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**CHINA-INDIA-
PAKISTAN**
Disparities and Weak Links in
Economic Performance



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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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SUMMARY

In both India and Pakistan, it is not uncommon to hear these questions: What is wrong with us, why have we been left behind by China, the Dragons and Tigers of East Asia? In the 1950's, they were not so much ahead of us, some were behind. This study aims at explaining the gaps in performance between China on the one hand, India and Pakistan on the other. The second part deals with weak links common to all three countries.

The great luck of China can be summarized in a few words: Deng Xiaoping and Hong Kong, i.e. a leader of outstanding calibre and the advantages brought by the Chinese diaspora from Hong Kong, later on from Taiwan and South East Asia. Hong Kong supplies 60 to 66% of total foreign direct investments. China enjoyed also the advantage to be located in the most dynamic economic area of the world. Such advantages are lacking in India and Pakistan.

Other factors enter the picture, such as politics and economic policies, family planning, human development...

The second part of this study reviews some weak links common to each country. Hydraulic works and agriculture in general need more investments and funds for recurrent expenditures. There is a growing imbalance between infrastructure (electricity, transport, telecommunications) and the overall growth of the economy, the former lagging behind the latter.

The deterioration of infrastructure is like a creeping disease. It will not bring growth to a halt but, within the next ten years or more, there is a real danger that the pace of progress could slow down in all three countries and in others facing similar weaknesses, like for instance Vietnam.

It is far from sure that, at this stage, the globalization will help in a decisive manner to improve the situation, since private foreign investors do not seem much interested in infrastructure projects.

This conclusion goes against views frequently heard on China becoming within twenty years an economic giant, India and Pakistan soon joining the Dragons and Tigers Club.

Even if the pace of growth slows down, for Western countries and Japan these countries remain partners of enormous interest. Their demand for imports and joint ventures, the possibilities of considerable exports, all would remain at a high level, even with a more moderate growth. The big question for foreign corporations is to carefully assess what can be done at this stage and on which scale. Seeing the troubles or disappointments of several multinationals in China and South Asia, it seems that such assessments could be improved.

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INTRODUCTION

For at least two thousand years, until the end of the 18th Century, India was the major pole of foreign trade in Asia. In 1950, it was the tenth industrial power in the world. Today it is the twenty second. Indian exports have fallen from 1.85% of total world exports to 0.60% in 1994. Not only China but smaller countries like Thailand or Malaysia have overtaken India. China, for instance, now accounts for 2.76% of world trade versus 0.60% in the 1970's prior to the reforms.

Similar comments are heard in Pakistan, where senior officials remember when, in the early 1960's during the heyday of President Ayub, their economy was cited as a model, so that South Korean delegations visited Pakistan to learn from their experience.

It would be beyond the scope of this study to take all countries of East Asia, i.e. the Far East and South East Asia, that is why, outside India and Pakistan, we are concentrating on China.

Since the late 1950's there have been frequent attempts to compare these two heavy weight countries. Today, thanks to the opening of the Chinese economy, such comparisons are much easier than in Mao Zedong's days.

We have included Pakistan because, within South Asia, it is the only country which, with India might sooner or later join the Tigers and Dragons' Club¹. Besides, it is interesting to add a middlesized country and an economy which deserves more attention in India than is the case at present.

Our first purpose is to throw some light on such gaps in economic performance. Our second one is to underline weak links common to the three countries. In that perspective, problems of a rather temporary nature are hardly touched in order to concentrate on long term issues (agriculture and infrastructure), which could jeopardize the future.

In order to clarify the various aspects of the debate, we have to deal with three sets of factors: objective facts, circumstances, political leadership. The first two factors are partly beyond the will and ability of governments, whereas the third refers to the role of men in devising and implementing new development policies. In that perspective, one could summarize some of the major causes of China's success in two words: Deng Xiaoping and Hong Kong.

¹ 'The other countries are still too poor, except Sri Lanka which could become another Dragon, provided its civil war comes to an end.

Part I

GAPS IN PERFORMANCE

Chinese statistics

Although Indian and Pakistani data may be questioned, they raise less controversy than the Chinese ones. Every year China's State Statistical Bureau publishes a bulky Yearbook of 800 pages, complemented by more information collected by scholars, or coming from sample surveys.

How reliable are such statistics? The Chinese press and a number of local economists are quite critical: "Illegal practices in the presentation of statistics have often occurred before and during the Cultural Revolution", and they remain a matter of concern. During an enquiry lasting three months, the Statistical Bureau discovered 60,000 cases of falsification of industrial data, grain output, per capita income, investments, inflation, birth control... (*China Daily*, 7-9-94).

In addition come other problems. Since the early 1980's, we know through American satellites and Chinese sources that the actual net cultivated area is much larger than the official figure of 95 million ha. A thorough land survey has been conducted in the latter part of the 1980's giving the figure of 125 million ha. Yet, in the Yearbooks of 1995 and 1996, the old figure is still quoted! Even if it seems that a large amount of extra land refers to rather poor, unirrigated soils yielding a low output, average data on yields per ha need to be adjusted downward. On the other hand, according to the French agronomist and sinologist Claude Aubert, the total agricultural production could be higher than what is officially reported¹.

The average yearly GDP growth rate of around 9% since 1980 and 10% in the 1990's or more also looks doubtful, since inflation is not fully taken into account. For 1993 and 1994, official data give growth in real terms of 13.4 and 11.8% which could be in fact 9 and 7.8% (*The Economist*, 27-5-95).

Estimates made by foreign agencies on the per capita GDP on the basis of purchasing power parity (P.P.P.) are quite uncertain, ranging from 3500 \$ (probably too high) to a more likely figure of 2500 \$ (see among others <<China in the World Economy>>, Institute for International Economics, Washington D.C., 1994).

Another question, not open to controversy because it is well documented by Chinese economists, refers to the magnitude of inventories, stocks of goods lying in factories or shops being hardly saleable, due to substandard quality. This phenomenon was already well known under Mao Zedong. It remains so today, be it for steel, semi-durable consumer goods like watches, bicycles and other products. According to the State Statistical Bureau, Chinese warehouses held 1.5 billion unsold men's shirts in 1996 and the value of all stock piles has risen in 1996 to 530 billion yuan (64 billion \$), that is to say nearly 10% of GDP (about the same as for 1994). Other sources mention up to 88 billion \$ for 1996. Obviously, growth should be reduced by a few per cent to deduct such goods (Far Eastern Economic Review, 16-1-97, *China Daily*, 5-1-95 for 1994, *The Economist*, 12-4-97).

¹ See C. Aubert. G. Etienne. J-L. Maurer, *Feeding Asia in the Next Century*, Geneva, I.U.E.D., 1996.

Finally, the Chinese, like the Indians and Pakistanis are indulging into estimates on the number of people below the poverty line. Although such calculations are extremely doubtful because of all the difficulties involved in the measurement of the income of the poor, controversies are not lacking as also in India. The Chinese official data mention a fall in the number of the poor down to 65 million in 1996. Recent World Bank estimates mention 350 million for 1993, i.e. one third of the population. The World Bank has taken <<international standards of poverty>> which are higher than the Chinese standards. On the basis of such calculations, the size of the economy should be reduced by 25% (*Poverty Report on China*, World Bank, 1996).

Notwithstanding these qualifications, there is no doubt that the Chinese economy has expanded at a much faster rate than India's or Pakistan's: + 5.5% and 5.79 in 1980's; 7% in the last three years for India, around 4.5% for Pakistan.

Finally, we must remember the time factor. Economic reforms have started in China by 1980. In India and Pakistan, early reforms did start at the same time, but on a low key, although the pace of growth did rise in both countries. In Pakistan, it was by the end of 1990, following the victory of Nawaz Sharif at the general elections, that the major break through occurred. In India, the major changes in economic policy started with Narasimha Rao and Dr. Manmohan Singh in July 1991.

Foreign direct investments (FDI) and foreign trade

Both FDI and foreign trade are among the main engines of growth in China. To make full use of them an appropriate development policy had to be introduced. But, in doing so, China enjoyed a more favourable international environment than South Asia, a point too often overlooked by Indians who lament about the gap between the two countries.

Put it bluntly, neither India nor Pakistan have a Hong Kong at their door, a major asset for China, which has used it in a very clever way. Out of the total FDI disbursed (see table below), 60 to 66% came from Hong Kong.

Second, China can rely on a diaspora much more powerful in terms of numbers and financial assets than the Indian and Pakistani diasporas. Then, the Chinese diaspora (including Taiwan) is more concentrated near to China than non-resident Indians and Pakistanis.

A third advantage of China is being located in the most dynamic region of Asia, with Japan, South Korea, South East Asian countries. This facilitates all kinds of links: flows of FDI as well as growing intraregional trade and de- or relocalization of industries.

From the 1992's onwards, the flow of FDI increased considerably, this time from Taiwan. Substantial FDI started also coming from South Korea, Singapore, even Thailand. By that time, an increasing number of large projects came from Japanese, American and West European multinationals.

Turning to foreign trade, we again fall upon Hong Kong. It has contributed in a big way to the exports of China, which has been able to use the worldwide network

of trade channels based in Hong Kong. Besides, China is also closely involved in the growth of intraregional trade within East Asia.

There is thus a close link between the expansion of FDI in China and its exports as well as imports. Today, foreign funded firms contribute to over 30% of Chinese total exports, compared to 12.5% in 1990.

South Asia did not enjoy comparable advantages. Following the oil boom of 1973 and 1979, some FDI from the Middle East came to India and Pakistan. Trade expanded both ways, the massive influx of South Asian workers to the Gulf, Saudi Arabia, Iran brought back badly needed foreign exchange. The slowing down of the Middle East economies, the Iranian revolution, the Gulf war limited or brought down further economic links between the two regions.

FDI between South Asia and East Asia are increasing. Japanese, South Korean, Singapore FDI are coming. Several Indian firms are investing in Singapore, Bangkok, Indonesia. Exports and imports had started increasing in the 1970's already, with a clear acceleration in the past decade. ASEAN countries buy in 1995/96 around 8% of India's total exports, versus 3.6% in 1980, and the balance of trade has turned positive (see the very interesting study of Jean Coussy, *L'Inde face a la regionalisation de l'économie mondiale*, Paris, Etudes du CERI, no. 13, Feb. 1997).

