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COUNTING FOOTPRINTS – GROWTH OF INDIA AND CHINA

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ABSTRACT

This article aims to analyse comparative strength of one element viz. Political Environment against various other environmental factors that affect the growth of a country. A country's prosperity measurement depends on various environmental factors like Economic, Political, Social, Legal, Technological, Natural etc, but, if we analyse that, which of these factors has more affect on it's growth, it is tough to answer, or the answer may be that 'it varies from country to country'. Here, two countries, India and China, have been selected for study because these two countries share similarity in various environmental factors and basic conditions other than political ideology. The study has been confined to three criteria, namely Condition of Economy at the time of Independence; Political Ideology; and Economic Policies. The study revealed that leadership takes the country to its growth path, and leadership affects other environmental factor also.

KEYWORDS: Economic Environment, Growth, ,Ideology , Leadership, Revolution,

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INTRODUCTION

India gained independence in 1947 and People's Republic of China was formed in1949. Both have different political ideologies with one thing in common, which is the state dominance in economic affairs. Both of the nations adopted liberalization around same time India (1980), China (1978).

Today, both are among the fastest growing economies of the world, but still present different growth status. On the one hand, China has already realized the dream of becoming the strongest emerging economy while India is on this path with a good pace. In many aspects China is far ahead of India, while in few aspect, India has upper hand. Here, we will discuss possible reasons and factors for present economic scenario of India and China.

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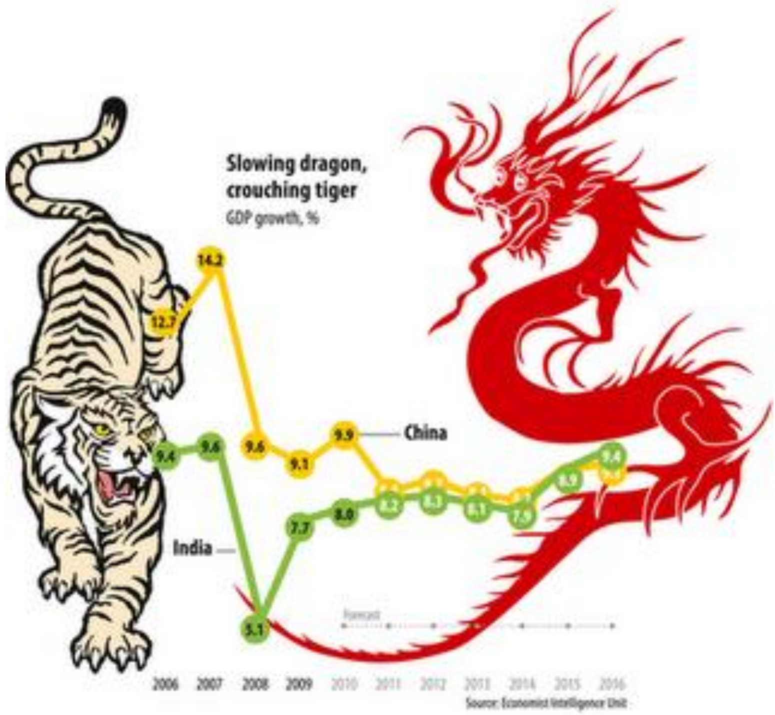


(Picture showing growth projection of India and China)

The above picture (as per prediction made in 2009), shows that by 2011 China's growth rate will be more than India but after that India may go ahead. But the table below shows some different picture all together. It shows that in year 2010 -2011 China is far ahead of India, which is not easy to compete.

