

China and India: A tale of two economies by Dilip K. Das
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While recent debate headlines the growing importance of China and India, the author's timely presentation of the book widely covers the issues relating to their economic growth and political economy. While China's sustained sky-scraping growth, huge capital inflows and tremendous trade surplus called for many debates, the recent achievement of India's high growth along with persistent services sector performance attracted the attention of the world. The book highlights how the two economies emerged as important for the world economy and discusses about their historic prosperity, economic turmoil and their transitional shifts. Going one step ahead, the author has said that while the present wave of globalization is being initiated and led by the United States economy, the current economic restructuring is being led by China and India.

The book is divided into five chapters. The first chapter introduces the book providing different historical facts, statistical evidences and economic analysis in some what a stark manner. The chapter specifically, provides a comparative analysis of the two economies with a special reference to their world economic integration and their importance in it. The next chapter deals with the differences which the two economies have in their growth paths, economic trajectories and political systems. The question of why the Indian economy lags behind the Chinese economy is answered in this chapter. Chapter three examines the issues of China's success in achieving high growth rates. A detailed analysis of China's export performance, saving-investment miracle along with massive foreign capital inflows and its regional importance are presented in this chapter. The Fiscal-cum-Balance of Payments crisis, the rationale for reform implementation and its success and global integration of the Indian economy are the main focus of chapter four. It also covers the impressive achievements of the Indian economy on the ICT front, R&D, pharmaceuticals and the recognition of its business communities in the world. The final chapter looks at the issues of

bilateral interaction of these two economies and their cooperation with each other.

Chapter one “Comparing the comparables” gives a comparative picture about the history, geography, political and economic emergence of China and India. Both the economies which were noted for their prowess and prosperity in history, were later known as poorer economies led by distressful colonization and feudal incompetence. Once they were stellar economies in terms of their GDP and social progress, they became low income countries till the end of 1970s. Comparatively, India was a little better off than China during this period. China started earlier and has gone much further than India in economic reforms and restructuring of the economy and in integrating with the global economy. China’s economic weight continues to increase and India is following it with a lag.

The second chapter “Diverse economic growth paths” deals with the different growth paths chosen by these economies, thereby achieving two different growth trajectories. However, both the economies initially consciously chose the path of deliberate isolation and remained insulated from the global economy for a long time, liberalising their economies at later stages. Since China adopted economic liberalization and modernization of its non-market economy in 1978, it has turned out with a stellar performance and left the Indian economy behind. Furthermore, high saving and investment rates of China successfully attracted Foreign Direct Investments (FDI) and along with it a phenomenal success of its Special Economic Zones (SEZs) outpaced India in achieving a high growth trajectory and large scale employment opportunities. In contrast, the private sector in India which was rigidly shackled by stringent government regulations and controls, known as license raj, created distortions. The implementation of reforms, however, improved the performance of different sectors and some sectors like ICT, ICTeS and BPO have turned out a dynamic performance and are justly regarded as globally competitive. However, the current macroeconomic scenario of the Indian economy presents a mixed picture and chances of catching up with the Chinese are dim. Furthermore, the probability of India’s

ability to sustain even the present level of growth momentum is low because of its tardy pace of implementation of reforms in the past. Despite slow private sector growth and banking and financial sector progress, China has established itself as the economy with the highest long term GDP growth in real terms over the last two decades of the previous century.

How China has achieved a record vertiginous growth after the implementation of its reform process in 1978 is the main theme of discussion in the third chapter titled “The dragon’s breath: the transitioning Chinese economy”. China’s global share of trade, foreign investment and production soared at a historic pace in a short span of two and a half decades. Its macroeconomic management was prudent, if conservative and led to a successful implementation of reforms. But the fundamental reason of the success of reforms in China is that the political leadership, which is widely regarded as well educated, capable and pragmatic, was earnestly committed to it and was not beguiled by ideological dogmas. Their approach to implementation gave high priority to pragmatism. There was nothing of value in the capitalist economic system that they did not rationally consider and adopt for China. This indicates their lack in the reform process which is clearly visible in the state owned enterprises sector and the financial sector. However, China’s successful expansion of SEZs and accession of WTO became helpful in stimulating FDI inflows. All these made China to emerge as a large trading economy and become an export market of global significance for other economies.

“The elephant’s saunter: the transitioning Indian economy”, chapter four of the book, examines various issues relating to India’s success and failure. Since independence, India’s importance and participation in the global economy instantly declined and india was treated as a marginal economy because of its inward looking import substitution industrial policy. A large and grossly inefficient public sector, an intrusive government system and a large, corrupt and inefficient bureaucracy further degraded a deficient and anemic macroeconomic policy environment. The growth performance started improving with the implementation of a small number of furtive

reforms during the 1980s. But the fiscal profligacy of the 1980s again pushed the economy to the 1991 fiscal-cum-BoP crisis. It is because of 1991 crisis that the reform process again reinitiated as that is the reform of 1980s which had improved the growth performance of the economy. The reform programme worked adequately, as intended, and the short term objective of achieving economic stability was achieved. However, some sectors like the wasteful large public sector which needed the instantaneous adoption of aggressive privatization were dealt with in a reluctant manner. Though the first stage of reforms was implemented well, the second stage of reforms like supply side measures still falls short of implementation. The reform programme which outperformed in the financial sector did not succeed in fiscal consolidation, labour reform, *etc.* Despite all these facts, the Indian economy recorded a remarkable rise in the post reform period because of success in the services sector. While the Chinese economy has outpaced the Indian economy by a wide margin, Chinese companies have been found to perform poorly in comparison to their Indian counterparts. Some analysts see in these instances, the possibilities of the birth of a new generation of globally competitive Indian mini-multinationals or TNCs. To emulate China's growth trajectory, India needs to succeed in boldly and efficiently implementing the reforms and restructuring programmes, without ignoring crucial areas on the grounds of political expedience.

The interaction between Chinese and Indian economies is discussed in chapter five titled "Crouching tiger, hidden dragon" how the two emerging economies interact with each other. Starting from ancient civilization till date, both the countries have cooperated with each other in cultural and economic diaspora. They were contemporary potential competitors as well as potential partners and searched opportunities in each other's market. While bilateral trade relationship is increasing day by day, China is largely importing low value products from India despite a large trade surplus. However, both the economies compete only in 25 per cent of their products that are exported to third country markets: they become exporters to each other in some product categories. China is also influencing the

trade growth of many Asian countries including India through its trade performance. Apart from trade, both the economies are competing in getting FDI. The China-India relationship has also been evolving in accordance with the new diplomatic stance of conciliation.

The book covers most of the sides of the Chinese and Indian economies emphasising growth and economic reform issues. It also touches upon very small facts responsible for the success or the failure of economic reforms and economic restructuring. The author, however, has given more prominence to China's success overlooking the problems of the Chinese financial sector, particularly its persistent financial repression with deliberately fixed exchange rates and the role of the political system in its financial sector management. Furthermore, the author has also neglected the next young generation and knowledge economy of India who are going to drive the global economy in the coming years. The author has rightly flagged the issues related to India's failure of reform in some sectors and the requirements to achieve a sustained growth. The book is a systematic presentation of the political system, historical emergence and other ups and downs of China and India thereby becoming informative for all its readers apart from those of the economic stream. Written in a simple, comprehensive and authoritative manner, it will attract all those readers who have a keen interest in political macroeconomics. On the whole, the book provides all sorts of information associated with the two economies in an anecdote style.

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