These currents are welcome, but it is not yet very clear whether they will get much stronger in the immediate future.

Within SAARC, the SAPTA agreement signed in 1993 should boost intra SAARC trade. Such a current is gaining momentum, not only in India but also in Pakistan and Bangladesh. A lot could be done when one remembers that in 1993 intra SAARC trade amounted to 3% of the total foreign trade but, as referred to later, the issue is heavily loaded with political tensions in the region.

| China's foreign trade | | |
|------------------------------|----------------|-------------------------|
| | | (million US current \$) |
| Year | Imports | Exports |
| 1952 | 1010 | 870 |
| 1972 | 2800 | 2900 |
| 1990 | 54000 | 62000 |
| 1995 | 110000 | 125000 |
| 1996 | 137000 | 153000 |

| India and Pakistan foreign trade | | | | |
|---|----------------|----------------|-----------------|----------------|
| (million US current \$) | | | | |
| Year | India | | Pakistan | |
| | Imports | Exports | Imports | Exports |
| 1950/51 | 1360 | 1260 | 353 | 406 |
| 1970/71 | 2180 | 2040 | 757 | 420 |
| 1990/91 | 24100 | 18000 | 7600 | 6100 |
| 1995/96 | 41400 | 32400 | 11700 | 8600 |
| 1996/97 | 44800 | 33800 | | |

| F.D.I. | | | |
|------------------------|--------------|--------------|-----------------|
| (million \$ disbursed) | | | |
| | China | India | Pakistan |
| 1980/1996 | 180,000* | 7,600 | 4,100 |

“FDI inflows could also be exaggerated for other reasons, such as over-invoicing imports.” Following this, an IMF report mentions “a 19% exaggeration of FDI” for 1994 (World Bank Study, *The Chinese Economy*, Washington D.C., 1996).

The Indian record is better in the field of portfolio investments, thanks to a better stock exchange. China is only now in the process of reintroducing a stock exchange in various cities, after it had been abolished during Mao Zedong’s regime, but it has become quite active on international capital markets in recent years. For 1996, total portfolio investments could be around 8-10 billion \$. In India, between 1991 to the end of 1996, total portfolio investments (i.e. foreign institutional investments, Euroequities and others) amount to 12 billion \$.

Portfolio investments play also a role in Pakistan. For the period 1980-1996, they reached a total of 1.8 billion \$.

Here again, in spite of reservation on the reliability of Chinese data, the performances of China in both foreign investments and foreign trade remain spectacular.

March 1997 Exchange rate per \$: 8.3 Yuans 36 Ind.Rs. 40 Pak.Rs. End of 1996 Forex. Reserves: China 110; India 20; Pakistan 1; (billion \$) End of 1996 Foreign indebtness: China 128; India 94; Pakistan 30; (billion \$).

Political systems versus economic development

Since the 1950’s and until recently, it has been fashionable in conferences on development to hear that: “Third World countries were not ripe for democracy. They needed a good dictatorship.” Today it is rather the reverse: democracy is said to be the prerequisite to development, at least among American pandits!

* The actual flow should be reduced by 20-25 billion \$, which were remitted from China to Hong Kong and reentered China as foreign investments, in order to enjoy the privileges granted to such funds!

Is this way of arguing correct? Most Third World countries have been for decades under authoritarian rulers or dictators. Their record in Latin America, Africa, in the Middle East has not been particularly striking. On the other hand, until recently South Korea and Taiwan succeeded in combining an authoritarian system with spectacular development. Indonesia fits more or less into the same pattern, while Burmese dictators, Marcos in the Philippines and other Asian rulers failed.

The case of Pakistan is particularly interesting. From 1958 to the second war against India in 1965, the mildly authoritarian regime of President Ayub Khan was very successful in its development policy. Later on it ended in failure and turmoil.

Democracy is no panacea either. India's and Sri Lanka's economies could have gone faster, though they went through a substantial development. In the Philippines, after the fall of President Marcos (1986), democracy did not pave the way for rapid growth. It is only since a few years that the economy has begun to wake up. As for Pakistan, one cannot say that the introduction of democracy has contributed so far to an acceleration of economic growth.

To sum up, what matters is not so much the label as the content, since there is no automatic link or correlation between dictatorship or democracy and rapid economic development.

Coming to China particular circumstances, not found in India, Pakistan or other countries must be emphasized. When Mao Zedong died in September 1976, most Chinese were fed up with all the excesses committed during the Great Leap forward (1958-61) and the Cultural Revolution (1966-76). The former led to a terrible famine (15 to 30 million dead), the second brought all kinds of hardships for perhaps 100 million people. The Chinese were tired, as well, as of the austerity prevailing under Mao.

These circumstances created a climate very favourable to reform, but it was not enough. The great luck of China was to have Deng Xiaoping. In spite of being rather old — he was 74 when he took over at the end of 1978 — and not knowing other countries well, he was the first leader in the Third World and in a socialist State to understand that his country required profound changes in many fields: more individual freedom and better living conditions, economic reforms which, in the case of agriculture, were in fact a new revolution with the decollectivisation of land. Deng Xiaoping understood also the urgent needs for new technologies, replacement of obsolete equipment, deregulation of the economy. No less impressive has been the decentralization of the economy in favour of provinces and districts. After being closed to FDI for thirty years, the doors of China became wide open.

Without a man like Deng Xiaoping, changes would not have been so deep and so rapid, and one must insist upon that. For people like me who started visiting Mao's China between 1958 and 1972, present China is another world.

Deng Xiaoping is often criticized in the West for refusing to promote democracy and a multiparty system. His attitude was based on the fear of a return to chaos and instability, as prevailed for so long in China. This explains Deng's attitude at Tiananmen in 1989 and other stiff measures taken against dissidents. Was Deng

correct or not on his refusal of democracy? It is hard to answer one way or the other, at least for me. On the other hand, does it make much sense to be so severe with the few dissidents who, in any case, do not enjoy much audience?

The Chinese who had been influenced by South Korea and the island of Taiwan can see that both countries have now become democracies. When questioned, some Chinese reply that democracy is coming through *small steps*. It is true that local councils begin to assert themselves, being particularly vocal against malpractices. Even members of the People's Congress (National Assembly) have shown occasional disagreement with the government.

On the other hand, since the fall of the Empire in 1911, China lacks stable, well rooted political institutions. The judiciary and the legal systems, though progressing, have still a long way to go until reaching satisfactory level. The predominance of the Communist Party down to the local level remains strong and unquestionable.

Nevertheless, individual freedom has made considerable progress in all matters of life. The press can be quite critical of various weaknesses, wrong policies, malpractices, corruption... Officials can be outspoken as in India or Pakistan when discussing development issues. A number of studies by Chinese scholars deal in a critical manner with various economic and social questions.

For the time being, the main interest of the Chinese is to make money. Will it be so for ever? With a growing development and larger middle classes, relatively stable institutions will be increasingly needed, going along a stronger rule of law, and probably more democracy. How will such transition, already slowly on the way expand, remains a question mark. One cannot exclude turbulences, but at least one hypothesis looks extremely doubtful for all kinds of reasons, historical, social, economic, that is a breakup of China, as happened to Soviet Union.

In the field of institutions, India enjoys a clear advantage, since the democratic system has taken firm roots and is hardly questioned. Within its democratic framework, India has been one of the most stable countries in Asia. In spite of all its communalist troubles, it never went through deep crises as in China, Pakistan, Afghanistan, Iran, where the State and the nation were in danger. Changes of government following elections happen smoothly like in Europe. The judiciary, in spite of serious weaknesses, remains reliable. Besides, judges assert themselves, as seen in a number of corruption cases.

In Pakistan, the introduction of democracy remains so far an uneasy process. The weakness of the institutions combined to a number of local tensions, violent struggles and rivalries do affect development.

What about leadership in South Asia? It is odd but encouraging that in both countries, reforms were introduced by weak governments. In India, the process was relatively sustained, thanks to Dr. Manmohan Singh. Without him reforms might have not gone as far as they did. Unlike many Indian politicians, he had a vision of what had to be done.

However, unlike the Chinese, the Indians introduced their reforms on a low key, fearing to provoke too much opposition. A relatively weak government within the democratic set up of India partly explains why reformers had to proceed more cautiously and gradually than in China.

The deregulations of the private sector did not, for instance, please all businessmen, many of them enjoying vested interests in a highly protected market so far. The opening to FDI met with opposition.

Then, in the early years following 1991, plenty of debates came up, creating confusion. Reforms had hardly begun that they were criticized for lacking a “human face”. Some economists and politicians claimed that the poor were getting poorer as if, which was absurd, the impact of the reforms on living conditions could be measured within one or two years only. In my latest rural survey in November-December 1996, I noticed that real agricultural wages kept on rising in advanced districts, remaining the double of what they are in sluggish regions, as observed since the 1970’s (see G. Etienne, *Rural Change in South Asia, India, Pakistan, Bangladesh*, New Delhi, Vikas, 1995). Besides, there is also more employment in progressive areas.

What was ridiculous, when looking at FDI in India compared to China, Indonesia or Malaysia was to fear that India was, or is, on the verge of being dominated by foreign interests as in the old days of the East India Company (similar voices can also be heard in Pakistan!).

Other currents did not help either, even if their impact has been limited, like the slogan “micro chips yes, potato chips no”, going along hostile moves against Kentucky Fried Chicken restaurants. Dubious political manoeuvres as in the Enron affair in Maharashtra enter also the picture.

It is fair to add that by the end of 1996 and in 1997, currents opposed, or at least reluctant towards reforms have lost much weight. The coalition government in New Delhi, as well as the State governments, no matter the party in power are now openly in favour of liberalization and keen to attract more private investments, Indian or from abroad.