India China comparison		
	India	China
Rank	9th (nominal), 4th (PPP)	2nd(nominal), 2nd (PPP)
Trade Organisations	WTO,SAFTA,G-20 and others	WTO, APEC,G-20 and others
GDP	$1.632 trillion (nominal: 9th; 2010), $4.057 trillion(PPP: 4th; 2010)	$5.883 trillion (nominal: 2nd; 2010), $10.1 trillion(PPP: 2nd; 2010)
GDP per capita	$1,371 (nominal: 138th; 2010), $3,408(PPP: 129th; 2010)	$4,382 (nominal: 91st; 2010), $7,544(PPP: 94th; 2010)
Average Gross Salary	$1,371 yearly(2010)	$4,260 yearly(2010)
Ease of Doing Business Rank	132nd (2011)	91st
Exports	$225.6 billion (2010 est.)	US$1.581 trillion (2010)
Imports	$357.7 billion (2010 est.)	US$1.327 trillion (2010)
FDI stock	$35.6 billion (2009–10)	$100 billion (2010)
Gross external debt	$238 billion (31 Dec. 2010 est.)	$406.6 billion (22nd; 2010)
Credit rating	BBB- (Domestic). BBB- (Foreign), BBB+ (T&C Assessment: Outlook: Stable (Standard & Poor's)	AA- (Domestic), AA- (Foreign), AA- (T&C Assessment), (Standard & Poor's)
Foreign reserves	$319 billion (July 2011)	3.20 trillion (1st; 2011)

(Source: - Wikipedia as on 1 -1 -2012 Main data source: CIA World Fact Book)

[Table above shows that, in 2010, various economic indicators were comparatively better for China than India.]

The above given two different scenario pose a dilemma about the growth of these two countries. The data given in the table is a fact, so it is more authentic than the projections of the diagram. Our analysis in this article is an attempt to solve this dilemma.

Objectives

The following objectives are to analyse for this study: -

- Does the intensity of all factors that affect growth, varies?
- Is there any factor which affects growth more as compared to other factors?
- Role of leadership in economic growth.
- Economic growth history of India and China.

Hypothesis

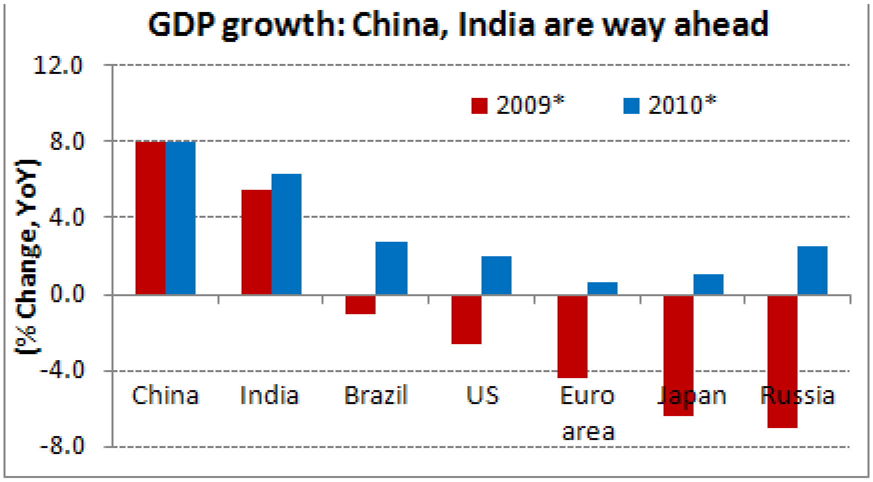
As we can see that in this global recessionary scenario only few countries are able to maintain a good growth rate and India and China are among them. But China's growth and development is certainly better than India. Here question arises that what are the factors that are contributing towards it and where India lacks. It is the general observation that leadership of a country takes it to the highest of achievements. Leadership has a greater role than all other factors. Hypothesis below is based on the same idea.

Alternative Hypothesis H_1: - Better growth of a Nation can be attributed more to the Political Ideology than other factors.

Null Hypothesis H_0: - Better growth of a Nation can not be attributed more to the Political Ideology than other factors.

(Source: IMF, Figure showing GDP growth trend of India and China, 1974 to 2006.)

The figure above shows that between 1974 & 2006, India and China, both, augmented their GDP growth rate. But India's graph mostly remained beneath that of China's graph.



(GDP growth of different countries in 2009 and 2010)

Figure shows that in 2009 -2010, GDP growth of India and China was way ahead than that of other developed and developing countries like US, Euro zone, Japan, Russia and Brazil.

Analysis and Discussion

We are starting the discussion covering some of those environmental factors which mostly affect the economic growth. These factors are very close to economic aspect while other factors like social & legal factors have been left. But it doesn't mean that social or legal factor's do not affect economic performance. We have tried to keep the discussion strictly with in the mainstream of economics.

