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**CHINA AND INDIA
SOCIO-ECONOMIC
PERFORMANCE AND
PROSPECTS**



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The views expressed in this paper are those of the author and are not necessarily those of the Institute.

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CHINA AND INDIA SOCIO-ECONOMIC PERFORMANCE AND PROSPECTS¹

Since Mao Zedong's days (until recently), comparisons of China and India have often tended to be too rosy for the former, too dark for the latter. More nuances are gradually appearing in the debate, leading to more realistic assessments.² Beyond fads and fashion-so damaging in social sciences as in policies of any kind- let us try to underline at least some basic questions. While Westerners and Japanese are mostly interested in the present and future markets of both countries, it is of interest for China and India to see what lessons can be learnt mutually from their respective experiences.

Although our main focus will be on socio-economic issues, one cannot ignore politics, institutions, legal systems.

For the past fifteen years, China has been, (this time, really) leaping forward.³ With the advent of Deng Xiaoping to power (end of 1978), a new economic and social revolution occurred, after the one of the 1950s, which had wiped out practically all private economy and deeply affected social and private life. As far as the political system is concerned, changes are less conspicuous. In fact, since 1911 when the Empire fell, the Chinese are still in search of a legitimate political system based more on institutions than on one man and one party. On the other hand, private and social life is today much more free.

India proceeds in its own way which ignores U-turns, but is perhaps safer in the long term. The tasks are also less formidable and less complex than in China, since neither the political system nor the judiciary and legal systems are at stake, although they need serious improvements. Even in the economic field, reforms need to be less comprehensive: over the past fifty years, the private sector has remained important, the elites have been more open to the outside world.

One more difference refers to the time factor. Big changes began in China by 1980. India proceeded more slowly. The liberalisation of the economy started in 1980 with a clear acceleration in 1985 thanks to Rajiv Gandhi. Unfortunately the process got stuck in 1987 because of political difficulties which increased during weak coalition governments from the end of 1989 till the summer of 1991. It is only by that time that decisive reforms were introduced.

The role of geography and history

Opening to the world and liberalisation are the key words in Delhi as in Peking, be it in trade, foreign direct investments (F.D.I.) or transfers of technology, but the conditions of the opening differ.

¹ Since this paper is written mostly for an Indian audience, I am giving more details and comments on China than on India.

² Even now in India, the lack of a critical appraisal of China's achievements has not disappeared.

³ Reference to the Great Leap Forward of 1958-60, which cost around 30 million deaths due to famine.

The amazing economic growth of China (around 9 per cent per year 1981-1991; 12-13 per cent, 1992-94) is due to far sighted leaders and to geographical and historical factors lacking in India.

First advantage of China: Hong Kong, from which comes by far the largest part of F.D.I. Second, the location of China in the most dynamic region of Asia: Japan a major partner, later on since 1990, Taiwan and South Korea, and more recently the Asean countries, particularly Singapore. A process of informal economic integration of South East Asia and the Far East is on the way, leading to a powerful economic area in the world.

From 1980 to the end of 1993, about two thirds of FDI came from Hong Kong and Macao, one tenth each from Taiwan, Japan and US. Europe played only a very minor role. The share of Western countries may have increased in 1994. (*Financial Times*, 20-5-94).

Men play also their role: An isolated China, closed, looking down on “Barbarians” corresponds to certain periods of history only, which might obscure long centuries of opening to the outside world, a cosmopolitan China with large colonies of foreigners, from Central Asia, the Middle East, India, Java... The ordinance of 1146 (Sung dynasty) sounds like Deng Xiaoping’s declarations: “The profits of maritime trade contribute much to the national income... People of faraway countries are encouraged to come and abundantly circulate goods and wealth.”⁴

What is striking with the Chinese is their total lack of inhibitions or complexes, whereby they admit very readily their weaknesses.

When in the early 1950’s they started their economic planning for which they had no experience, their leaders would state: “We will make less mistakes if we closely study the pioneer experience of Soviet Union.”⁵

Today, the models are no more the Russians but the Americans, the Japanese. One great merit of Deng Xiaoping, when he took over, was to understand how his country had fallen behind. During his visit to Japan in 1979, when visiting one of the latest factories he exclaimed: “Now I understand what is a modern industry.” Similar reactions could be noticed when a team of army officers visited France around 1980 and attended manoeuvres combining planes, armoured divisions, artillery, all with the most sophisticated electronics.

The urgency to change obsolete techniques, to new equipments, to learn modern management induces the Chinese to offer very favourable conditions to foreign investments which had totally disappeared under Mao Zedong. At the same time, they invite many foreign experts.

Foreign trade is no less encouraged. Here again comes Hong Kong which contributes on a large scale to boasting exports. In 1990 for instance, out of \$ 80.5 billion exports,

⁴ Quoted by M. Elwin, *The Pattern of the Chinese Past*, London, Eyre Methuen, 1973, p. 216.

⁵ *Resolution on the First Year. Plan for Development of the National Economy of the People’s Republic of China*, Peking, 1956, p.17-19. Although India had more economists than China, I wonder whether Indians would have ever spoken like this.

29 billion transit through Hong Kong. In 1993, Guangdong province contributed to nearly 40 per cent of total exports, a sizable amount coming from joint ventures with Hong Kong firms. The latter also arrange for Chinese imports through Hong Kong. Between 1979 and 1993, Guangdong absorbed 29 billion \$ of foreign direct investments out of a total of 60 billion (*China Daily*, 26-6-94).

The overseas Chinese from South East Asia also play a growing role. Then within the country, a number of incentives have been introduced, especially through the decentralisation of the economy (see below), which encourage exports and also make imports easier. Then the trade between Japan and China keeps on expanding.

All these factors combined have led to the spectacular growth of foreign trade. In 1993, China became the second exporting country in Asia with 3 per cent of world exports. No less striking is the share of foreign trade in G.D.P. From 10 per cent in 1978, it has reached 35 per cent in 1993. China is twice more open than Brazil or India and even more than Japan and USA.⁶ Such profound changes, with the advent of so many foreign goods including consumer ones, have an impact not only on the economy but also on the life of the people.