Sheer demagogy has however not disappeared. While India needs urgently to raise taxes on electricity and canal irrigation, the new Punjab government elected in February 1997 has decided to abolish such charges, following its elections manifesto. Although much remains to be done, it cannot be denied that reforms have contributed to an acceleration of growth. For the period 1994 to 1997, the average yearly growth rate has reached about 7% of GDP, versus 5.5 for the 1980’s and 3.5 for the period 1950-1980.

In Pakistan, the first package of reforms was more drastic than in India and it did not meet with much opposition. When Benazir Bhutto returned to power in 1993, she did not alter the policy followed by Nawaz Sharif.

Though quite bold, the liberalization and opening of the economy did not lead to a faster growth. On the contrary, the latter slowed down compared to the 1980’s.

5.7% of GDP per year versus an average of 4.7% for 1991-95, 5.2% in 1995-96 and probably around 3% in 1996-97. Three interrelated sets of factors played an adverse effect: political instability: several changes of governments and elections, serious disturbances in Sind, which badly affected the industrial sector, since Karachi and Hyderabad account for 30-35% of total industries. The financial situation kept on deteriorating for lack of reforms, with a rising internal and external indebtedness. Exports also suffered, so that foreign exchange reserves fell dramatically in 1996 and 1997. To sum up, Pakistan is facing in 1997 its worst financial crisis. Although the economy has often shown a remarkable resilience, it remains to be seen how the new government of Nawaz Sharif will find a way out, caught between the pressures of the IMF and the conditions it should implement to get the external assistance it needs, and at the same time improve its financial system, particularly taxation, and possibly a cut in the heavy defence expenditures. According to Dr. Mahabub ul Haq: "Debt servicing and defence expenditures now exceed total budgetary resources, obliging us to borrow at 17-20% interest even to pay for government salaries and day to day administration expenditures, let alone development expenditures." (*Newsline*, March 1997).

One cannot finally omit the Indo-Pakistani relations. Let us hope that the detente appearing in 1997 will grow, because a climate of continuous tensions, incidents, arms race is not quite compatible with faster economic growth. In East Asia it is not rare to hear such comments on the subcontinent.

The grey area

We enter now what I call a grey area of factors because it lays beyond hard facts. That is why the following observations are tentative.

Already in Mao Zedong's days, the Chinese showed their will to learn from foreigners. When they started their First Five Year Plan (1953-57), their leaders declared: "We will make less mistakes if we closely study the pioneer experience of Soviet Union." (*Resolution on the First Five Year Plan for Development of the National Economy of the P.R.C.*, Peking, 1956, p. 17-19). When starting the reforms Deng Xiaoping was no less keen to learn from others. During his visit of a most modern factory in Japan (1979) he exclaimed: "Now I understand what modern industry is." Such awareness partly explains the very favourable terms offered to FDI and the invitation of many foreign experts to come to China, including the opening of business schools, while about 200,000 students were sent abroad. The Chinese showed no inhibition in the opening of their economy, be it to FDI, for machinery or coca-cola. The more of all, the happier they felt.

Indian elites in 1947 were far more open to the outside world than the Chinese communist leaders. India could rely on sophisticated elites in politics, on many economists, civil servants, so that, unlike so many other third world countries, India's planning hardly relied on foreign advisers, except in certain technical fields.

Does it explain why Indians seemed more self-centered? It is only part of the explanation. What is puzzling is to see the time India took to introduce the 1991 reforms, this in a country where public opinion was particularly free and all kinds of views could be aired. For instance, the weaknesses of the mixed economy system, the

shortcomings of the public sector had been fully known, at least since the 1970's². Have the Indians shown less curiosity than other Asians about what was happening in the world? Is ethnocentrism deeper in India than in some other civilizations? Should one also refer to the caste system, whereby for thousands of years Brahmins and other high castes enjoyed a monopoly in education and knowledge, which might have induced them to be not too inclined to learn from others?

I can do no more than raise such questions, leaving the answer to Indians who are much more qualified.

One thing clear in any case is the growing interest for the performance of the Tigers and Dragons. In his first statement in July 1991, Dr. Manmohan Singh declared: "In the early 60's, Korea was hardly better off than we were. Now they are about to join the OECD, the club of the rich!". In the press, in universities, in public statements, these topics are increasingly raised and contribute to strengthen currents favourable to reform.

In the case of Pakistan, there was no such inhibition. As seen above, the flow of FDI has been comparatively larger than in India, considering the size of both countries. No less typical was the way the Pakistanis tackled their energy policy as explained below: first to look at what is done abroad, than take clear cut decisions and implement them, which has brought a substantial increase in the supply of electricity.

| Population and Family Planning | | |
|--|---------------------------------|---------------------------------|
| Here appear other differences between the three countries. | | |
| 1996 | Population (million) | Annual Growth Rate % |
| China | 1235 | 1.3 |
| India | 945 | 1.9 |
| Pakistan | 135 | 3 to 2.7 |

The Chinese have succeeded in sharply reducing their growth rate with their one-child policy, possibly two in villages if the first is a girl. In spite of loopholes, the system is implemented in a rather strict way. But it has also complex effects. Small girls pay a heavy toll (abortion, possibly some infanticide), so that in children of the 0 to 9 years bracket, there are 15 to 18% more boys, a high rate even if it does not account for unreported births of girls (national average 3.6% more boys). Besides, by 2003, 10% of the population will be above 65, which will create difficult social security problems.

Thanks to family planning, India has brought down its growth rate below 2%, though the fall varies greatly statewide and could have been faster, especially in the Hindi belt. It is curious to see how the question of pushing family planning with more vigour is hardly mentioned by political leaders in the debates on the reforms since 1991. A faster fall in birth rate would help reducing unemployment and underemployment, with important political consequences also. The struggle for jobs is an important component of communalist riots.

² See among others J.N. Bhagwati & P. Desai, *India, Planning for Industrialization*, London, Oxford University Press, 1970, and L.K. Jha, *Economic Strategy for the 80's*, New Delhi, Allied, 1980.

In Pakistan, all governments, military or civilian, except for a brief period under President Ayub Khan, have shown a stubborn neglect of family planning. Although the concern has been rising in the 1990's, the efforts remain modest. Such an attitude looks odd since Islam is probably the only religion in the world which, as early as in the 11-12th Century, raised the question of birth control. Imam al Ghazali, one of the greatest theologians declared *azl* (coitus interruptus, one of the major birth control methods available in those days) as permissible. On abortion there have been differences of views among the theologians but the dominant currents have been in favour during the first three months of pregnancy (See among others Abdel Rahim Omran, *Family Planning and the Legacy of Islam*, London, Routledge, 1992).

It could have been possible, as East Pakistan and later Bangladesh did, to educate ignorant mullahs and others who claim that birth control is contrary to Islam, a belief still widespread in Pakistan.

Poverty alleviation and human development

Coming to poverty, one should first underline some fundamental differences between the three countries.

In 1947, Pakistan enjoyed a substantially more favourable population-resources ratio and land - man ratio than China and India. Though reduced by the fast population growth, this advantage remains even today. One practically does not come across regions with a density of 600-1000 or more people per sq. km., as found in many Chinese and Indian districts. The size of holdings (including small and medium farmers) is on the whole larger than in India, the number of landless peasants much smaller and about three quarters of the crops are irrigated, versus 40-50% in India and China.

Following the oil shocks of 1973 and 1979, large numbers of Pakistani workers (professional and unskilled) found a job in the Middle East, sending home in peak years up to nearly 3 billion \$ as remittances. In the 1980's about 10% of the active population was working abroad, in the Middle East, in U.K. and U.S.A. Although the number of workers in the oil countries is falling as well as their remittances, this factor remains much more important than in India.

It seems also that black money plays a larger role than in India, partly through drugs (heroin) manufacture and trade, a consequence of the Afghan war.

As Vasim Jafarey, one of the ablest former civil servants and the *de facto* Finance Minister of Benazir Bhutto used to say "Pakistan is rich but the government has no money".

In villages, one seldom comes across the type of acute misery which still prevails in many districts of the slow moving plains of Eastern India or in isolated parts of the Deccan. When comparing rich districts of Western U.P. and Pakistani Punjab, real wages in cash or kind are quite often higher in the latter than in the former, partly because of lower population pressure, even with lower crop yields.

In addition, the percentage of active population employed in agriculture is lower than in India (52% versus 60-65), and the rate of urbanization is higher, above 30% versus 25.7 in 1991.

On the other hand, unlike India, one comes across large estates of hundreds, sometimes thousands ha, a situation which has nevertheless begun to change because, so far, wealthy Punjabi zamindars and Sindhi waderas are hardly more concerned with family planning than small and medium farmers.

Since the 1960's, the GDP yearly average growth rate has been frequently around 6%, out of which the rich have by no means been the sole beneficiaries. Many small and medium farmers and urban middle classes are also better off. Unskilled urban and rural workers have seen some increase in their real wages (World Bank, *Pakistan Poverty Assessment*, Washington D.C., Sept. 1995). On the whole, poverty has declined in the past two decades. However, "Pakistan did poorly on the social development side" (Govt. of Pakistan, *Social Action Programme Report (994/95)*). For life expectancy (59 years, 1991), adult literacy (38%, 1996). Infantile mortality (95 per 1000); for health and sanitation, the record is also low. It could have been substantially better, considering the progress of the economy. According to the World Bank, "consumption poverty" would amount to 34% of the population in 1990/91 (World Bank, op. cit.). A Social Action Programme (S.A.P.) was launched in 1992/93 "to address the neglect of social development" (op. cit.). In spite of some progress, much more remains to be done, especially when looking at the upper classes, rural and urban, enjoying a standard of living often higher than in India.

To sum up, one could say that in Pakistan the poor are often less poor than in India, the rich often richer.

Finally, Pakistani data are particularly rough owing to the lack of a census since 1981 because of communalist and inter provincial rivalries. Actual changes are perhaps somewhat superior to the figures quoted above.

Turning to India, although acute poverty is worse than in Pakistan, average social indicators are better: life expectancy 62 years, infantile mortality 75 per 1000, literacy 52% (data for 1991/92), health and sanitation are somewhat higher. Disparities areawise are also larger than in Pakistan, considering the size and the greater diversity of the country.

