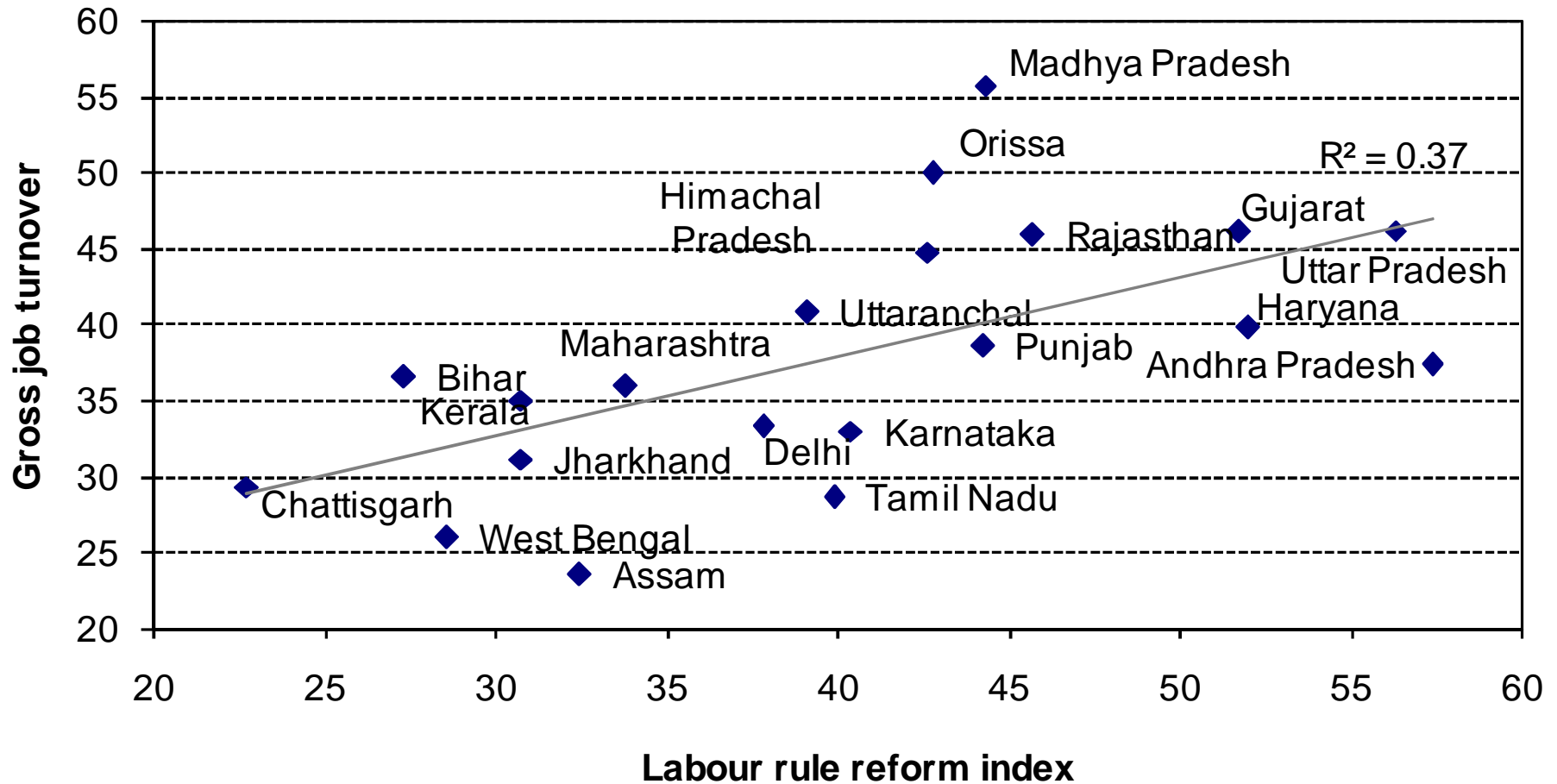


...and labour markets are restrictive

Increasing employment protection (Regular contracts)