We will confine our discussion to following points.

- Condition of Economy at the time of Independence
- Political Ideology
- Economic Policies

Condition of Indian Economy at the time of Independence: - In 1947, when India got her freedom from British rule, Economic condition here was pathetic. Britishers left this country as an absolutely instable, weak & deprived economy totally dependent on England for selling product, Foreign Currency, even for eatables. Starting from food, condition of farmers, status of land, Industries, Infrastructure, Development and Foreign Trade, economic position of India was very bad on all the fronts India could not even fulfill its basic needs.

Even after being agriculture dominate region, it was not growing enough eatables to provide for its own people. The condition of farmers was very weak financially and economically. They did not had their own land holding, or many had very small land holding. The equipments they were using for agriculture were old fashioned, even the condition of livestock was not good. The crops they grew, like jute, tea, cotton etc. were mainly to provide cheap raw material to industries of England and finished goods produced there were sold in India at higher prices. Industrial production system, as developed in European factories, was unknown to India until the 1850s and British cotton export reach 55% of the Indian market by 1875.

At the time of independence Indian economy had many structural problems, and adding to these problems unexpected events like partition resulted in 2 to 4 million refugees fleeing past each other across the new borders between India and Pakistan. The settlement of these refugees was a considerable financial strain. Partition also divided India into complementary economic zones. Under the British rule, jute and cotton were grown in the eastern part of Bengal, the area that later became East Pakistan (after Bangladesh,1971), but the processing units were mostly located in the western part of Bengal, which became the Indian state of West Bengal in 1947. As a result, after independence, India had to employ land, previously used for food production, to cultivate cotton and jute for its mills. India was a flourishing village economy till 17th century, but 200 years of colonial rule after that exploited India of its much valued economic prosperity & independence.

Condition of Chinese Economy at the time of formation of Peoples Republic of China : - In 1949, after the Chinese Civil War, and at the time of formation of Peoples Republic of China, the condition of Chinese economy was quite well, as compared to India. China had good number of industries particularly related to military equipments; It also had very good presence in foreign market with good exports.

After Qing dynasty (1911), despite turmoil in Chinese politics, domestic industries developed rapidly. During First World War, demand of Chinese goods increased and the development of industries was at its peak:

Table showing machine in Chinese textile industry between 1913 – 1918.

	In 1913	In 1918
No. of needle machine in Chinese Textile industry	482,192	647,570
No. of Bread Factories	57	131

(Table showing example of development in industries during First World War)

Similarly Chinese industries also benefited and developed with decrease in imports during 'Europe Total War' and 'The May 4th movement', when Chinese students called their countrymen to boycott foreign goods. This resulted in flourishing indigenous industry.

China got a shock after the fall of Qing dynasty in 1911 but in the period 1927 - 1937 (Nanjing decade), some industries thrived specially related to military. And after that, china engaged herself in war one after one first with Japan during World War – II and third China's Civil War. In 1949, Chinese economy was suffering from the debilitating effects of decades of warfare. Several mines and factories had been damaged or destroyed. Transportation, communication, and power systems had been destroyed or had deteriorated because of the lack of maintenance. Agriculture was disrupted and china was facing one of the most virulent inflations in world history.

Political Ideology (India):- "Socialist Economy" was the slogan for growth in India, just after independence when Pt.Jawahar Lal Nehru was the prime minister of India. Government opted to play the lead role in economic affairs of state and private sector was allocated its own segments to operate, as described in the Schedule released for Classification of Industrial Distribution in 1948 and 1956.

The idea behind opting slogan ‘Socialist Economy’ or ‘Socialist Pattern of Society’ was to work for the benefit of masses, poor people or public at large in order to maximize the benefit to the nation.

The initial Governments ran the nation leniently in a manner that provided conducive platform for corruption, non-performance, inefficiency and losses to flourish. As a result, in 1980, after a review of economy, the status revealed was a trembling economy. Politician realized that drastic improvement was needed, yet half hearted efforts were carried out to deal with the situation. As a result, in 1991, we were forced to take emergency measures to avoid bankruptcy of the nation.