In India, changes are much less abrupt. The opening to the world had never been questioned. Plenty of relations in all fields, at the academic level, in business, in all kinds of intercourses have prevailed and expanded since 1947.

During the period 1950-1966, India was relatively open to foreign investments, but with the FERA (1969), the climate became clearly less friendly. The increasing number of controls on the private economy affected not only Indian firms but foreign ones as well. As in other countries of the Third World, multinational corporations were seen with increasing mistrust.

In the meanwhile, industry expanded to a large extent on the basis of technologies acquired between 1951 and 1966 (the first three five year plans). Although India was less isolated than China, it did not take enough advantage of the technical changes which occurred in western countries and in Japan in the 1960s. Besides, local industry grew behind very high customs barriers. As a result, Indian manufactured goods became less and less competitive on world markets. More and more factories were relying on obsolete equipments, a situation not so different from China's, India's share of world trade declined from 2% around 1950 to 0.7 per cent now.

Both countries followed a very heavily protected substitution policy in their industrialisation. Both failed to give enough emphasis to foreign trade, particularly to export-oriented industries, as have done so successfully South Korea and Taiwan, which combined the creation of a powerful industry and a spectacular growth of manufactured goods exports.⁷

⁶ World Bank country study, *China Foreign Trade Relations*, Washington D.C., 1994, p. XVII. The opening is of course less if we take GDP in terms of purchasing power parity.

⁷ To be fair, one must add that Korea and Taiwan started really in the 1960s, by which time world trade was in full boom. It was not the case in the late 1940s-early 1950s, when China and India started their expansion. Protection of local industries did not prevent the two dragons to be competitive on world markets.

Although the growth rate of the Indian economy substantially improved in the 1980s (+5.5 per cent growth of GDP versus 3.5 before), the expansion went along a growing internal and external indebtedness and a severe inflation, so that, in spring 1991, the economy had reached a most precarious stage. Not a single foreign bank, nor government was ready to lend to India.

At that stage, India demonstrated, once more, its resilience, and introduced the most radical reforms since the 1950s, and this under a government, not even enjoying absolute majority in the Lok Sabha. The new Prime Minister, Narasimha Rao appointed as Finance minister Dr. Manmohan Singh, who became the architect of the reforms with a group of bright civil servants, committed since many years to reforms.

It was striking to see how Manmohan Singh in his very first declaration shook the ethnocentrism of his countrymen: “India needs to think fresh on many fronts... In 1960 South Korea and India had roughly the same per capita income. Today Korea is talking of joining the OECD, the rich nations club.” (*India Today*, 3 1-7-1991). Until then, who among Indian intellectuals and politicians would have cared for these “obscure countries” like Taiwan and Korea.

This new spirit is spreading among the elite, in the administration, in business circles... A growing number of industrialists are ready to face international competition within India or outside. “This will be the survival of the fittest”, a director of an important textile mill in Bombay told me (January 1995).

While there are similarities between both countries, there are also differences. The Chinese have no inhibition at all: the more foreign investments come, the better. The more coca cola they can drink the happier they feel. In India there are nuances, sometimes reluctance in the opening. Some intellectuals, politicians, officials fear to be “invaded” by foreign investments, which is absurd considering (see below) the amounts coming to China. The import of consumer goods raises mixed feelings in India. The touch of xenophobia involved is open to question but, from an economic point of view, such reactions rely on firmer ground. Is it very essential to import forty Rolls Royces in 1993 as the Chinese did? To revert again to South Korea and Taiwan, it is only since a few years that they are allowing the import of consumer goods.

On the whole, China’s foreign trade has expanded much faster than India’s, in spite of recent progress in the latter.

Finally we are brought back to geography: India has no Hong Kong at its door! Its external environment is less dynamic than the Chinese. Though important, the Indian diaspora (around 20 million versus 50 million for China, Taiwan included) plays a more limited role. It is more scattered in the world and often far away in U.K. or in the U.S.A., although their interest for their native country is now rising.

India is in a better position as to banking and stock exchange, portfolio investments. The Bombay Stock Exchange enjoys a long experience. India’s banking is fairly developed. In China, Shanghai’s Stock Exchange disappeared under Mao Zedong. It

is reemerging now and other stock exchanges are also being formed. The whole system is still rather fragile.⁸

Foreign trade (million US current \$)

China			India		
	Imports	Exports	Import	5	Exports
1952	1010	870	1950-51	1360	1260
1972	2800	2900	1970-71	2180	2040
1990	54000	62000	1990-91	24100	18100
1993	104000	92000	1993-94	23700	22600
1994	115000	121000	1994-95	27000	25000

Foreign direct investments (billion US \$ disbursed)

	China	India
1980-1990	19	1.2
1991-1993	41	0.9
1994	28	1.0

Foreign exchange reserves (billion \$)

	China	India
1994	50	20

International debt (billion \$)

	China	India
1994	100	90

In terms of portfolio investments, foreign investments remain quite limited in China, whereas for India by Sept. 1994, they amounted to 2.7 billion dollars. India benefited also from the inflow of 3 billion from international capital markets (cumulative up to Sept. 1994).

The political framework

If geography and history are quite favorable to China, the pendulum shifts towards India when we enter the field of politics. Parliamentary democracy has taken firm roots. In case, as observed on various occasions, a party loses the elections, another one comes to power, on the whole as smoothly as in Europe or North America. Even most traumatic events like the assassination of Indira Gandhi and Rajiv Gandhi did not put the country in danger. The strength of institutions has been in a way depersonalized.

⁸ The Stock Exchange in India is not without weaknesses but more reliable.

As to the legal and judiciary system, in spite of shortcomings, they offer a guarantee against arbitrary decisions in the way they are functioning.

No less important is the civil service, its recruitment through competitive examination and the relative protection of officials against the whims of politicians.

The Chinese scene widely differs in all these fields. One or a few leaders play an enormous role. The latest instance has been the visit of Deng Xiaoping⁹ in early 1992 to the Southern areas. It was enough for him to mumble a few sentences reported by his daughter to see a new wave of reforms and a new acceleration of the economic growth, which had slowed down since Tiananmen in 1989.