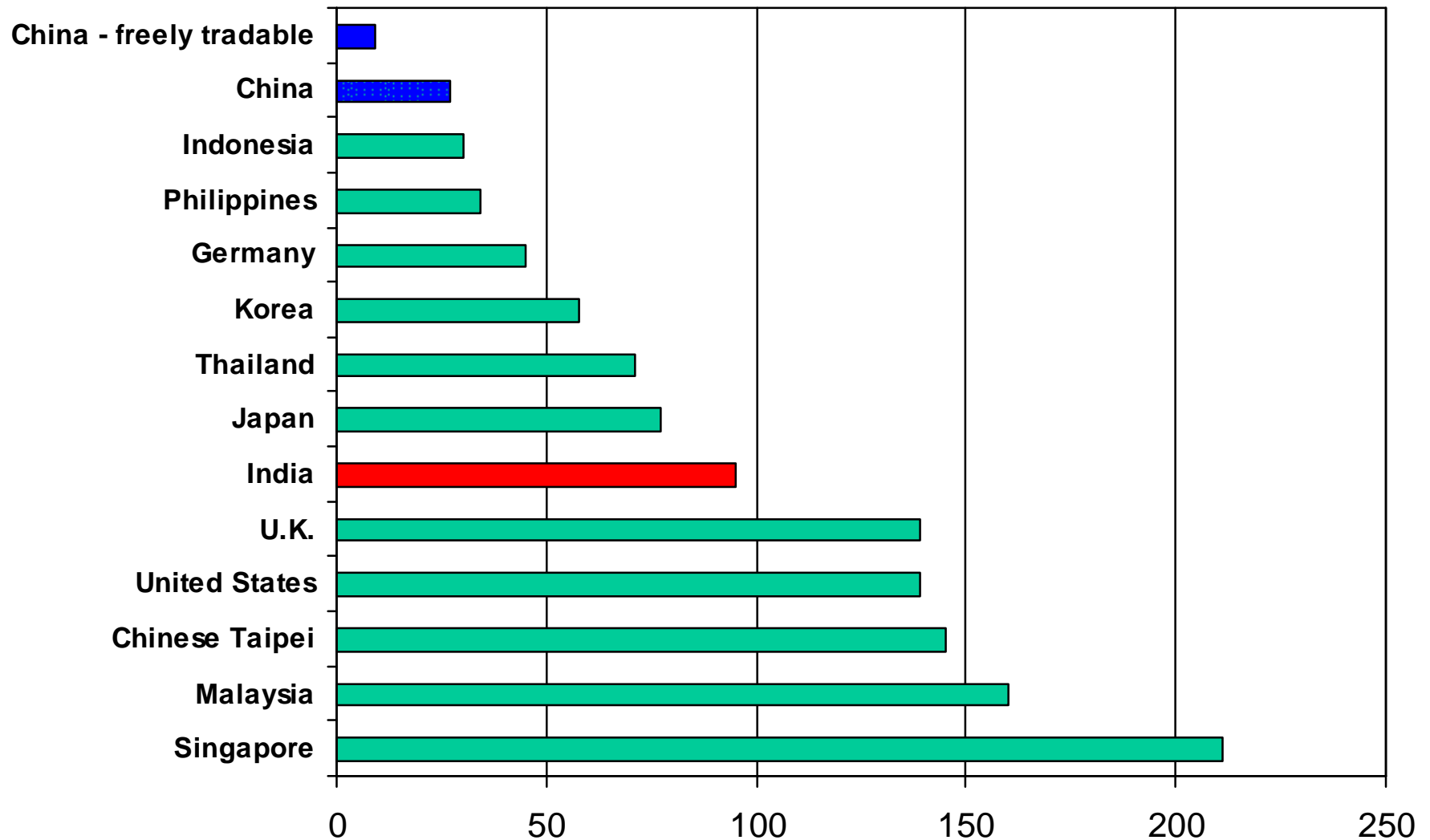


Deregulation in Indian states is making labour markets more flexible