Since the beginning politicians like Pt.Jawahar Lal Nehru, Indira Gandhi, Rajeev Gandhi’s own ideology towards economic improvement, did not show ‘Do or Die’ mindset. In India, we had had ‘Green Revolution’ Telecom Revolution of India, ‘Operation flood’ or ‘White Revolution of India’ which strengthened our economy, but non-govt. people were behind it like M.S. Swaminathan for Green Revolution, Sam Pitroda for Telecom revolution and Varghese Kurien for White revolution of India. These movements were also adopted at the verge of crisis.

Politicians had very casual attitude towards economic development of India as compared to other developed countries, like America, where economic prosperity is a major issue in politics.

In recent years during the tenure of Dr. Manmohan Singh as Prime Minister, we saw the implementation of FRBM Act. (Fiscal Responsibility and Budgetary Management Act), which was introduced to bring down the budget deficit within tolerable limits and a deadline was also set for it. But every time the deadline was extended the govt. kept on taking loans. As far as the usefulness of these loan is considered, this loan immolate to poor implementation of socio-economic policies like MGNREGA. Schemes like MGNREGA are quite huge and require hefty resources allocation (1% of GDP as per planning commission estimates) and administrative time and efforts.

Since last one decade or so, India is being ruled by a coalition govt. of various political parties and the situation is same in opposition as well. This makes the existing situation more complex. If some minister wants to implement some good policies, he is stuck in an political impasse, which obstructs the growth. Moreover, on the positive note some policies which are not so good also could not go through.

These alliances are made for gaining political benefits generally, so they don’t have common ideology as such. In absence of this, many a times they lack consensus over many issues. These parties want to be in power, they leave the ‘Apple of Discord’. (We may attribute it to alliance ideology but it does not have much affinity always.)

Alliance of political parties in India is some what of opportunist type at some places. They are in alliance, more for their own benefits rather than serving the nation. On one hand it leads to corruption by political parties as we have seen in case of 2G Scam, on the other hand nation’s benefits are sacrificed.

One more aspect of alliance parties is that they may change the alliance for their own sake. There are many regional parties that keep shifting their alliance and negotiate their support for large sum of money. This amount, on one hand is borne by people of country in many multiple figures, on the other hand, it starts one more regime of corruption in society. Eventually economy of the nation suffers partially or wholly.

Many beneficial policies are lying in cold bag waiting to be worked upon, like ‘Linking of the Rivers’ that was meant for providing water for irrigation, ‘Wind and Solar energy projects’ for generation of electricity, etc.

Political Ideology (China): - (Here by china we mean ‘People’s Republic of China’)

Political Ideology and its effect on economic growth can be vividly seen in china’s economic history. As it has been a totalitarian political system, policies once planned are implemented fully without much hindrance. Since 1949, China has been ruled by ‘Communist Party of China (CPC)’, in leadership of ‘Mao-Ze-Dong’ who ruled till his death in 1976. Mao led the entire nation with his own ideology (Commonly referred as Maoism). After the ‘Long March’, Mao-Ze-Dong emerged as undisputed national leader who could not be opposed easily. Since it is a communist country, policy formulation is one sided affair of ruling party once the policy is formulated it is implemented with a ‘Do or Die’ spirit and delivers it’s maximum effect whether positive or negative.

At the initial stage Mao-Ze-Dong followed the growth pattern of Russia (erstwhile USSR) for growth of China. China started with larger role of state in economic affairs. But this role was not always positive in the adversely character as far as with social perspective is concerned. Several times, it played a negative role affecting masses can be quoted as example. ‘The Great Leap Forward’ and ‘Great Proletarian Cultural Revolution’.

In Communist ideology benefit of the masses is taken care in such a manner that capitalist outlook is completely sidelined. But ideology of Mao was in many ways way ahead of this. His thought process did not look for consensus with other people for any socio- economic issue nor did he bothered for response from general public. What he thought right was the only way and once he decided what he thought right, it forcibly implemented.