Nobody knows what will happen after the death of Deng Xiaoping, born in 1904. The omnipresence of the Party, as active in politics as in the economic life plays an ambivalent role. In spite of laudable efforts to create a legal system and a judiciary, China has still a lot to do to create the basis upon which its economy could expand further.

It is only since recently that recruitment of civil servants through competitive examination (a Chinese age old institution) has been partly reintroduced.

A considerable decentralisation has occurred along the reforms, in both fields of politics and economic development. The hold of Peking on the provinces has much decreased and the same happened between provincial headquarters and districts. This is one of the factors of the so rapid growth, but the other face of the coin is less favourable. The decentralisation has proceeded along a kind of “free for all” system, the neglect of central regulations and policies.

Particularly striking is the disorder in public finance, monetary policies, funds allocations (to be referred to below), a direct consequence of the Party rule and decentralisation.

Although the Party remains all powerful, private and social life is becoming freer. There are also plenty of debates on economic issues, reports prepared by research institutes which are very outspoken. The press, as will be seen, is no more silent on many weaknesses, amply denounced by political leaders. Officials are not afraid to express critical opinions on certain government policies. In all these fields, changes are considerable, when one remembers visits to China in Mao Zedong’s days. Yet, strict limits remain for dissidents who advocate a type of democracy in the Western or Indian sense. Democracy is coming only “through small steps” some professors in China were telling me in 1993.

So far, the Chinese have been more successful than the Indians in attracting foreign direct investments, even when leaving aside the Hong Kong factor. By 1993 and 1994, cracks have appeared on the Chinese side, due to several factors—the lack of relatively stable institutions and of a reliable legal system; non-repayment of certain foreign loans, contracts arbitrarily altered, collusions between Party men and officials.

⁹ Deng Xiaoping has no more official functions, except being honorary president of the Chinese Bridge Association.

The overheating of the economy, inflation, infrastructure problems also enter the picture. A Research Center of the Planning Commission pointed out that “about 50 per cent of foreign-funded enterprises in Peking are reported to suffer from losses.” (*China Daily*, 15-9-93). Some proposed big joint ventures collapsed in infrastructure projects. In some cases of operating joint ventures, the foreign side is losing money while the Chinese partner is making much profit. Even big Hong Kong firms begin to feel worried. (*Far Eastern Economic Review*, 1-10-94 and 8-12-94). One can also read in the *Financial Times* (7-12-94) that: “the honeymoon with western business appears to come to an end.”

At the same time, a number of reports in USA, in Europe, in Japan show a growing interest for India (*Economic Times*, 1-2-95). Other countries, particularly Singapore and South Korea are also coming. Although the total amount disbursed so far is small, it is clearly rising.

“Getting the fundamentals right”

In its book on *The Eastern Asian Miracle* (1994), the World Bank underlines the basic factors explaining the success of the Far Eastern Countries and of South East Asia, although the following points are, broadly speaking, more fully relevant to South Korea and Taiwan than to Indonesia.

- Low inflation and competitive exchange rates,
- Building human capital,
- creating an effective and secure financial system,
- limiting price distortions,
- absorbing foreign technology,
- limiting the bias against agriculture,
- export push,
- directing credit.

Although China is enjoying a very high growth rate, often higher at present than what has been the case in South Korea and Taiwan, several of the “fundamentals” are lacking. Macro economic, fiscal and monetary stability is absent, like investments allocations following strict priorities and supporting the most dynamic sectors or branches of the economy.¹⁰

The Chinese press and official statements are replete with complaints about all these shortcomings. A report mentions that “the inefficient use of public funds is the key problem”, (*China Daily*, 21-10-1994)

In 1993, the very able and energetic Vice-Premier Zhu Rongji, also Chairman of the People’s Bank, tried to curb the overheating of the economy and inflation. After some success, he failed to achieve his goal, so that the overheating of the economy went on in 1994, while inflation rose further up to 25 per cent or more by the end of the year.

The share of the State sector in industry has decreased from 80 per cent of industrial output in 1980 to 40-45 per cent in the 1990s, whereas central government

¹⁰ See among others R. Hornick, “Bursting China’s Bubble”, *Foreign Affairs*, May-June 1994.

investments devoted to the public sector have risen from 61 per cent in 1989 to 70 per cent in 1993. As to the collective and private sectors which are the main engines of growth with the joint ventures, their share has fallen from 25 to 12 per cent.¹¹

Plenty of other distortions can be quoted. Government funds allotted to the Agricultural Bank end up into speculations in real estate. The same can happen with power plants when money is directed towards less essential tasks. In 1993, the government decided to allocate extra loans to farmers. Out of 2.6 billion dollars, “not a penny” had been disbursed until the beginning of 1995. (*China Daily*, 10-1-1995).

Sumptuary office buildings are growing not only in rich coastal provinces like Guangdong. It is odd to observe that, until now, small cars (Maruti type in India) are far from common. Most official cars, often used for private purposes, are quite big. An official report complained that in 1993 expenditure on banquets paid by the State amounted to 15 billion dollars! (*China Business Review*, May-June 1994). The figure may be on the high side, but during my last visit, I was entertained, though not a “big man”, with lavish meals including in Guangdong copious glasses of French cognac Remy Martin!

Other weaknesses to be reverted to below involve the State sector, the large inventories, the bottlenecks in transport and the shortage of electricity.

The fiscal system has gone through deep changes with the reforms. All kinds of taxes, local and provincial have appeared, here again with plenty of malpractices. Either certain collective units or joint ventures get undue rebate or others are overcharged. “Illegal levies in rural areas dropped for the first time from \$1.4 billion to 804 million in 1993. Before last year’s reforms, farmers had to spend 5-8 per cent of their income on illegal charges, according to a survey of the Ministry of Agriculture.” (*China Daily*, 27-6-1994). Finally comes smuggling estimated at 30 billion dollars for 1993, versus 20 billion in 1992. This includes a large number of motor cars!

In many cases, these malpractices involving redirection of credit towards non-productive aims result from the collusion between partymen in government or administration and their friends in the public or collective sector, when they are not the same people, as is often the case at municipal or district level.

