Introduction

WHY CHINA AND INDIA?

There are several important reasons why we need to study China and India. To begin with, China and India are the world’s most populous countries. The Chinese population ranks number 1 and the Indian population ranks number 2 in the world. The combined population of China and India make up almost 40 per cent of humanity. Second, both economies are among the largest in the world. Chinese gross domestic product (GDP), adjusted for purchasing power parity, ranked number 2 after the USA since 1999, whereas Indian GDP, adjusted for purchasing power parity, ranked number 4 after Japan. The combined real GDP of both countries accounted for more than one-quarter of world gross output. Third, over the last two decades both countries have experienced an accelerated rate of economic growth. The Chinese rate increased from between 5 to 6 per cent during 1949–78 to about 10 per cent during 1980–2004, whereas the Indian rate also jumped from about 3 per cent a year during 1950–79 to between 5 to 6 per cent a year during 1980–2004. If both countries could sustain their present rate of growth in the future, they are likely to overtake other large economies in the world in the 21st century. In fact, according to the World Bank’s calculation, China is poised to overtake the USA and become the world’s largest economy in 2020.

Finally, and not least, there are many similarities between the two countries in their development patterns. Both have an ancient and prestigious cultural heritage; both suffered from European domination and humiliation prior to their modernization drive; and both initiated their modernization drive more or less at the same time, namely in the early 1950s. The initial conditions of both countries were similar with low income per capita, and an economy based on agriculture using traditional technology and facing severe land resource constraint. Both are under the influence of the Soviet model and initially pursued similar development strategies; namely, central planning and rapid industrialization. Later on, both deviated from the Soviet model and adjusted their development strategy to suit their unique resource conditions by giving more emphasis to agricultural development and the adoption of traditional technology as well as the development of small and medium-scale enterprises. Of late, after years of
frustration with the ineffectiveness of the Soviet model, both have embraced economic reform and liberalization – China in the late 1970s and India in the early 1990s. Yet after almost half a century of development, the results of the two countries’ modernization drive are strikingly different.

As mentioned earlier, the rate of growth of pre-reform China was around 5 to 6 per cent; whereas that of pre-reform India was only 3 per cent a year. After the reform, the gap between the two countries’ rates of growth widened with China’s rate twice as high as that of India. The upshot is that while China and India started with more or less similar per capita income in the early 1950s, by 2002 the real GDP per capita adjusted for purchasing power parity of China was almost 72 per cent higher than that of India. China outperforms India not only in terms of economic development but also social development. In terms of the United Nation’s human development index, China is years ahead of India. Though India lags behind China in terms of social and economic development, it is well ahead of China in terms of political development. So what went wrong with India? Why has China been able to perform better?

The answer to these questions is crucial to other developing countries with similar conditions to those of China and India, as these countries can learn a lot from their experiences. This book is an attempt to do just that.

There have been quite a few comparative studies of China and India in the past (see for examples, Bardharn 1969; Bhalla 1992, 1998; Dreze and Sen 1989; Eckhaus 1995; Garnaut 1996; Lal 1995; Malenbaum 1959, 1982; Rosen 1992; Sen 1995; Srinivasan et al. 1993; Swamy 1973, 1989; Weisskopf 1980), but most of them were undertaken more than ten years ago. Hence their findings were somewhat dated. Moreover, they were mainly carried out by an Indian specialist who was severely handicapped by a dearth of statistics on China due to the statistical blackout in China during this period. In recent years, an increased amount of statistical data has been released by both countries’ governments as well as international agencies. But unfortunately there have been few studies to take advantage of the increased information available. Most of the recent studies are undertaken piecemeal as they focus either on certain features or certain epochs of China and India’s development process. The book aims to fill in this important gap.

This book differs from others in several respects. First, this book presents a comprehensive comparison of the development experiences of China and India. This book covers not only economic but also social, political and environmental aspects of China and India’s development. Second, it is policy orientated. This book attempts to draw specific policy conclusions, which are useful for China and India as well as other developing countries to solve their current development problems. Third, to enhance the objectivity of the study, quantitative analysis is used as extensively as possible in this book.
THE STRUCTURE OF THE BOOK

Chapter 1 compares the initial conditions and the development strategies of the two countries. It begins by comparing the most important initial resources for development in the two countries – human resources, energy and transport, and communication networks – and then the goals and objectives of development and the evolution of the development strategy in the two countries since the early 1950s are reviewed.

Chapter 2 examines the institutions for control and allocation of resources in both countries to implement their alternative development strategies. It contrasts the ownership system between the two countries and the relative role of central planning and market mechanism between the two countries during both the pre- and post-reform era.

Chapter 3 looks at agriculture. Rapid growth in agricultural output is a prerequisite for modern economic growth in large countries like China and India. This chapter analyses the role of agriculture in development in both countries, and compares and evaluates the agricultural development policies adopted by both countries.

Chapter 4 focuses on industrial and technology policy. Modern economic growth is achieved through industrialization and technological progress. This chapter examines in detail the industrial policy undertaken by both countries. It compares their policy objectives and tools as well as their effectiveness.

Chapter 5 considers the foreign sectors of the two economies. Modern economic growth is accompanied by increased internationalization of the economy. This chapter compares the role of foreign trade and capital in both countries’ development, and assesses the foreign trade and investment policies adopted by both countries.

Chapter 6 considers the growth of capital stock in both countries. Modern economic growth is achieved not only through rapid structural change but also through rapid increase of strategic production factors, especially capital. This chapter examines how investment was financed and how surplus was extracted from the agricultural sector to finance the industrialization. It also looks at the rate of investment and investment efficiency in both countries.

Chapter 7 considers labour resources in both countries. Modern economic growth in countries like China and India is not constrained by worker shortage but by overpopulation and surplus labour. This chapter contrasts the policies undertaken by both governments to solve these problems and their relative effectiveness.

Chapters 8–11 consider the social and political development strategies as well as the environmental policy of the two countries, and evaluate the
results of half a decade of developments in both countries in terms of such criteria as growth, equity, standard of living, women’s empowerment, democratization and environment degradation.

The final chapter reviews the earlier comparisons between the two Asian giants and summarizes the major findings of the study. It also attempts to answer the question of (a) whether India would be able to catch up with China in the growth race; and (b) what policy reforms India needs to introduce in order to narrow its growth gap with China.