In spite of progress, Bimal Jalan reminds us that India ranks number 135 out of 173 countries according to *The Human Development Report* (UNDP, 1994) and poverty alleviation has been rather slow compared to several other developing countries. However, as pointed out by B. Jalan quoting Indian studies, several States (Gujarat, Maharashtra, Haryana, Punjab, Kerala) compare favourably with several advanced developing countries, while U.P., Bihar, M.P. fall below the least developed countries (B. Jalan, *India's Economic Policy*, p. 124-135, New Delhi, Viking, 1996)

These questions are increasingly debated in India. How is it, ask a number of people that (as in Pakistan), primary school is not yet compulsory fifty years after independence?

The debate on poverty has come up again in 1996, whereby the percentage below the poverty line was raised around 39% of the population compared to 19% following other estimates (*Business World*, 11-12-96). The truth might be somewhere in between. What is very clear on the other hand is that the much decried “trickle down effect” does work, as observed in progressive and sluggish districts.

In the field of education, the advance of India compared to Pakistan is very clear, not only at primary and secondary levels but also in the field of higher education (enrolment ratio 6% versus 2.8% in Pakistan). No doubt many Indian Universities deliver a very mediocre B.A. as in Pakistan, but there is a fair number of advanced Institutes and University Departments which deliver an education comparable to good Western Universities.

How to explain the gap in social policies between India and Pakistan? Among numerous factors, one at least concerns the structure of power, that is to say the growing weight of lower castes and classes in India. In Pakistan, such change is much slower because democracy is a relatively newcomer. There is less pressure among politicians to promote faster social development and the reverse may even happen. During my last visit in Islamabad in 1997, some Pakistani friends mentioned powerful Sindhi landlords who were discouraging the creation of village schools!

Unlike India and Pakistan, China went through a revolution which totally altered the old structures of power and income. The dominant classes of the old days, in politics, in villages, in cities lost their influence and money, a number of them their life in favour of a strong egalitarian line. In Mao Zedong’s days excepting a limited privileged new class, most Chinese were submitted to a system of great austerity. Yet, in spite of it, regional income disparities could not be wiped out.

When Mao Zedong died, large income disparities prevailed between areas enjoying rapid development (good soils, irrigation, electricity, developed roads...) and areas facing physical constraints. Population densities had also an evident impact on the distribution of collective income in the production teams. In 1972, I could note big differences in the value of labour points per day, upon which was based the income of farmers. It ranged from 0.20 Yuan in poor places up to 1.50 in advanced, not too heavily populated villages.

As seen even today in China, as well as in South Asia, such regional income disparities take a long time to be sharply reduced.

The egalitarian line of Mao Zedong was dramatically altered when Deng Xiaoping declared that “it is glorious to get rich” and that it does not matter if some people get rich before others. With their sharp increase in production, the reforms had a considerable impact on standards of living.

The Chinese are now, like the Indians, using estimates on poverty. The number of people below the poverty line had fallen from 250 million in 1980 (total population one billion) to 65 million out of 1225 million in 1995. According to World Bank calculations, the number of poor would amount to 350 million now (see above).

Here again, who is correct? One point is clear: the pace of development under Deng Xiaoping has been quite diversified. The coastal provinces, which at the same time absorbed the largest amount of FDI, have moved much faster than provinces in the interior. However, the situation is not static. More and more provinces are entering the process of accelerated growth, as I could observe in Hunan, Hubei and in the interior of Hebei during surveys in 1987 and 1993. Then, large numbers of poor people from less advanced provinces went to find work in the villages and cities of coastal areas, bringing money home.

In spite of these facts, there is still no doubt that acute poverty has not been wiped out, especially in those areas already left behind under Mao Zedong, like the barren plateaux of the North West, parts of the hilly regions of Central and South China. One should also mention the number of workers in the public sector who rely on very low and reduced salaries.

It is no less clear that new rich classes are emerging, indulging into extravagant expenditures, mentioned with a touch of implicit approval in the press. *The Far Eastern Economic Review* from Hong Kong (24-11-94) referred to the first private buyer in China of a Ferrari car costing 134,000\$. One could also mention the 42 Rolls Royce imported in 1993, probably as official cars!

What is no less obvious after the Maoist austerity is the explosion in expenditures on better food and drinks, clothes, semi-durable goods like TV, washing machines, refrigerators..., going along a wave of consumerism stronger than in India because of a faster growth and because the Chinese had been deprived for so long of such goods. Finally, though this may be called “impressionistic”, it is hard not to believe that poverty alleviation is proceeding faster in China than in India and Pakistan, although data on poverty are very uncertain.

As to human development indices, China is also leading compared to India or Pakistan: life expectancy 69, infantile mortality 34, literacy 84% in 1990, up to 88 in 1995. Unlike in India, progress in primary schooling is striking, but the reverse happens for university education. In 1993, there were 2.5 million students compared to roughly double that number in India, and many Chinese universities are no better than the Indian ones. As to the 210,000 Chinese sent abroad since 1980 for advanced studies, only 70,000 had returned by 1993. The Chinese and many foreign businessmen working in China agree that India, as well as Pakistan, have a clear advantage so far. To find good managers in China has become one of the major worries of multinationals, although new Chinese elites are quick to learn.

This brief survey cannot exclude unemployment and underemployment. The problem remains serious in China, in spite of its rapid growth. No doubt the number of workers in agriculture has fallen from 69% in 1980 to 52% in 1995. However, out of the 330 million supposed to work in agriculture, 130 million are not needed. Around 80 million of them are called <<floating population>>. They seek jobs in richer areas. As to the public sector, it is heavily overstaffed. Out of 110 million workers, at least 20 million are surplus. Many are hardly employed. Sheer unemployment in cities, in spite of fast economic growth, remains a matter of concern.

In India, the changes within the active population (total 317 million in 1991) from agriculture to other sectors remains slow, in spite of the acceleration of the economy since the 1980's: around 60% are likely to be still in agriculture. As to the rate of growth in employment, it has increased from 1.77% in 1987/88 to 2.59% in 1993/94 (Approach Paper to the *Ninth Five Year Plan 1997-2002*, p. 8, New Delhi, 1997). One can presume that it has increased further in the past three years with the acceleration of growth. The outlook is nevertheless worrying. Estimates on unemployment and underemployment are too unreliable but there is no doubt that the problem remains acute. Besides, as in China, there is a lot of overstaffing in the public sector and in the administration. The Fifth Pay Commission recommended to gradually cut down jobs by 30% (*Times of India*, 11-2-97).

In Pakistan, several factors are aggravating the employment prospects. The fall in the number of workers in the Middle East is being felt. Then the fast population growth results in rapid increase in active population, roughly one million more per year out of a total of 36.7 million in 1995/96 (*Economic Survey, 1995-96*, p. 104-106) and it should probably rise further in 1997. As to the unemployed, I do not have estimates but the number is bound to be pretty high also.

Estimates on GDP per capita are no doubt quite uncertain, especially in the case of China. They can at least give a trend:

| 1995 | China | India | Pakistan |
|------------------------|--------------|--------------|-----------------|
| (GDP per capita US\$) | | | |
| Foreign Exchange party | 620 | 340 | 460 |
| Purchasing Power party | 2500* | 1400 | 2230 |

* Adjusted on the basis of the 1993 figure in the Bank study on Poverty in China 1996.
Source: *World Bank Atlas 1997*.

Part II

THE WEAK LINKS

In spite of spectacular progress in China and substantial achievements in India and Pakistan, within each country a number of weak links appear. Several of them could be overcome or reduced in a medium-term perspective, such as fiscal deficit and subsidies, especially in South Asia, curbing inflation particularly in Pakistan, a more efficient management of banking systems, perhaps more so in China and Pakistan than in India. While such problems are important, I would like to focus on more difficult long-term issues, some of which, such as agriculture, do not attract enough attention.

Agriculture

The first weak link refers to agriculture, which still plays a major role in the economy: it accounts for 20-30% of GDP and for 50-60% for the active population. Besides, the rate of urbanization is around 27 to 30%. All three countries are still far from the new industrial countries like South Korea and the province of Taiwan, where the role of agriculture within the GDP and in terms of employment has shrunk to very near the situation found in Western countries and Japan.

In spite of these well known facts, since the early 1980's in all three countries not enough efforts were made to boost agriculture. One notices at various degrees a clear deceleration in public investment and in recurrent expenditures. This does not mean that the three countries are running towards the type of cereals deficit predicted by Lester Brown. He claims that by 2030 China will have to import 200 million t. of grain, i.e. the equivalent of the total world imports nowadays. For India he gives the figure of 45 million t. The author, who enjoys a tremendous influence on the mass media got mixed up with Chinese statistics, and grossly underestimated the potential so far untapped in India. His claims were rejected by the best Western experts on China such as Claude Aubert in France and Frederick Crook of the US Department of Agriculture (See C. Aubert, G. Etienne, J. L. Maurer, *Feeding Asia in the next century*, Geneva, I.U.E.D., Itinéraires, 1996).

While such forecasts look very doubtful, matters of serious concern are not lacking. The decollectivization of land in China, the reappearance of private trade and private transport, the rapid expansion of Village and Township Enterprises (V.T.E.) under collective, semi-collective or private ownership, the boom of private housing construction led to a massive increase in rural development and agriculture. But, by 1985, the latter had exhausted its contained potential under Mao Zedong. Public investment and increased recurrent expenditures became badly needed, while they tended to fall. Flood control and irrigation facilities are deteriorating for lack of maintenance. Besides, parts of the works built under Mao Zedong were not properly designed and constructed. Two thirds of the 84,600 reservoirs and 246,000 km of dykes need important repairs. Out of the millions of irrigation pumps, a number of them lack spare parts or power, if not both.