Malpractices, waste, wrong allocations of funds do occur also in India but the monetary and financial system operates in a more orderly manner. The power and influence of the Reserve Bank are stronger than the People’s Bank. I doubt that in India one could come across such gross abuses as in China, where money allocations provided for precise economic tasks end up in speculation or posh buildings. Besides, in India credit is more controlled. As to taxation, it requires no doubt further improvements. Tax evasion is well known, but one does not come across all these dubious taxes as referred to above. One must however note some common weaknesses: losses of the public sector, growing subsidies, contributing among other factors to inflation. The latter in India around 11 per cent at the beginning of 1995 and 8.8% in May is a matter of concern, even if it is substantially lower than China’s.

¹¹ Collective enterprises belong to a village, a town, a group of people. Joint ventures may fall within the public or the collective sector.

Finally comes corruption proper, connected or not with financial matters. Partly subdued in Mao's days, it has taken enormous dimensions as is very openly admitted in the press and in official statements. In March 1994, Prime Minister Li Peng referred to the "six ills" in the People's Assembly: corruption which keeps on increasing and other social diseases like drugs, prostitution, (the latter very widespread), sales of women and children.¹² Nepotism is no less striking when looking at the number of sons, daughters and other relatives of important people reaching prominent positions. Petty corruption has become a fact of daily life, going along with big affairs in contracts and other deals.

All this sounds familiar to Indian ears. It is difficult to assess which country is ahead of the other. One could say that the real boom of the Chinese economy, while bringing more money, brings also more corruption opportunities than in India. As to the fight against corruption, it looks more serious in China where a number of people, and not only small men, have been sentenced to heavy punishment, or even execution, though this does not seem to have much deterrent effect!

When we look at corruption in Europe-even in Switzerland-a foreigner is not entitled to pass a moral judgment on such issues. What matters here is to try to assess the impact of corruption on development. I wonder whether the adverse impact may not be more serious in China than in India, partly because of a faster and less orderly expansion.

The industrial sector

Major structural changes appear between both countries, but the tasks of the Chinese are much more difficult. Although the weight of the Chinese public sector has been reduced, it still remains more important than in India, accounting for 40-45 per cent of industrial output. Collective units make 40 per cent. The remaining part depends on the private sector and joint ventures. The latter have been responsible for a quarter of exports and 40 per cent of imports in 1993.

Between 1992 and 1994, industry has grown by around 20 per cent per year, though for the major part the increase is due to the non state sector as well as joint ventures in the public sector. In 1993: public sector + 6, 4 per cent, collective units +28,6 per cent, joint ventures +46 per cent. In 1994, industry +18 per cent.

Public sector	China	India
number of units	100,000	1,300
labour force	108	18 million
rate of return	1.9% in 1993 11.8% in 1985	1-2%

Source: *Far Eastern Economic Review*, 23-2-1995

¹² *Beijing Information*, 4-4-1994.

Chinese industry, like power generation, steel fall for 80-90 per cent in the public sector, food processing and chemicals for 70 percent, electronics for 78 percent, textile for 54 per cent (*Statistical Yearbook*, 1992).

Similar complaints are recorded in both countries: overstaffing, losses or small profit, heavy subsidies and loans. In the case of China - I don't know about India - many loans are not repaid. Other shortcomings are very serious in China. Referring to Liaoning province, the *Hong Kong China News Agency* reported in April 1994 that 700,000 workers had not been paid. Another report mentions 317,000 workers also not paid in Heilongjiang. The delays may go up to one year, which has led to a number of incidents (*Far Eastern Economic Review*, 5-5-1994).

The defects of the public sector have been debated very openly in Peking as in Delhi over the past fifteen years (or more in the latter). Yet, remedies are slow in coming.

There are, no doubt, on both sides success stories, public enterprises led by an efficient boss enjoying some freedom but, all in all, for political reasons, in Peking as in Delhi, the government has been hesitant for years to implement drastic measures: closing down units, privatizing. Up to a point one can understand these hesitations, but how long will it be possible to sustain such losses, especially in China? At the end of 1994, default debts of public enterprises amounted in China to \$ 47 billion (*China Daily*, 26-1-95), rising by 38 per cent over 1993.

Another disturbing factor, probably more pronounced in China, lies in the allocation of government investments. As seen above, the more dynamic enterprises in the collective and private sectors get a decreasing amount of funds, as well as credit, and often have to pay a higher interest rate.

Then come huge inventories, about which a Chinese economist bitterly complained (*Chinese Daily*, 5-1-95). Fujian indicates that, according to the State Economic and Trade Commission, by the end of October 1994, "unsold goods had reached a value of 58 billion \$ nationally. "The huge stock piles have not only affected enterprises' efficiency but also disturbed the national money supply." Poor sales of goods, resulting in default of payment to suppliers of raw material. "Blind production of some enterprises is a major cause of the awful circle". "Blind importation has also increased domestic stock piles", as in the case of steel: 27 million t. imported in 1993, inventories of 25 million t., mostly low quality steel (rolled steel production 76 million t. in 1993). It happens even that imported equipment remains unused, as was the case for half of TV colour making equipment imported in 1993, and 30 per cent of equipment for producing refrigerators. In other cases, inventories are the consequence of transport difficulties. 70 million t. of coal were stockpiled in the north by the end of 1993 (*China Daily*, 25 and 31-1-94).

On the other hand, the overall liberalisation of the Chinese economy, the decentralisation leading to greater power to provinces, districts, municipalities, more flexibility in imports and exports, the growing role of joint ventures, many small ones in the collective sector, others in the public sector have been the major factors explaining the fast growth. Even when taking into account the shortcomings in China, India's performances fall behind, although industrial growth is picking up to 8 per cent in 1993-94. In the long run however, India could, thanks to its large and much

better organised private sector and to further reforms, proceed considerably faster. Particularly striking is the way a growing number of private enterprises are now facing the challenge of liberalisation with its greater exposure to competition, be it in India or on external markets. The modernisation of existing factories is gradually progressing. New units are appearing, often with foreign cooperation.

Another asset of India is the very old and fairly well organised network of market channels which operate on All-India basis. In China, trade channels have expanded and changed with the reforms, but markets are often too separated with linkages missing, so that sales promotions may be more complicated than in India.