The ideology of Deng Xiaoping led China on a phenomenal growth trajectory as can be easily seen in China’s economic history. For the growth of nation, he followed all the possible paths including sending experts to different capitalist countries, to learn the different growth fundamentals, and entertaining China’s long time rival Japan as associate in mutual growth.

Deng Xiaoping followed the theory of ‘Four Modernization’ given by Zhou Enlai, which emphasized on development in the field of Agriculture, Industry, National Defense and Science and Technology and stressed on economic self reliance. And by following these policies China started export led growth.

Ziang Zemin also continued the growth path when he announced ‘Three Represents’ that is “Economic Production”, “Cultural Development”and “Political Consensus”. By this, government came closer to people at large.

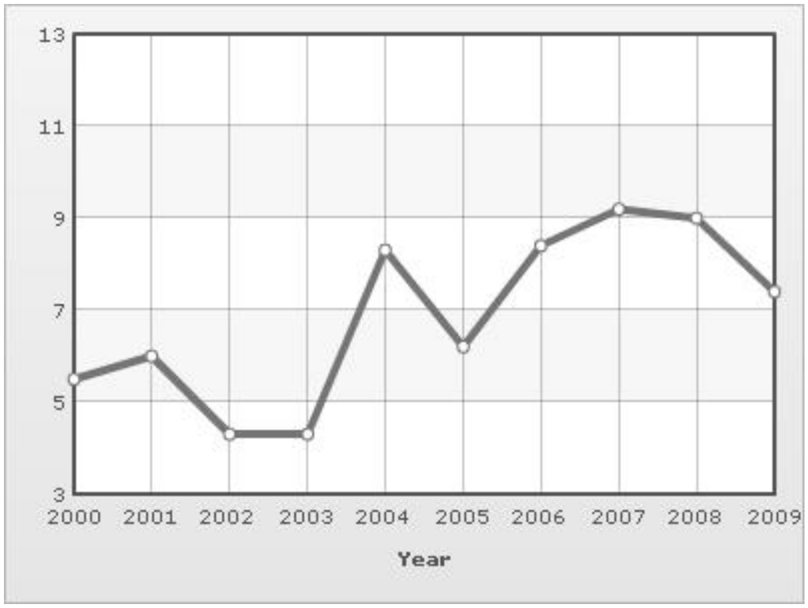
After Ziang Zemin , Hu Jintao gave the "Scientific Development Concept". This was indeed the need of the hour for growth in China. The ideology stands on the basic premise that it is possible for the government to "design" sustainable development through tested and proven methodologies of governance. Such a scientific approach is said to minimize conflict amongst different interest groups in society in order to maintain stability on the national level, in turn fostering economic and cultural advancement. Hence it is obvious that political ideology in china towards economic development has been very good hitherto.

Economic Policies (India): -

In India number of economic policies were announced time to time for economic growth,

comprising policies alike adoption of Planning, making Capital Industry as growth engine, New Agriculture Policy(with Green Revolution), Nationalisation of Banks, Prime Minister 20 Point Program to eradicate poverty, Emphasis on Small Scale Industry, reform in 1991, MNREGA, budget deficit and devaluation.

A glance over the analysis of these policies shows that 'Planning in India (1951)' initiated with high morale and great ambition, and it gave results also, but after third plan period (1961-66) it lost its edge, and by 11th plan period it almost lost its relevance. India planned a lot, but ended up with worse conditions. At the end of every plan period economy of India experienced more debt burden, increased poverty & unemployment, and greater corruption scams in the name of development. In 1956, India opted for capital industry as growth engine for economy and later it got double bounce back, first we laged behind in consumer industry as we see a large share of consumer goods market is owned by foreign companies like HUL, P&G, Colgate – Palmolive, & others. Secondly among capital goods industry established by India many became loss making units, which were either sold out or disinvested at cheaper prices. Green Revolution proved its worth in its first avatar but now people are talking about the need of another green revolution, while the ground reality is that agriculture is suffering from poor monsoon, debt burden, colonization on agriculture land and deforestation for infrastructure & other reasons. Similarly, even after 40 years of nationalization of banks, many villages are deprived of banking facilities. This may be attributed to complex banking formalities or non availability of banks at all. 20 Point Prime Minister Program was initiated to eradicate poverty and since last 35 years this program is running, but India still has got largest no. of people living below poverty line in the world. Emphasis on small scale industry was made in Industrial Policy 1977 to enhance employment. Initially 500, & later 800 items, were reserved for small scale industries, but now the figure is less than 25 items reserved for small scale, and even in this list demand for many items is decreasing day by day due to the higher living standards or advanced technology or availability of other substitutes. Globalisation and Libralisation Reforms, in1991 were not initiated as part of a strategy or in a planned manner, but actually it was the compulsion of economic weakness & adverse environmental conditions. MNREGA is infamous for wastage of public money and a thoroughly poor policy vested with corruption. Like wise many policies were announced and implemented which are now resulting in poor returns.