New investments are equally needed. The Northern Plain is increasingly short of water for irrigation, drinking purposes, industry, so that projects are under study to

divert part of the excess water of the Yangzi river to the North. Three projects are simultaneously contemplated, one in the upper reaches of the Yangzi and Yellow River, one from the middle Yangzi, one from the lower Yangzi, following partly the famous Great Canal built in the 7th Century A.D. According to rough estimates supplied to me by the Ministry of Water Resources (Peking, Feb. 1997), the total investments for the three projects could reach 27 billion \$. So far there is no clear idea on how to finance such projects. As to the Three Gorges Dam on the middle Yangzi (electricity, irrigation, flood control), the total cost could be around 38 billion \$. Construction has started, but such a colossal project raises a number of critical questions.

Plenty of new irrigation works are needed in a number of districts where irrigation is not considered as safe, so that crops yields remain rather low, unlike in advanced regions (2000-3000 kg/ha of paddy versus 5000-6000 or more, 1500kg/ha of wheat versus 4000).

Water saving devices could be used on a larger scale (drip, sprinkler) though they are costly.

As a result of such shortcomings, the irrigated area has increased only by a few million ha between 1980 and 1996. Seeds renewal, progress of research, better use and supply of chemical fertilizers require also more funds, while 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). It has happened also that funds allotted to agriculture have been used for other purposes.

The Chinese government has been struggling hard to improve the market of foodgrain, combining a dual system of farmers' deliveries to the State, following a quota system, and sales on the free market. In 1993, the government abolished compulsory deliveries in order to "allow for real competition between the State Grain Bureau and private merchants". Difficulties in urban supply, speculation and inflation led the authorities to stop the experiment. As C. Aubert summarized: "The past experiments have shown all the difficulties involved in such a reform... The solution may prove to be a still more formidable challenge than the one posed by increasing production."

Foodgrain and cotton progression has slowed down since 1984; production of meat, eggs, vegetables, fruit, fish has kept on rising fast. Total yearly red meat production per capita has considerably increased so that China has become a big meat consuming country. As a result, food grain consumption tends to slow down, while an increasing proportion of cereals (particularly maize) is used as feedgrain for porks and poultry. From that angle, China is now in a very different situation compared to South Asia and several other Asian countries.

Since 1961, China has been a net importer of cereals. In recent decades, except in some years, this trend has remained. It looks likely that net imports will rise further, including possibly more foodgrain. Net imports, often around 10-12 million t. per year of short domestic supply could rise to 17 million t. in 2005, possibly 33 million in 2020 as estimated by a Chinese economist (*The Economist*, 13-7-96).

How far will the present shortcomings in agriculture be corrected? With the advent of the new Five Year Plan 1996-2020, public opinion and the main political leaders show a greater concern for agriculture. Higher budgetary allocations are emphasized. It remains to be seen how deep will be this partial reorientation of development policy and how it will be implemented at the provincial and district levels, where the temptation to make quick money in other activities may affect the new policy.

While in India and Pakistan the relative neglect of agriculture is less striking than in China, the same basic questions have to be raised. In India, out of 60 million ha irrigated, 27 million depend on canals. For decades their maintenance has been very poor, so that considerable expenditures are needed beyond routine maintenance. Water losses from the canal head to the field amount to 50-60% (same in Pakistan). Besides, out of the meagre funds allotted to maintenance and operation of canals, the largest part goes to the wages of the irrigation officials.

In Pakistan, the situation is worse because of the much larger role of canal irrigation. The total command area (14 million ha) is equivalent to 75% of the net cultivated area, although in many places, especially in Punjab, tubewells bring a complement to the canals. The task is gigantic: 61,000 km of canals, 88,000 outlets, 1.6 million km of watercourses or field channels.

The inadequate supply of irrigation has not prevented the first round of the Green Revolution in Pakistan, whereby yields of wheat rose from 1000-1500 kg/ha to 2000-2500 and roughly the same for clean rice. Pushing yields to 3000-4000 kg/ha as required to feed the fast growing population can be achieved if the water delivery system is thoroughly overhauled and improved.

In Pakistan more than in India, come severe problems of waterlogging (2 million ha) and salinity (4 million ha) in spite of the work already done. As to tubewells, they suffer from frequent lack of electricity in India. In Pakistan, the power supply has improved in the past few years, but further improvements are needed.

In addition, to strengthen existing irrigation, India must expand the irrigated area. Enormous scope exists in the Eastern plains. Only 20 to 35% of the land is irrigated, while 80-90% could be covered, as it is the case in advanced districts of the North West and the South East. This would pave the way for the Green Revolution, confined so far to small areas in the Eastern plains. At the same time, it would help reduce the acute poverty prevailing in those regions.

Then comes peninsular India. Though the irrigation potential is not large, further progress is possible.

No less fundamental problems need to be mentioned, like sheer lack of water (ground and surface) for irrigation, drinking purposes, industry. In India, some broad studies on interconnecting rivers have started, with the idea to shift surplus water, especially from the Eastern plains, to deficit areas in Central and South India (See National Water Development Agency, *National Perspective for Water Resources Development*, New Delhi, Oct. 1995)

In Pakistan, the irrigated area could increase if the Kalabagh dam and reservoir on the Indus are constructed. Unfortunately, shortsighted political rivalries

involving the N.W.F.P., Punjab and Sind have prevented this already old project to materialize.

After irrigation come flood control and drainage of excess water, even under normal rains. Such problems are more acute in India, particularly in the Eastern plains, than in Pakistan. Here again, maintenance expenditures and investments in new projects are lacking.

In the field of research, seeds renewal, extension services, better use of chemical fertilizers and pesticides, improvements are no less needed in both countries.

In India, public funds devoted to productive tasks in the rural economy have declined from more than 60% of all funds allotted to agriculture in 1981/82, to 38% in 1994/95, while in absolute figures there was also a sharp fall. Subsidies of all kinds (electricity, water charges, food), much less reduced than in Pakistan, are close to 40% and poverty alleviation programmes reach 22%. The latter have kept on increasing, in spite of much leakage amply recorded, even in official reports! As to private investments, they are increasing but they cannot replace public funds for hydraulic works, research, extension services, rural roads and rural electrification. As stated by Abid Hussain: "Eradication of poverty needs money and investments in productive tasks and not investments in *Rozgar Yojana* (Employment schemes)." (R.B.V. Reddy Memorial Lecture, Hyderabad, 1996).

In India, the Gowda government showed more concern for agriculture than its predecessors, but will the reorientation of funds allocation towards productive tasks be actually implemented? Although the last really bad monsoon occurred in 1987, foodgrain production is slowing down. In several advanced districts, yields tend to level off. *The Economic Survey 1996/97* rings the alarm bell when stressing that "the annual compound growth rate of foodgrains between 1990/91 and 1996/97 at 1.7% is lower than the annual population growth of 1.9%" (p.1 55).

Since 1992, Pakistan, unlike India, faced more bad luck with the weather. Devastating floods affecting particularly cotton, a major crop, which was at the same time attacked by a new very dangerous virus, draught in certain years.

In both countries, fruit, vegetables, meat, poultry, eggs, milk, flowers, aquaculture and fish ponds are showing dynamic trends, both in order to respond to local rising demand and for exports. Yet, these sectors remain below China, except milk.

Wheat imports (about 2 million t. per year) and rice exports (1.5 million) have not much changed in the past six years in Pakistan. Wheat imports are likely to increase when considering production and population trends. As to India, it has been not only self-sufficient in cereals in most years since 1985, but it was able to export several millions t. of rice and wheat in 1994/95 and 1995/96. As shown in 1996-97 when wheat imports were resumed, it is far from sure that cereals exports will remain, especially in case of a really bad monsoon.

To sum up, a partial reorientation of development policies in favour of agriculture, including water management, rural infrastructure (roads, electricity) is

badly needed in all three countries. Besides, it could help create more employment, which is so urgent in spite of progress in secondary and tertiary sectors in China. What is disquieting is that all the points made above have been perfectly well known in each country since at least the early 1980's. Yet, the few voices who raised them did not win much support.

Electricity

In 1950, electric production and consumption were extremely low in all three countries. Practically all villages, except a few were in the dark, and even a number of small towns lacked electricity. Today all cities and around three quarters of the villages can be supplied with electricity.

In 1995, China relied on an installed capacity of 217,220 MW (megawatts), India on 94,500 MW (1995/96) and Pakistan 13,446 MW (1995/96).

Such enormous progress was still not enough to cope with the demand. Already in the 1970's in China and India, and since the 1980's in Pakistan, the shortage of electricity kept on rising. In addition, the lack of maintenance of power stations as well as of transmission and distribution (T & D) systems, the lack of efficiency in operating systems which had grown so rapidly, resulted in heavy losses in the power supply and for industries and tubewells, which fell victims of power breakdowns, power cuts. Pilfering of electricity became also widespread in the three countries.

Another common weakness is that the price of electricity has been too low for many years, so that production costs are not covered and subsidies are becoming unbearably costly.

In China the gap between supply and demand was made worse since the reforms because of the very fast growth of the economy. As a rule of the thumb, + 1% of GDP requires + 1.2% in electricity. The latter grew by 8% per year in the 1990's versus a GDP growth rate above 10%. In 1993 for instance, one third of industrial capacity remained idle for lack of electricity. Resulting losses for industries amounted to 20-40% of production. The situation hardly improved in 1994 (*China Daily*, 3-5-94 and *China Business Review*, Nov-Dec. 1993).

Although the gap has been so far less important in India than in China because of a slower growth of GDP, the situation has worsened in the 1990's, with a slowing down in the growth rate of electricity. The shortage varies Statewise depending on the efficiency of the State Electricity Boards but most of them operate at a loss. The situation is disastrous in Bihar, less bad in Gujarat and Maharashtra. Karnataka, one of the most advanced States has faced serious shortages for the last two years. Even Delhi has suffered countless power cuts in the winter 1996/97, a period of the year when the shortage should not be acute.

The Eighth Five Year Plan 1992-97 envisaged a growth of 31,000 MW, while experts had advised 40,000. At the end of the fourth year additional capacity amounted to 15,000 MW only.

In Pakistan, until 1995 included, the story was the same, with the same consequences for the economy as a whole. Load shedding has been causing one billion \$ losses per year to the national economy in the 1990's (*Dawn*, 11-1-97).