Small and Medium Industries in Rural Areas¹³

After the big mess created by the Great Leap Forward (1958-60), the Chinese promoted a systematic and rational policy in favour of small industries in big villages and district towns, usually under collective or township ownership.

That process vastly expanded, following the agricultural decollectivisation from 1980 onwards. Such enterprises are now owned by the township or a Xiang (subdistrict, former commune) under various arrangements, some being semi-private. Private enterprises are now flourishing too, especially in services: restaurants, hairdressers, transport with one or a few trucks or mini buses.

After visiting on several occasions until 1993 the same districts in Guangdong, Hunan, Hubei, Hebei, one can make the following observations which pertain to advanced areas. The number of enterprises has considerably increased, particularly around Canton, because of the support of many firms from Hong Kong. (Spare parts, manufactured goods like garments, textiles, leather, processed food, chemicals...) Many of these goods are then exported by the Hong Kong company. As a result, in a district one comes across 150,000 workers outside agriculture versus 100,000 in agriculture. In addition, the district has absorbed, in spite of a high local population (517,000 people on 509 sq.km.), 50,000 workers (coming from other areas) in industry and services, and 10,000 in agriculture. In the total district income, the share of agriculture has fallen to 20 per cent. As to the paddy area, it is shrinking in favour of flowers, vegetables, sugarcane and horticulture.

Proceeding in the interior of China, in Hunan, Hubei and Hebei, a number of districts are also accelerating their overall growth process in agriculture and in small and medium enterprises, creating more off farm jobs and reducing the share of agriculture in the district.

Qualitative changes are no less striking. The enterprises created in Mao Zedong's days were, to a large extent self-reliant, resorting to rather primitive techniques with limited technical knowhow. They were usually small units.

¹³This aspect of development is so important and yet not enough emphasised. See the excellent report sponsored by the Swiss Development Cooperation Office in New Delhi, *The Rural non Farm Sector in India*, New Delhi, B63, Defence Colony, 1994.

In all four districts of the said provinces, larger enterprises are being built, relying on modern and even very modern techniques. They proceed to import new equipments from Japan, USA or Europe and, if necessary, they send some of their technicians for training abroad. Occasionally they may have some expatriates helping them for a time.

In these districts we met smart local bosses in the local administration and in the factories, usually enjoying high salaries thanks to various allowances out of the profit made, and possibly through other means. There is much corruption and they are not shy, especially in Guangdong, to indulge in the construction of posh administrative buildings and in the purchase of luxurious office cars!

Many districts are less advanced but the overall expansion is less and less confined to coastal provinces.

It is also worth mentioning that the growth of such industries is closely linked with an already advanced local agriculture.

India offers a greater diversity. Punjab compares favourably with advanced districts of China with its growing number of small and medium enterprises becoming quite modern and strongly export oriented. A number of other districts in the rest of North Western India, in Gujarat, in Coastal Andhra follow a rather similar pattern of development, whereby the active population outside agriculture reaches 32-40 per cent at the district level.

In many other areas, the process of economic diversification with rising opportunities outside agriculture is much less advanced, especially in the Eastern plains. In Muzzafarpur district for instance (North Bihar), the percentage of non-agricultural workers, far from increasing, is falling: 19.01 per cent in 1981, 17.77 per cent in 1991.

At the national level, in both countries one must underline that the changes in the breakup of the working population in favour of non-agricultural activities (a clear evidence of fast rising income as seen in South Korea or Taiwan) remain relatively slow. In 1990, 60 per cent of the active population was still in agriculture in China, and in India (1991) 62-65 per cent. It seems however plausible that further reduction has been faster in China since then.

Agriculture

The basic factors are frequently forgotten when comparing both countries. Over many centuries, Chinese peasants have been used to very intensive techniques in irrigation, seeds selection, massive use of organic manure including human excreta, compost, intercropping. Such techniques are common to all areas inhabited by Han Chinese. In India the picture is much more diverse. There are excellent agricultural castes (Jats, Kurmis, Yadavs, Pattidars, Kammas, etc.) who have practiced intensive techniques for ages. But in other areas land, by tradition, belongs to a large extent, to non-agricultural castes, which are less ready to hard manual work, like Thakurs, Bhumiars, certain Brahmin castes, though not all...

Following the famous enquiry by John Lossing Buck¹⁴ and comparing Indian data, in the 1930s yields of paddy were in China the double of India's and wheat yields were one third higher.

Although caste behaviours are changing in India (since the late 1970s high caste small landowners are beginning to plough themselves) and although new inputs have been introduced with the Green Revolution, substantial differences remain in yields.

Advanced districts in India have reached yields of 3000-3 800 kg/ha of wheat and about the same for clean rice, while good Chinese districts are at a higher level: around 3500-4000 for wheat and 4000 for rice. On the other hand, few areas in China have such low yields of rice as in the Eastern plains of India: 700-1000 kg/ha. Rice in less developed parts of China will rarely fall below 2000.

In spite of these differences, the growth rate of food grains has been higher in India than in China

Overall growth % 1950 -1990		
	China	India
food grains	166	234
cotton	225	218
oilseed	247	215

For foodgrains, in the past few years India's output rose from 224 million tons (1990-91) to 244 (1993-94), China from 427 million t. (1990) to 456 million t. (1993).¹⁵ In 1994, China's foodgrains output has decreased by about 10 million t. due to bad weather, whereas in India the output for 1994-95 is above the previous year.

In the past few years, China has been exporting around 1 million tonnes of rice and 10-12 million tonnes of maize, versus 7 to 10 million tonnes of wheat imports. In 1994, India exported 800,000 tonnes of rice and had practically no import of wheat.

The decollectivization of China's agriculture together with cooperative and private trade, private transport, cooperative small industries boosted agriculture in the early phase of the reforms (1980-85). Since then the growth rate has been much less spectacular. Public investments have fallen so that in the 1980s, agriculture accounted for only 5% of state expenditures versus 11% previously. Many hydraulic works are not properly maintained. Many tubewells (predominant in the Northern plain) are out of order, others lack electricity. The irrigated area has increased only by a few million ha from 1980 to 1994. Seeds renewal and supply of chemical fertilizers are not adequate. 44% of the 2200 district agro-technical centers have been 'dismantled' and 1.5 million agro-technicians have left because of poor wages. (*China Daily*, 29-12-94). Besides, as mentioned above, it is not infrequent that government funds allotted to agriculture are used for other purposes.