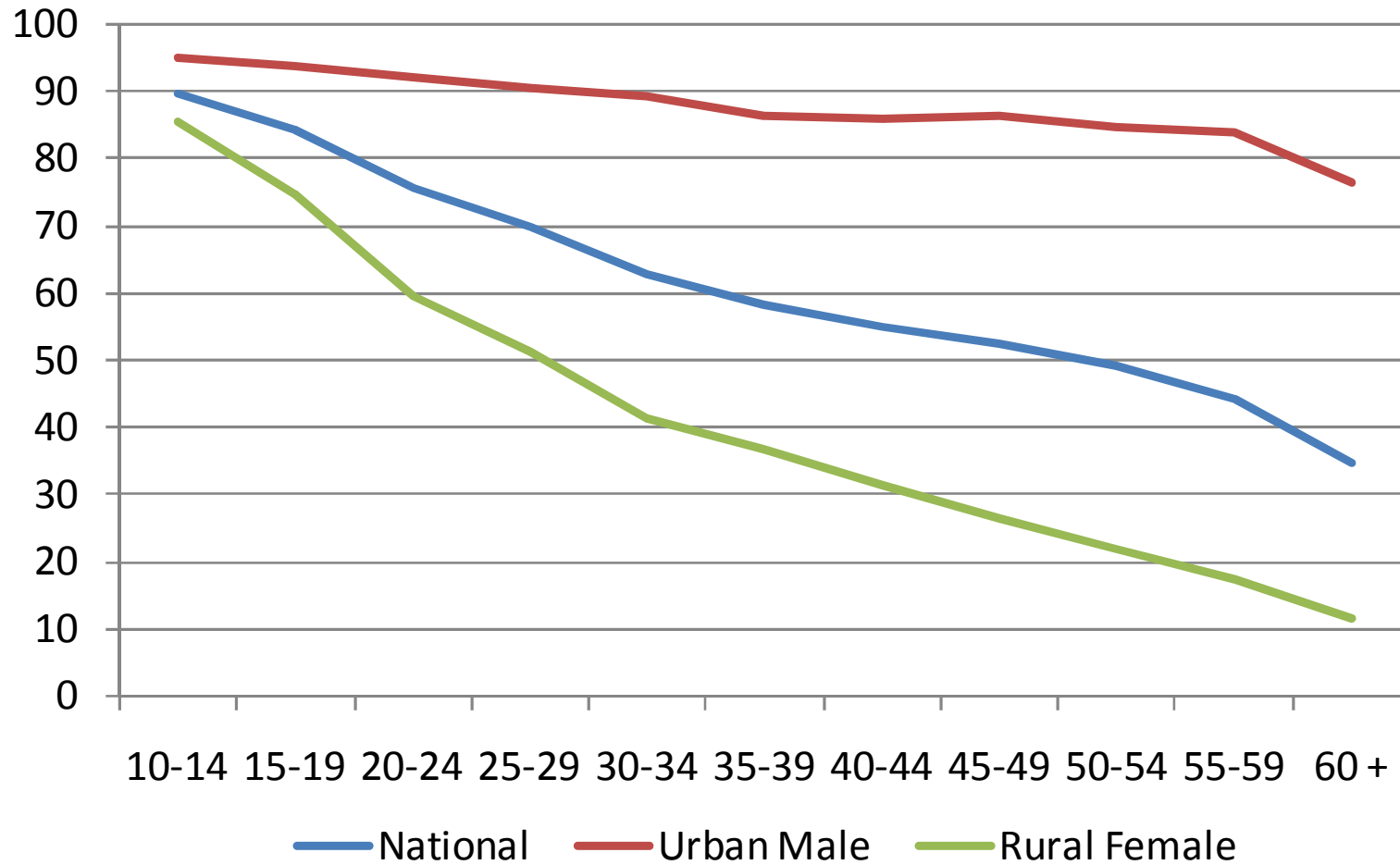
Financial markets are more Developed in India