(Figure showing GDP growth of India 2000 to 2009)

Since 1950, India ran into trade deficits that increased in magnitude in the 1960s. The Government of India opted to live out of means, so had a budget deficit problem and therefore could not borrow money from abroad. As a result, the government issued bonds to the RBI, which increased the money supply, leading to inflation in economy. In 1966, foreign aid, which was hitherto a key factor in preventing devaluation of the Indian rupee was finally cut off and India was told it had to liberalise its restrictions on trade before foreign aid would again materialise. The response was the politically unpopular step of devaluation accompanied by liberalisation. The Indo-Pakistan War of 1965 led the US and other countries to shows friendship towards Pakistan and to withdraw foreign aid to India, which further necessitated devaluation. Defense spending in 1965/1966 was 24.06% of total expenditure, the highest in the period from 1965 to 1989. This, accompanied by the drought of 1965/1966, led to a severe devaluation of the rupee. Current GDP per capita grew 33% in the Sixties reaching a peak growth of 142% in the Seventies, decelerating sharply back to 41% in the Eighties and 20% in the Nineties.

Economic Policies (China): - Economic policies in China can be classified in two phases; one is, the time of Mao-Ze-Dong ,second after Mao or at the time of Deng Xiaoping, Ziang Zemin and Hu Zintao. Policies at the time of Mao had a touch of Maoism a blend of Communism & Dictatorship. He was actually against Market Economy System. On the other end Deng Xiaoping who was supporter of market economy brought comprehensive change in national policies of china.

One of the regimes carried out by Mao was “Collectivisation of Land” in which private agriculture landholding were brought under collective farming. It could be considered as a good policy because larger lands could grow more crops comparatively, but it should have been done after taking general public in confidence, which was actually not the case.

China also started on its growth path by adoption of planning in 1953. Following the growth track of Russia, larger role of state in economic affairs become the main policy. As it was implemented under Mao Ze Dong, who followed communism very harshly, by1956, approximately 67.5% of all modern industrial enterprises were state owned and rest were in pubic – private joint venture. No private enterprises were left that time. Similarly, as in Soviet economy, main emphasis was on industries at the expense of agriculture, China also gave emphasis to industries and ignored agriculture, which later leads to 'Great Leap Forward' and deaths of millions of people due to starvation.

(China's nominal GDP trend from 1952 to 2005.)

The banking system was nationalized and centralized under the People's Bank of China. To bring inflation under control by 1951, privately owned enterprises were gradually brought under government control. Adopted on the Soviet economic model based on state ownership in the modern sector, large collective units in agriculture, and centralized economic planning, several entire plants and pieces of equipment were purchased from the Soviet Union. Key industries, including iron and steel, manufacturing, coal mining, cement production, electricity generation, and machine building were greatly expanded and were put on a firm, modern technological footing.

In 1957 the government adopted measures to shift a great deal of the authority for economic decision making to the provincial-level; county, and local administration. Leadership adopted an approach that relied on spontaneous heroic efforts by the entire population to produce a dramatic "great leap" in production for all sectors of the economy at once. Rural labor also was to be employed to support the industrial sector by setting up thousands of small-scale, low-technology, "backyard" industrial projects in farm units. The result of the Great Leap Forward was a severe economic crisis and, the government sharply revised its existing policies and introduced a set of economic policies to replace those of the Great Leap Forward.