How to remedy such shortages? The three countries are putting much hope in private investments, foreign and/or local, while electricity was, until recently, mostly a State monopoly. It is equally hoped that private capital could be invested, not only in power stations but also in T & D. Attempts are also made, with mixed success, to raise the price of electricity.

Beyond these relative similarities appear substantial differences. China could rely on a sizeable amount of loans from the World Bank, the Asian Development Bank, bilateral public loans. On the other hand, negotiations with private companies from Hong Kong, Japan, Western countries are still facing many hurdles, because the rate of profit offered by the Chinese (12-15%) is considered as too low in view of the risks involved. So far, only a few B.O.T. (Built - Operate - Transfer) projects have been agreed upon.

In 1996/97, although a shortfall remained in relation to actual demand, the supply of electricity has improved in China, thanks to a number of new power stations. Installed capacity has risen by 16,000 MW per year between 1991 and 1995. However, foreign experts in Peking in February 1997 fear that such improvements be temporary only, unless the GDP growth rate slows down (It is still around 10%).

In the early 1990's, the Indian government adopted the "Fast Track Policy" whereby a number of joint ventures with FDI would lead to a rapid increase in installed capacity. This policy has given disappointing results so far: cumbersome procedures, difficulties to deal with the Central Government and the States, dubious political manoeuvres (Enron), opposition for environment reasons...

It is to be hoped that the new policy being prepared will overcome these difficulties. A National Energy Policy should be finalized in 1997, while each State should set up an independent Electricity Regulation Commission. In the meanwhile, the number of captive plants and of private small generators is rising and enables at least some factories to reduce their shortage of power. Nevertheless, it looks doubtful that this remedy could cope on a large scale with the lack of power expected from SEB.

Such a policy follows a treble approach: to make easier and more attractive agreements with foreign and domestic companies; to improve the operations of the State Electricity Boards, to raise the price of electricity which, particularly in agriculture is extremely low. The price factor remains ticklish as it would be difficult to raise the price of electricity while the supply remains so insufficient. Political factors enter also the picture: electricity is quasi free for tubewells in several States and it has been made free in Punjab following the elections of February 1997. Net subsidies have reached Rs. 155 billion in 1996/97 versus one third at current prices in 1991/92. The bulk goes to agriculture. In addition come commercial losses of the State Electricity Boards, i.e. Rs. 105 billion in 1996/97 (*Economic Survey 1996/97*, P. 163).

Pakistan followed a different and more successful road. In the 1980's, the government had already tried to attract FDI but the results had been as disappointing as in India. In 1993, the Pakistanis reconsidered the issue after studying the experiences of other countries facing a similar shortage and having opened the sector to private investments. In 1994, it was estimated that within the briefest time 3,000 extra MW were needed. A very attractive policy was introduced; cutting red tape, offering the greatest freedom to foreign firms at a high rate of purchase of electricity (6.5 US cents per unit).

Thanks to this policy and to some projects already under construction (Hub Valley), the target of 3,000 MW is being reached. Load shedding, power cuts have either disappeared or have been substantially reduced since the end of 1996.

These positive results should not hide several difficulties. The response to the new policy has been so high that Pakistan may have an excess of electricity in the coming years with a number of new power plants coming on stream at a time when the economy is slowing down.

WAPDA (the Water and Power Development Authority), the major producer and distributor of electricity and the Karachi Electricity Supply Corporation (KESC) are in a dramatic financial situation. They cannot even pay their purchases of equipment and spare parts, and they do not see how to buy electricity at such a high rate. It has been decided to privatise KESC by September 1997, which may not be easy when considering the enormous losses and the debts of the corporation and its poor operations as seen in 1997 with a number of breakdowns. As to WAPDA, one speaks of a possible privatization.

While such difficulties are very serious indeed, I am inclined to assume that in a long term perspective, an excess of supply is preferable to the contrary as in India and China. Power will be at least available when the economy picks up. However, new—and perhaps worse—difficulties have come up. By the end of 1997 “three more private sector power plants are likely to be commissioned” but the construction of transmission lines by the government has been delayed, so that the government may have to pay penalties to the foreign companies, as stated in the agreement. For one year delay, they could reach 240 million dollars and involve heavy losses for WAPDA (*Dawn*, 8-5-97).

All three countries not only need investments in new projects but also more attention and capital in order to improve existing systems: overhauling power plants, replacing obsolete equipment which can in extreme cases be sixty years old, as I could observe in China and India. One could also save coal, gas, oil through more modern technologies.

Losses in operating power plants are considerable. In India, the Thermal Plant Load Factor has risen since 1992, but it is still 58% for State Electricity Boards. The Electrical Central Sector does better with 71% and the private sector with 72.3%. The situation is a little better in China thanks to the new 600 MW power stations which are more efficient than smaller ones (T. Kellner, *Les difficultés energetiques en Chine*, Geneva, Memoir, Graduate Institute of International Studies, 1996). Losses in T & D amount to 21% in India and Pakistan. Officially they amount to 8% in China

though many foreign experts believe that the actual rate of losses is not far from South Asia.

To curb such losses should be encouraged in a more aggressive manner, which involves stricter discipline, fight against corruption and pilferage, the collection of electricity bills. Adequate funds would be needed to replace obsolete equipments. Following Indian estimates, a 1% reduction in T & D losses “would result in saving about 800 MW” of capacity (*Economic Survey, 1996/97*, p. 162).

Last but not least comes pollution. Not so severe in Pakistan where the bulk of electricity depends on gas, oil and hydel, it is acute in China and India where coal based power stations represent 70 to 74% of installed capacity. No doubt anti-pollution measures are being introduced, but at various paces and degrees of efficiency. With its much higher generation of electricity compared to India, China produces the largest amount of coal related atmosphere pollution in Asia. Clean coal technologies lead to a 15 to 20% increase in capital costs and 10-20% in operating costs (Studies quoted by Kellner, op. cit. p. 35 and 41).

While reliance on coal may be partly reduced in India in a ten-fifteen years perspective, this does not seem to be the case in China. In 2010, the percentage of electricity depending on coal would hardly change, compared to 1995 (*Electricity Power Industry in China*, Peking, China Electric Power Press, 1995).

Various projections are being made to assess the additional required generating capacity:

| Country | Year | Present Capacity (MW) | Projection (MW) |
|-----------------|-------------|------------------------------|------------------------|
| China | 1995 | 217,220 | |
| | 2000 | | 290-300,000 |
| | 2010 | | 500,000 |
| India | 1995-96 | 94,500 | |
| | 2000-01 | | 138,500-122,000*) |
| | 2005-06 | | 206,000-173,000*) |
| Pakistan | 1995 | 13,446 | |
| | 2002 | | 21,200 |
| | 2010 | | 31,600 |

Sources: *Electricity Power Industry in China*, Peking, Ministry of Electric Power, 1995. *The India's Infrastructure Report*, New Delhi, Ministry of Finance, 1996. For Pakistan, World Bank estimates quoted in *Dawn*, 12 and 31-8-96.

Though impressive, these data could be misleading if we omit the size of the population and of the territories. Compared to several other Asian countries, even by 2000 or 2010, the consumption of electricity will remain quite low.

* The latter figures refer to the capacity saving potential at 23% of the additional requirements.

| Consumption per capita Kwh (1994) | |
|--|-------|
| China | 671 |
| India | 440 |
| Pakistan | 438 |
| South Korea | 3261 |
| Malaysia | 1669 |
| Thailand | 1080 |
| Indonesia | 278 |
| U.S. | 11256 |
| Japan | 6837 |

Source: U.S. Department of Energy, International Data Base, 1996.

What about other sources of energy? Progress should not be high in the field of nuclear energy which supplies only a few per cent of electricity in India and China, and even less in Pakistan.

Finally come non conventional renewable sources of electricity (solar, wind, etc.). They do not look very promising in the three countries in a five to ten years perspective.

As to other sources of energy, the future does not look too favourable in terms of local resources. China has become a net importer of oil and the deficit is bound to increase. Offshore oil exploitation has not produced striking results so far and one has to see what will be the final outcome of exploration in the Takla Makan desert (Xinjiang). Costs should be high since the pipe line alone, linking the oil fields to the main provinces, could amount to 10 billion \$. As to additional gas discoveries, the prospects are not too bright either.

In India and Pakistan, the deficit in oil is growing and even if new discoveries occur, it seems doubtful that these will cope with the rising demand. As to gas, quite important so far in Pakistan and relatively so in India, it will not be sufficient unless new discoveries are made in future. That is why both countries are negotiating with Gulf countries for the import of gas. Besides, Pakistan hopes that gas and oil could come from Turkmenistan, provided pipelines can be constructed through Afghanistan. This looks uncertain in view of the endless civil war ravaging that country.

These prospects could be altered in the case of Pakistan, following the discovery of new very large gas reserves in central Sind. If they are confirmed, Pakistan could become, by the turn of the century, "an exporter of natural gas after meeting the local demand" (*Dawn*, 21-4-97).

To import oil is not a major problem for China, considering its fast growing exports. The same cannot be said of South Asia where exports are growing more slowly while the oil import bill keeps on rising.

Transport

Here is another major weak link in each national economy. Roads, railways, ports cannot cope with the demand, in spite of considerable progress achieved since 1950.

The situation of China differs partly from South Asia because the starting point was lower than in India and Pakistan, which had inherited from the Raj a more developed transport system. Besides, as for electricity, the gap has been made worse by the faster growth of the economy.