Stock market valuation as a share of GDP



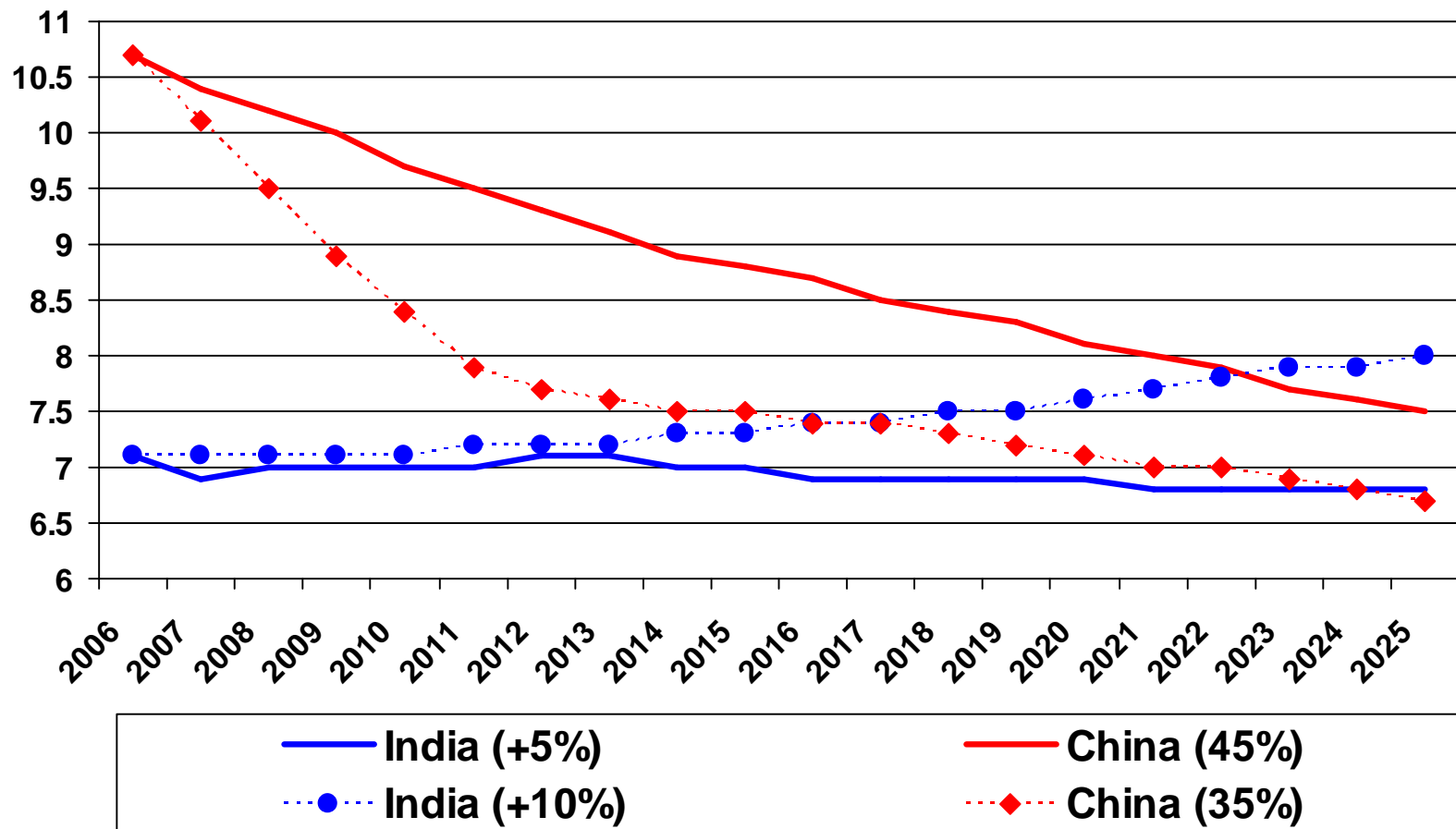
Educational outcomes are now improving in India, approaching China's

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)