¹⁴ J. L. Buck, *Land Utilization in China*, New York, Paragon, 1964 (reprint).

¹⁵ Indian statistics have been converted to the Chinese system: paddy instead of clean rice, soyabeans and tubers, the latter for 1/5 of their gross weight are included in food grains.

The picture very much improves when looking at fruit, vegetables and meat where growth remains high. Meat production (especially pork) has risen by 109% between 1980 and 1990. Further progress occurred in the past five years. In 1995 credit to farmers is increasing.

The relative neglect of agriculture in terms of public investments is less pronounced in India, but nevertheless quite obvious (6.7% of public outlay in the Sixth Plan 1980-85, 5.8% for 1985-90, 6.1% for 1992-1997). The irrigated area has kept on increasing in a substantial manner during the 1980s. However one comes across serious shortcomings: poor maintenance of canals, unsatisfactory renewal of seeds, inadequate use and balance of N-P-K- fertilizers, lack of electricity for tubewells. More investments would be needed for the expansion of irrigation and of watershed development projects. In both countries, reforms from the end of the 1980s until now have a definite urban bias, which was perhaps unavoidable. The time has come to pay more attention to agriculture, a fact not fully admitted both in Peking and New Delhi.

Agriculture still plays an important role in GDP and for employment. In China, there are practically no landless farmers but a 'floating population' of about 100-150 million men working here and there on various jobs, often shifting from one place to the other. In Peking for instance, the local population amounts to 10 million and outside workers are estimated to be around 2 million. In India, the phenomenon is much less important but there are 75 million landless labourers often under-employed in agriculture.

Per capita consumption per year kg	early 1990s	
	China	India
foodgrain	204	190
meat	20	1.5
eggs	6.3	1.5
milk	4	60
fish	6.5	3

Source: for this table and the one above, see article on Agriculture in China and in India by C. Aubert & G. Etienne, *Economie prospective Internationale*, no. 50, 1992, Paris.

Infrastructure, Electricity and Transport

Over the past two decades if not more, both countries have suffered from serious shortage of electricity. Especially in China, during the past fifteen years, investments have been grossly insufficient. The maintenance and operations of the electric networks are not satisfactory either on both sides. The price of electricity is too low. In order to reduce the shortage, both governments have opened the power sector to private investments, local and foreign.

Beyond these similarities come some differences. The situation is made worse in China by the faster growth of the economy. Since 1980, power industry has also been comparatively less supported than in India. During the period 1980 -1992,

investments amounted to 1.2% of GNP whereas it should have been more than 2% according to World Bank estimates.

In 1992 for instance, power supply in China grew by 9% versus a growth of 13% for GDP and 20% industry. In 1993, one third of industrial capacity remained unused for lack of power. In Guangdong, the most booming province, it can happen that factories remain closed for three days a week. Other estimates indicate for the whole of China industrial losses between 20 and 40% of production. In 1993, power cuts into other fast growing provinces (Jiangsu and Zhejiang) grew nearly five times over 1992 to reach 12,480 cuts during the first five months of the year. The situation does not seem to have improved in 1994 (*China Daily*, 3-5-94 and *China Business Review*, Nov-Dec. 1993).

As in India, the operations of the present networks (production, transmission, distribution) need higher and better maintenance and replacement of old, low quality equipment. There are big losses all the way, from the power houses down to the user, including pilfering and 'defaults of charges and fees by consumers' (*China Daily*, 5-8-93).

According to different sources, China needs \$ 66 billion to modernize and expand its power sector in order to reach a capacity of 300 million KW by 2000 (*China Business Review*, Sep-Oct. 1994). This means an increase in capacity of 90 million KW, requiring 20 billion \$ in foreign funds. (*China Daily*, 16-2-95). Peking is seeking foreign loans and joint ventures. So far, discussion with foreigners proceed slowly, due to various difficulties, particularly on the rate of return expected by foreign partners.

India too is trying to attract foreign and local capital. So far some firm agreements have been signed and others are under discussion. India seemed to offer more attractive conditions. For instance Gordon Wu, the magnate of Hong Kong in construction projects, after being active in China, is becoming much more interested in Indonesia, India and Pakistan, with which memoranda of understanding for huge projects have been signed. (*Far Eastern Economic Review*, 22-12-94). Big American companies show a similar interest. But recent developments in respect of some projects like those of Enron's have cast a shadow and revived doubts.

Energy sources partly differ. China has mainly relied on coal (76% of energy supply) but hydel stations are expanding now faster in Central and Southern regions. Two nuclear stations have been constructed, a third one should come up around 2000. Three projects may follow. Coal should nevertheless remain for long the main source of electricity (output 1.1 billion t. in 1993, 1.5 expected in 2000). Unlike India, China had enjoyed, until 1993, a surplus of oil (output 144 million t. in 1993). After more than one decade, offshore exploration has been disappointing, so that the great hope now lies with the Takiamakan desert in the heart of Xinjiang. The actual size of the oil fields is not yet ascertained but last year 8 million tonnes were extracted and moved by road. The construction of a pipeline in order to reach the industrial areas of China may alone amount to 10 billion dollars.

In India, discoveries of new oil fields are slow to come. Even if more coal-based power stations are built and if more hydel energy is tapped, mounting imports of oil and gas are unavoidable.

In the field of transport, China still suffers from its low starting point in 1949 compared to India. Even today, after doubling in length, the railway network has reached only 53,800 km versus 62,000 for India. Yet, in the 1980s Chinese investments amounted to 1.4% of GDP versus 2 to 3 in countries like South Korea, India, Brazil. (*China-Reform and the Role of the Plan in the 1990s*, Washington D.C. World Bank 1992, p. 133.)

The gap is worse for roads: about one million km for China and the double for India. This leads to bottle necks worse than in India. In 1992, losses due to lack of transport of coal amounted to 3.4 billion dollars. Even to obtain one single wagon for consumer goods, one may have to wait a fortnight.