The delays and bottlenecks in transport cause losses running into billions of \$ every year in China and India.

| China, area 9.6 million sq. km | | | | |
|--|-----------------|--------------|------------------|------------|
| Year | Railways | Roads | Waterways | |
| 1952 | 23,000 | 123,000 | 95,000 | |
| 1980 | 50,000 | 924,000 | 109,000 | |
| 1995 | 54,000 | 1,116,000 | 111,000 | |
| India, area 3.3 million sq. km. | | | | |
| Year | Railways | Roads | Waterways | |
| 1950/51 | 54,000 | 400,000 | (157,000*) | negligible |
| 1980/81 | 61,000 | 1,491,000 | (684,000) | |
| 1994/95 | 63,000 | 2,900,000 | 1,300,000) | |
| Pakistan, area 796,000 sq. km. | | | | |
| Year | Railways | Roads | Waterways | |
| 1950/51 | 8,500 | 63,000 | (15,000*) | negligible |
| 1980/81 | 8,800 | 94,000 | (36,000) | negligible |
| 1995/96 | 8,800 | 205,000 | (105,000) | |

*Surface roads, Out of total in brackets.

Sources; *China Statistical Yearbook*, 1996. *Economic Survey*, 1996/97, India. *Economic Survey*, 1995/96, Pakistan.

When comparing China and India, we cannot rely on the ratio between the total geographical area and transportation networks, because about half if not more of China consists of high mountains and plateaux,

Xinjiang, Tibet, Inner Mongolia - which, being very thinly populated, do not deserve a dense network of roads and railways.

Bearing in mind this qualification, the transport system of China remains much behind India and Pakistan. What is surprising is that progress achieved during the era of reforms has been quite limited, compared to the overall growth of the economy. This is confirmed by the trend of freight. For the five years 1990- 95, the total increase amounts to 27% versus GNP growth rate per annum above 10%. Even if we take a lower GDP growth rate (see statistics above) of around 8% per year, the gap remains significant. As in India and Pakistan, the growth of road transport is much higher than railways and waterway transport.

Total losses due to transport bottlenecks are not available. In 1992 for instance, Chinese losses due to lack of transport of coal amounted to 3.4 billion \$. We have been given instances whereby to obtain one wagon to carry consumer goods, one could wait a fortnight. When driving in advanced districts in Hunan and Hubei, because of the heavy traffic we could do no more than 30 km/h. The total number of vehicles has increased from 1.8 million in 1980 to 10.4 million in 1995.

In recent years, more investments have been allocated to transport. The new railway line Peking - Canton has just been opened. Four-lane expressways are appearing in Guangdong, between Peking and Shijiazhuang, the capital of Hebei, or in the hinterland of Shanghai and in Zejiang.

For 2000 the targets for cumulated railways and expressways are respectively 70,000 and 5,000 km. Highways should also expand and be improved.

In India, the capacity of the transport system has been deteriorating fast in relation to the acceleration of development since 1980. The railways are overburdened, so that goods transport faces enormous delays. Delhi - Bombay which normally should take two days can take ten or more. The average speed of freight goods trains is 22 km/h, as in the early 1970's. As in China, road transport has overtaken railway freight, covering over 60% of freight and 85% of passengers, going along poor maintenance of existing roads, lack of expressways, growing density of vehicles (5.3 million in 1981 versus 30.3 million in 1995)³. National highways which carry 40% of road traffic have risen only from 32 to 34,000 km between 1980 and 1995, while their maintenance is often as poor as for other roads of secondary importance. Four lanes roads cover 3,000 km only. Average speed of trucks on highways is around 28 km/h as in China.

Total losses due to delays, poor roads and damage to vehicles, overloading of trucks... could amount to 4 billion \$ per year (F.I.C.C.I. study, see *Business World*, 7-2-96). Unfortunately we have no data for China, but the losses must be equally high if not more.

The same weaknesses appear in the ports: fast rising traffic, inadequate facilities, obsolete equipment, not enough containers cargo, high costs, customs delays, "the average turn around time for ships is 4 to 10 days, sometimes more" (*Business World*, 7-2-96), when in Singapore it can fall to 6-8 hours. Losses for importers and exporters are estimated at 250 million \$ per year. "Ports are a link in

³ This includes two wheelers, much more numerous in India than in China. They represent about 2/3 of vehicles.

the entire logistic chain and its inefficiency can only be in relation to the efficiency of the related infrastructure facilities: access roads, rail, civil work.” (*The India Infrastructure Report*, op. cit., vol. III. p. 205).

The situation of Pakistan is also quite serious, although we lack as detailed studies as on India. There has been a growing expansion of road freight traffic, so that it absorbs 85% of the total freight in 1992. The aim is to gradually improve the rail-road ratio to 27: 73 beyond the Eighth Plan 1993-98. So far such hopes seem rather remote. Hardly any progress had been achieved in the first three years of the Plan, be it for the improvement of railways lines, rehabilitation and replacement of locomotives and wagons, due to shortfall of expenditures. Besides, as in India, the repartition of freight is heavily biased in favour of the limited network of national highways. Their 6,600 km bear 65% of freight goods.

The road programme has fared somewhat better. Several roads have improved. The main national highway Karachi-Lahore-Rawalpindi-Peshawar (1743 km) has already 715 km of four-lane track (including the expressway Karachi-Hyderabad) and work is in progress on other parts. Two new major highways Lahore-Sargodha-Rawalpindi and Karachi-Peshawar along the Indus are contemplated. Some work has started but shortage of funds remains acute, so that it is difficult to forecast when such works will be completed.

In spite of these efforts, traffic congestion on highways keeps on increasing. The total number of vehicles has risen fast since 1980: 1.1 million vehicles versus 3.5 million in 1994, out of which, as in India, the number of two wheels vehicles has increased faster than others: 615,000 in 1994.

New ports are under construction: Port Qasim near Karachi and Gwadar in Baluchistan. Here again the Eighth Plan is very much behind schedule, so that only 12% of the total funds planned could be spent in the first three years.

What about the future in the three countries? A reorientation of funds is needed since a one per cent increase in GDP requires a growth rate of 1.3% in freight to take into account the elasticity of demand, as observed in many countries. It is far from sure that within the next ten years such a sharp reorientation can take place.

The gigantic needs for funds

Although the following data represent a rough order of magnitude, they give us an idea of the gigantic needs in infrastructure.

For China, according to World Bank estimates (see among others *The Financial Times*, 19-3-96), total investments in infrastructure should range from 300 to 370 billions \$ for 1996-2000 and an extra 600 to 700 billion for 2001-2010. These include power, transport, and telecommunications⁴. For power only: 83 billion \$ for 1996-2000, 20% expected (?) from abroad (*China Daily*, 20-6-97).

⁴ ‘Although we have not covered this important sector, requirements are no less high than in the rest of infrastructure.

For India, according to the team of experts led by Rakesh Mohan, Director General of the National Council of Applied Economics, investments for power, roads, ports, telecommunication, urban infrastructures and industrial parks should amount to 115-130 billions \$ for 1996-2001, followed by 215 billion for 2001-2006 (*The Indian Infrastructure Report*, New Delhi, Ministry of Finance, 1996). It is surprising that railways have not been included in the Mohan report.

One can safely add several billion of dollars for the improvements, modernization and expansion of the system.

For Pakistan, we lack data, but figures proportionally to the size of the country and its resources are bound to be high also. For gas and oil only, which are major sources of power, investments for the next five years are estimated at 20 billion \$ (*Dawn*, 29-2-96).

Apparently none of the three countries is working on detailed estimates in the field of hydraulic works (irrigation, drainage, floods control) where, as seen above, the situation has become very serious. Such topics are overlooked or hardly raised.

It does not seem that the very large figures given above include maintenance and operations of power plants, T & D, roads, railway tracks, ports and of course hydraulic works. Even if, technically, one cannot always draw a line between investments and recurrent expenditures, there is no doubt about the very high amounts needed.

Finally, let us at least mention environment, hardly dealt with in this survey. Air and water pollution keep on rising. Deforestation and erosion are no less conspicuous. According to recent Chinese estimates, 54 billion \$ would be needed only to improve the situation between 1996 and 2000 (*People's Daily quoted in Economic Times*, 19-7-96).

All three governments are seeking foreign investments and loans. In India and Pakistan, electricity, roads, ports have been opened to the private sector. China is also trying to attract private foreign cooperation one way or the other. In Peking as in Delhi, one hears hopes to raise about 20% of the necessary funds from abroad. As we have seen, Pakistan has managed to raise its installed capacity by 3000 MW, mostly with foreign funds or joint ventures, and more private power stations are coming. Some similar projects are taking shape in India and China. But will foreign capital be enough to fill the gap left by insufficient local resources?

The World Bank Report, *Global Development Finance*, (Washington D.C., 1997) contains very significant data on the latest trends of international capital flows. Total private flows to developing countries have increased from 44.4 billion \$ in 1990 to 244 billion in 1996, including commercial bank loans (34), bonds (46), FDI (109), portfolio equity flows (46). 12 countries receive 72.5% of the total, out of which China comes first with 52 billion, i.e. FDI and others; Mexico 28, Brazil 15, Malaysia 16, Indonesia 18, Thailand 13, Argentina 11, India 8, followed by Russia 3.6, Turkey 4.7, Chile 4.6, Hungary 2.5. Others like Pakistan fall below 2 billion.

On the other hand, official development finance has fallen from its peak of 65 billion \$ in 1991 to 41 billion in 1996. The flows tend to be directed towards the poorest, least developed countries. An increasing part goes to emergencies, refugees, peace keeping... all tasks done at the cost of development aid. Such a trend is rightly deplored by the World Bank, because public aid can stimulate and complement private investments.

Private flows could increase further, but Asia is not alone in seeking foreign capital. Although in the West and in Japan one speaks much more of Asia than of Latin America, total net private capital flows have increased slightly faster to the latter than to the former (For FDI only, the increase in East Asia is however much faster). If prospects of rapid expansion of such flows seem uncertain with regard to Africa and the Middle East, one cannot exclude larger amounts towards the former communist countries of Europe and Central Asia, as well as to Latin America, which could reduce the share of Asia.

| Net private capital flows | | |
|----------------------------------|-------------|---------------|
| | 1990 | 1996 |
| | | (billion \$) |
| Latin America | 12.5 (8.1)* | 74.3 (25.9)* |
| South East and East Asia | 19.3 (10.2) | 108.9 (61.1) |
| South Asia | 2.2 (0.5) | 10.7 (2.6) |
| Europe and Central Asia ** | 9.5 (2.1) | 31.2 (15.0) |
| Middle East and North Africa | 0.6 | 6.9 (2.2) |
| Sub Saharan Africa | 0.3 | 11.8 (2.6)*** |

* FDI only. ** Refers to ex-communist countries. *** Mostly bank loans to South Africa.