The Cultural Revolution was set in motion by Mao Zedong in 1966. Agricultural production led to stagnation the political activity of students and workers in the mines and factories,decline in industrial production between 1967 to 1969, shortage of highly educated personnel caused by the closing of the universities. China's ability to develop new technology and absorb imported technology would be limited for years by the resulting hiatus in higher education.

This condition reversed , and balanced development was set in motion under the leadership of Premier Zhou Enlai Universities began to reopen, and foreign contacts were expanded.

Deng Xiaoping—further strengthened the modernization program espoused by Zhou Enlai in 1975. They also set forth a battery of new policies for the purpose of accomplishing the Four Modernizations, strengthened the authority of managers and economic decision makers at the expense of party officials

The Asian financial crisis affected China marginally; China had huge reserves, a currency that was not freely convertible, and capital inflows that consisted overwhelmingly of long-term investment. For these reasons it remained largely insulated from the regional crisis and its commitment not to devalue had been a major stabilizing factor for the region

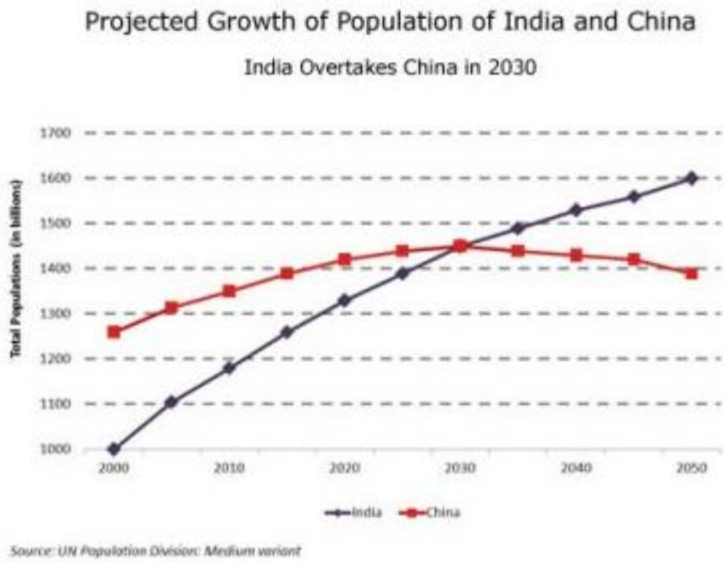
Chinese legislators unveiled several proposed amendments to the state constitution. One of the most significant was a proposal to provide protection for private property rights

The Fifth Plenum in October 2005 approved the 11th Five-Year Economic Program (2006–2010) aimed at building a "harmonious society" through more balanced wealth distribution and improved education, medical care, and social security

China launched its Economic Stimulus Plan to specifically deal with the Global financial crisis of 2008–2009. It has primarily focused on increasing affordable housing, easing credit restrictions for mortgage and SMEs, lower taxes such as those on real estate sales and commodities, pumping more public investment into infrastructure development.

Other Factors

If we talk of other factors like global factors or natural factors both the countries have almost same environmental conditions, like both countries have faced few wars, India joined WTO before China, both have large FDI, both countries have large population and



(Source: UN Population Division, Figure showing – Projected Growth of Population of India and China for 2030)

[Figure above showing that by 2030 population of India may over shoot population of china]

cheap labour force, both have suffered Draughts, Famines etc. Both have large land acquisition with diverse natural conditions, strong military positioning, advanced Science and Research & Development status. Both have rich culture and developed social systems China has strict law and order conditions and Indians also have also suffered from Emergency.

Findings

The findings of above analysis are very fruitful and can be used in other cases also. Here we find that:

- It is obvious that among various environmental factors the intensity to affect a nation's growth, varies significantly.
- India and China have similarity in many of the environmental factors. But China's economic growth status is much advanced than India and growth potential is much stronger too.
- The reason for this clearly comes out to be the leadership of the nation. Hence leadership is the factor which affects maximum growth.

Conclusion

The above study concludes that among various environmental factors, like social, economic, political, global, natural etc, the political factor affects the growth maximum of a country especially its political ideology.

Hence we reject the null hypothesis and can say that Political Factor is the most influential factor among various environmental factors

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