Road congestion keeps on worsening with the rising traffic. The same can be said of big cities. The situation in Peking is worse than in New Delhi. In 1993, the number of taxis in the former has jumped to 51,000 from 6,200 in 1991. In fast growing provinces, the situation keeps on deteriorating. Already in 1987 and similarly in 1993, I would drive on highways at 27 km per hour. In relatively good Indian national highways, in spite of the growing traffic, you can still drive at an average speed of 50-55 km per hour.

A large programme of express roads is under construction in China, which will take at least a few decades to be completed. Besides, present construction is not always adequate. Some new highways in Shandong or the express way Peking - Shijiazhuang already showing cracks and potholes. Is it due to malpractices of contractors and poor construction?

As regards India, it seems-but it would need confirmation-that the pressure on railways is less severe. Concerning roads, the advance of India remains but, what is a matter of concern is that express ways projects seem slower to take off than in China.

Here again, the faster growth of China worsens pressures on transport. In 1993 and again in 1994, GDP grew by 13%, industry by 20%, while total freight increased by only 14% during the two years. (Bureau of National Statistics). The gap is much lower in India.

Other problems are rather similar such as overloading of trucks, which damages the roads. Motor vehicles accidents are in both countries appalling: around 60,000 death casualties in each country per year, in spite of a still limited density of motor vehicles compared to Europe and USA, where the death rate is much lower and falling while rising in China and India. Finally comes a clear advantage for China: its river transport system which mainly because of geographical conditions plays an important role in the economy. Considerable progress has occurred since the beginning of the 1980s.

Human resources and higher education

China is making enormous efforts to make up for lost time in the training of elites which suffered so much during Mao Zedong's days especially, though not exclusively, during the Cultural Revolution and its follow up from 1966 to 1976. New Institutes of technology, business schools are opened. 210,000 students have been sent abroad for advanced studies. Engineers, technicians go for briefer periods. As a result, new elites quick to learn are growing in all fields: very able economists, shrewd businessmen, scientists... men and women no more embarrassed by dogmas and open to further reforms. Yet, a number of handicaps remain. By the end of 1993, only 70,000 students had returned home after completing their studies. (*China Daily*, 20-1-94). Universities remain often poorly equipped with a teaching staff of uneven calibre.

The lure of money is such that social sciences are severely hit. Students are no more interested in arts, literature, history. What attracts them is whatever field connected with making money. In one of the main Institutes of the prestigious Academy of Social Sciences, in 1993 all scholars below 45 years had left to enter business. Such trends are bound to affect 'a strong public education formulation', as observed by R.A. Scalapino in 'China in the late Leninist Area', (*China Quarterly*, Dec. 1993). One must however mitigate these comments. The rather low level of many universities is partly compensated by special Institutes, a number of them attached to various ministries.

In 1993, there were 2.5 million students in universities and 107,000 at the post graduate level. Both figures, especially the latter, are small for such a big country. The record is on the other hand much better, in terms of numbers in primary and secondary schools, so that the rate of literacy is around 73%.

The picture in India is quite different. The literacy level is lower 52% in 1991. India has around 5 million university students. Many universities, especially colleges offer an education not better than in many Chinese universities. On the other hand, India enjoys a substantial number of Institutes (technology, management, medicine, social sciences) and a number of post graduate university departments of high level. Besides, the whole system has never gone through turmoils as in China. Over the past fifty years, many professors have remained continuously in touch with the outside world, unlike so many Chinese professors, who started discovering - or rediscovering - the world after a gap of over 25 years until the late seventies.

When Indians claim to be the third nation in the world in terms of scientific elites, they overlook the very uneven level of their elites. Even with this qualification, one would tend to think that, as far as higher cadres of all types are concerned, India comes out better than China, an opinion shared by the Chinese themselves.

An additional indication is supplied by the plan to recruit as many as 155,000 experts from foreign countries, many of them from Taiwan and Hong Kong in the next two years: 30,000 for universities, newspapers and sport, two thirds for joint ventures and key State infrastructure projects, some others to improve agricultural technology. (*China Daily*, 3-12-94). The shortage of managers and other senior cadres has been made worse by the massive arrival of multinational companies in the 1990s. (*Economic Times*, 4-2-95).

Standards of living

Comparisons are particularly difficult. In India, poverty has been studied and amply discussed over many decades. Plenty of enquiries have been conducted. Our knowledge of China in Mao Zedong's days was very limited, since foreigners were taken only to carefully selected places. The concern for poverty and its study have made much progress in the past fifteen years, but there is still some gap in information.

According to official data, the number of miserable people below the 'poverty line' has fallen from 300 million 1980 to at least 80 million in 1993, i.e. about 7% of the population. The per capita income (parity purchasing power) amounts to 2120 \$. For India, the percentage of people below the poverty line is estimated around 30-35% and the per capita income at 1250 \$.

Do these data give a correct picture of the differences? One must remember that estimates on the poverty line have no scientific value, since the poorer a person, the more difficult it is to measure his income, as has been made very clear by a number of scholars.¹⁶

With this reservation in mind, it is fair to admit that acute poverty is clearly less widespread in China, even if it is risky to produce data.

Another point refers to regional income disparities. In spite of the severe egalitarian line followed in Mao Zedong's days, such disparities increased at that time between relatively fast growing areas and other moving slowly because of physical constraints, population pressure and other factors. In my enquiries of 1972 for instance, the value of ten labour points per day, through which peasant workers were retributed would range from 0.20 to 1.6 Y. Disparities have grown much faster since the reforms. Coastal provinces, particularly Guangdong, are moving very fast. Provinces in the North West, with their poor plateaus and mountains are but slowly improving their lot. These differences are nevertheless not pennant. A number of areas in the interior are speeding up.

Other disparities are rising. In the first phase of the reforms, peasants have been the main beneficiaries. After 1985, urban people have moved faster.

Class differences, so much curtailed before, have been openly admitted, whereby 'it is good to make money and some will become richer before others'. Some studies estimate that the number of Chinese middle-upper classes would amount to 100 million persons or more.

¹⁶ PG. Panikar and M.N. Srinivas in *Economic and Political Weekly*, annual no. Febr. 1972 and 5-6-76.