Source: Global Development Finance, World Bank, 1997.

The World Bank underlines that foreign investors are more and more selective in their assessment of developing countries: "Countries with sound policies will have secure access to international markets. Conversely markets will respond swiftly to policy shortfalls." (Op. cit. p. 11-12). This partly explains why the small Malaysia is attracting 55% more capital flows than the whole of South Asia in 1996.

International markets are playing a role in financing infrastructure projects through various complex schemes, such as "a package bundling commercial loans, export credit guarantees, equity debt, and contingent liabilities of the host government" (World Bank, op. cit. p. 19). Such agreements may involve the participation of the World Bank or the Asian Development Bank with or without guarantees of the host government and/or of Western countries and Japan.

Total flows devoted to infrastructure in all Third World countries have risen from 2.6 billion \$ in 1990 to 23 billion in 1996. Even if such data do not include FDI, the amounts involved are small compared to the enormous needs, not only in Asia but also in Latin America and Africa.

While Pakistan has succeeded in attracting substantial flows of private capital to overcome its power shortage (with the new difficulties referred to), in India and China multinational corporations have been until now quite cautious and restrained, an attitude which may not change soon unless host countries push further their reforms in infrastructure.

The public sector

So much has been written on the shortcomings of the public sector or State Owned Enterprises (S.O.E.) that I will confine myself to a brief reminder. The most difficult case is China because of the larger share of S.O.E. in the economy compared to India and Pakistan, although it has fallen since 1980 from 80 to 35-40% of industrial output (India 30%). Since the very beginning of the reforms, the Chinese have tried to improve the efficiency of S.O.E. with limited success. Nearly one half of those enterprises are in the red with a cumulative indebtedness of 11 billion \$ in 1995. Yet, they keep on attracting the largest part of bank loans just to remain more or less alive. As to the latest reforms of 1996, one has still to see the results. The collective and private enterprises, as well as the joint ventures keep on growing much faster than the S.O.E. (see the excellent analysis of Fan Gang, a leading Chinese economist, "Dual track transition in China", *Economic Policy*, Dec. 1994).

India relies on a strong private sector but drastic reforms are lacking as far as the public sector is concerned. As to Pakistan, it conducted a large privatization programme. Even if the conditions may be open to criticism, the share of the public sector has at least been reduced, and more privatizations are contemplated.

The main common weaknesses are overstaffing, low return or losses, and reluctance for political reasons in China and India to push the reforms far enough.

The need for more public funds

After suffering for decades from leftist dogmas, today the danger comes from rightist dogmas, as if private capital was the panacea. Already questionable in the West, such dogmas are even more dangerous in developing countries.

It does make sense to privatize or close down loss making S.O.E. and to open infrastructure sectors to private enterprise but, even under the best hypothesis, enormous increases in public investment and recurrent expenditures are required to solve the present weak links and others like education, health, environment....

A first step would be to cut or reduce non-productive expenditures and various sources of waste. The problem is particularly acute in India where total subsidies have reached 27 billion \$ or 15% of GDP in 1996 (*Economic Times*, 1-1-97 and *India Today*, 30-4-97). For instance, proper maintenance of power plants enables them to have available 80% of their generating capacity instead of 60% as is so often the case in several countries (*World Development Report 1994*, World Bank).

Better fiscal policies, a curtailment of tax evasion so prominent in our three countries, reduction in defaulting loans, so conspicuous in Pakistan and in China for S.O.E., would increase government resources. Then comes corruption which seems

more widespread in China, India and Pakistan than in other Asian countries and elsewhere (*Transparency Report 1996*, quoted by Mahabub ul Haq, *Human Development in South Asia*, Karachi, Oxford University Press, 1997). Could it be reduced in the political set-up prevailing in the concerned countries?⁵ A curtailment of smuggling would be no less welcome.

To assess the magnitude of corruption, waste, leakages is beyond the scope of this study. We can only give here a few random figures which, even if approximate, are significant.

China:

- Dissipation of State assets, 12.5 billion \$, 1992.
- Smuggling, 30 billion \$, 1993.
- Tax evasion, 12 billion \$, up to 1993.
- Illegal electric connections, 804 million \$, 1993.
- Pilfering of State property (office material, petrol, tools, etc...) 8 billion, 1994.

Sources: *China Daily*, 3-5-94, *Shenzhou Daily*, 14-4-95. Fan Gang, op. cit.

India:

- Non recovery of telephone bill use, 571 million \$, 1995.
- Tax evasion, 30 billion per year.
- Unrecovered bank loans, 11 billion, 1996.
- Capital flight through over-or under-invoicing of imports and exports to USA alone 4 billion.

Sources: *The Hindu*, 13-2-97, *Times of India*, 30-1-97.

Pakistan:

- Smuggling, 3 billion \$ per year.
- Tax evasion, 3 billion \$ per year.
- Losses due to corruption, 2.5 to 5 billion \$ per year.
- Default loans, 3 billion.

Sources: *Dawn*, 29-8-96, 10-10-96 (most estimates are given by Mahabub ul Haq).

To recover wasted or lost resources is not enough. While savings and investments rates are around 30% of GDP or more in China and the other East Asian countries, in India the investment rate amounts to about 25% of GDP and in Pakistan below 20, but the latter may be underestimated.

Could new reforms lead to additional public resources and to a larger mobilization of private savings?

China enjoys booming foreign trade and a fast growth rate, but these advantages compared to India and Pakistan are mitigated by a weak financial system,

⁵ When looking at the progress of corruption in advanced countries, a Westerner is not qualified to pass moral judgements on good or bad governance as is so often done by donor countries to the Third World. What matters is that corruption and all kinds of leakages are more damaging to the economies and Societies of the countries under review than it is in USA, France or Switzerland.

which had to be built from nearly zero. At the same time, a legal framework is being gradually introduced. Since 1995, the situation has improved with the fall of inflation (6% in 1996), and reduction of the overheating of the economy. Yet the financial system remains fragile. The decentralization of the economy has been one of the engines of growth but it has also led to shortcomings: duplications of projects, too many new schemes going against economies of scale, extravagant expenditures by local authorities, lack of rigour in credit allocations.

India relies on a stronger financial system, although considerable improvements are needed. The legal system is also more firmly rooted than in China. On the other hand, parliamentary democracy reduces the margin of manoeuvre for raising resources or cutting losses. Sheer demagoguery has resulted in quasi-free electricity for farmers in several States, and dubious links between politicians and public sector enterprises starting with State Electricity Boards.

As mentioned above, Pakistan is facing a particularly acute financial crisis. The thorough overhauling of the banking and taxation systems has become a prerequisite of further fast economic growth. Now, powerful vested interests have so far created all kinds of obstacles to changes. This situation has not improved with the advent of democracy....

To sum up, one could argue endlessly on economic measures or devices to apply. But the decisive factor is political, be it in China, India or Pakistan.

Conclusion

The deterioration of infrastructures is like a creeping disease. It will not bring growth to a halt but, within the next ten years or more, there is a real danger that the pace of progress could slow down in all three countries and in others facing similar weaknesses, as for instance Vietnam.

It is far from sure that the globalization will help in a decisive manner to improve the situation of infrastructure, since foreign investors do not seem much interested by these types of projects.

If shortages of electricity and transport are better perceived now in Peking, New Delhi and Islamabad, agriculture and hydraulic works do not attract the necessary attention of the ruling elites. One of the best Indian experts, B.N. Nawalawala, Adviser to the Planning Commission was telling us in Feb. 1997: <<If we do not take radical steps to improve our hydraulic systems, we will be in very serious trouble in ten years time>>, a statement equally valid for China and Pakistan.

As far as environment protection is concerned, the awareness of governments and of public opinion is rising but where to find the public and private funds needed and how to implement in a strict manner anti-pollution regulations?

One has to revert to the decentralization of the economy in Chinese provinces and Indian States. In the former, the gap between progressive and slow moving areas is partly changing with more provinces accelerating their pace of development. In India, a large part of the Hindi belt and the Eastern plains remain sluggish, as are

isolated parts of the Deccan. However, as Dr. Ashok Desai mentioned to us in a conversation (Feb. 1997), one cannot exclude faster changes whereby pull and push effects coming from more reform-minded States would have a positive impact on other States, as well as a demonstration effect. The same hypothesis is put forward in the Indian *survey of The Economist* (22-2-97), which writes about “reform minded State governments which could be pioneers for liberalization”.

Such trends, if gaining strength, could help to reduce the present weaknesses, but it is doubtful that they could eradicate them.

We must end with politics. As it has been well stressed by P. Chidambaram, the Indian Finance Minister, (see *Business India*, 19-5-97), only rather strong governments (not necessarily dictatorial), relying on large currents of public opinion, could introduce further macro-economic reforms in favour of infrastructure and for the overall improvement of the economy. Can one hope to see such political conditions being attained in China, India and Pakistan in the near future? It is difficult to reply in the case of China. For India, this is far from sure, when looking at the uncertain political situation, which is not likely to change much in the coming years. As for Pakistan, in spite of the massive victory of Nawaz Sharif, it remains to be seen how he will be able to push forward the reforms, particularly in the financial field. For these reasons, one cannot exclude the possibility of slower growth, which would at the same time slow down the alleviation of poverty, a so crucial goal, especially in South Asia.

This conclusion goes against views frequently heard about the prospect of China becoming within twenty years an economic giant, with India and Pakistan soon joining the Dragons and Tigers' Club.

Even if the pace of growth slows down, for Western countries and Japan, they remain partners of enormous interest. Their demand for imports and joint ventures, the possibilities of considerable exports, all would remain at a high level, even with a more moderate growth. The big question for foreign companies is to assess carefully what can be done at this stage and on which scale. Seeing the troubles or disappointments of several multinationals in China and South Asia, it seems that such assessments could be improved.