In India, regional income disparities are, as in China, directly influenced by the overall development of one area or the other, which confirms that the trickle down effect does work!¹⁷

Classwise disparities may still be greater in India, although the number of affluent and semi—affluent Chinese is rising fast! Again, measurement of disparities is tricky. China has only 50,000 private cars but one cannot forget the high number of ‘official’ cars used privately. The same can be said of other utilities. This may be one of the reasons why estimates on middle-upper middle classes in India give 150 million or more.

Consumerism, showing off of affluence, new-rich behaviours, extravagant marriages are common to both countries. Some new rich in Guangdong spend \$ 25,000 for a banquet, while in poor districts of the same province, people are relying on an annual income below 40 dollars. (*Beijing Information*, 16-5-94).

Such changes have been much more abrupt in China, following twenty seven years of austerity under Mao Zedong. This may explain why the lure of money seems even more prominent than in India.

On the other hand, the Chinese are clearly leading in the liberalization of social customs. While, under Mao a girl and a boy could be sent to jail or to a ‘reeducation’ camp for having sexual relations, in many cities and in universities this is now freely admitted. There are even young people living together without being married. In 1987 and 1993, I even saw discos in district towns where boys and girls were dancing. Even in villages changes are noticeable. In these matters, Indian society is changing much more slowly. In villages, rules of arranged marriages within the same caste, with first meeting at the wedding ceremony, have hardly changed over the years. Love affairs between a village boy and girl of different castes may end up by the killing of both by their respective families.

Finally comes family planning. The Chinese follow a very strict line, i.e. the one child policy, with in villages the possibility to have a second one if the first is a girl. Various measures, including severe pressures when needed, support the programme. Although these rules are not strictly respected, especially in the countryside, population growth has come down to about 1.3% per year, whereas in India it has fallen to 1.9%.

I wonder whether one can draw lessons from China in this field. Which country in the world, rich or poor, no matter its social customs and religion, could have accepted such rules?

		China	India
Population	1995	1200	900 million
	2000	1300	1000

¹⁷ See among others, GK. Chadha, *Employment, Earning and Poverty*, (India, Indonesia), New Delhi, Sage, 1994, G. Etienne, *Changing Rural South Asia - India, Pakistan, Bangladesh*, New Delhi, Vikas Pub. 1995.

An attempt at synthesis

What conclusions can we draw from this comparative picture?

A number of factors, independent from the will and ability of the ruling elites come out, like the advantages for China of Hong Kong, the vicinity of a vast economically booming area and the Chinese diaspora.

Both countries, because of their enormous size, face a number of political and socio-economic difficulties hardly known in smaller countries like South Korea or Taiwan.

With reference to cultivated land, India is in a slightly better situation. China enjoys more oil and coal, whereas India leads with its rich and plentiful iron ore. She also enjoys advantages in terms of rail and road transport, as well as modern elites.

One must also remember that, in 1949, China was emerging from more than one century of enormous disorders, wars, destructions....which made the task of the new regime even more formidable than in India.

To assess the role of men is much more complex. After the death of Mao Zedong, a return to ideological excesses was out of question, but the Chinese could have, as advocated by some senior politicians, stuck to a Marxist-Leninist line, probably more flexible than in Stalin's days but still hampered by all kinds of defects. The great merit of Deng Xiaoping and of his supporters has been to understand earlier than so many other leaders, in Soviet Union or in the Third World, that the time for big changes had come. With his down to earth approach, his courage, his imagination and ability, Deng Xiaoping succeeded in promoting the liberalization of the economy and the opening to the outside world. All that resulted in a spectacular growth, considerable improvements in standards of living and more personal freedom than before.

The record takes different colours when looking at the political system. How long will China's economy be able to progress further without more legitimate political institutions and without a more reliable legal system? How long also can the economy progress without more order? For the time being, most Chinese are more interested in money than in democracy, but this may change. What may happen after Deng struggle at the top, growing tensions between regions, between city dwellers and peasants or a relatively smooth transition. Besides, as underlined by the French sinologist J.L. Domenach, one cannot overlook the weight of foreign interests, particularly of overseas Chinese and their possible influence. (L 'Express, 8-9-94).

In spite of weaknesses, the achievements of China under Deng Xiaoping remain remarkable, something that foreigners who have not known Mao's China may perhaps not fully perceive.

Coming to India, its assets such as its political, legal, judiciary institutions are better recognized now than before, as well as the level of her elites. However, the Indians have been slow in adopting changes, in spite of countless reports, warnings from

Indians and from outsiders since the 1970s.¹⁸ Why has it been so? Is it due to the democratic system, to mentalities, to a lingering fear of foreign domination, to a lack of vision at the political level? I leave the final answer to the Indians!

In spite of these delays, the role of some outstanding personalities, up to a point as in China, must be emphasized. In 1991, the Indian Government could have confined itself to some structural adjustments in order to please the IMF and the World Bank. Fortunately for India, the Prime Minister and his team particularly, Dr. Manmohan Singh are promoting much more thorough and deeper reforms.

The claims that the reforms lack a social content, hence the electoral defeats of the Congress in Andhra and Karnataka in 1994 and others in 1995, show either a deep ignorance of the people's feelings or sheer political opportunism. The social consequences of the reforms could not be felt instantly. One must see what happens with better growth performances as in 1994-95. Second, the discontent in India has mostly to do with issues like corruption, abuses, malpractices and to the struggle between different caste groups.

Other controversies could be also harmful if not checked. While most political parties try, at the State level, to attract FDI, they also criticise certain projects (Enron, tele-communications) for short sighted political gains, which could deter new FDI.

India is only half way through in her reforms. The public sector, subsidies, exit policy remain matters of concern. On the other hand, new elites are emerging in all walks of life, in administration, in business, including all kinds of entrepreneurs, small or big, in agriculture also. People open minded, ready to invest, to innovate. Such assets could, in spite of remaining adverse forces, shallow politicians, dubious and unscrupulous characters, play an increasing role in future, contributing to faster growth and to a faster reduction of acute poverty.

¹⁸ See among other J. N. Bhagvati and P. Desai, *India, Planning for Industrialization*, London, Oxford University Press, 1970 and L.K. Jha, *Economic Stragegy for the 80s*, New Delhi, Allied Pub.1980.