# Review Article: Big and Free Is Beautiful: China and India, the Past 40 Years and the Next

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**The Book**

This article reviews and responds to a recent comparison of the economic development of China and India during the past 40 years, *Agriculture and Trade in China and India: Policies and Performance since 1950,* by T. N. Srinivasan of Yale University and collaborators.[1]

The Srinivasan book was produced under the auspices of the International Center for Economic Growth, an international network of research institutions that so far has been headquartered in Panama and funded primarily by the U.S. Agency for International Development. The book reviews the history of Chinese and Indian agriculture and foreign trade and investment policies and the results they have produced. It is the change in these policies that explains the rapid growth in the Chinese economy since 1978, and the lessons learned from China and other liberalizing economies that have motivated the liberalizing swing in India's policies, marked especially by the opening of its economy since 1991. Srinivasan does not pretend to cover other key elements in the overall experience of both countries—including macroeconomic management, industrial promotion policy, and social policies, to say nothing of such concerns as democratization, women's empowerment, and the protection of the environment—although all these elements are addressed at some level.

**The Data**

Srinivasan does not reach a definitive conclusion about the comparative performance of China and India, Asia's two giant states. One of the difficulties in making such a comparison is the questionable nature of Chinese statistics on the developments in the People's Republic of China since 1950. The earlier data are especially dubious. While they


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have been much improved since 1980, there are still questions as to their accuracy, especially when compared with India's.

On the one hand, we are told that China is very poor. In order to lure China back into the community of nations it was necessary to render it eligible for soft International Development Association funds. Its per capita GDP was estimated at an appropriately low figure when it joined the World Bank, as were all other economic data. The World Bank still reports that China's per capita GDP is roughly equal to India's, when converted at current exchange rates, simultaneously reporting that China has a per capita income figure in purchasing power parity (PPP) terms 1.5 times higher than India's.[2] On the other hand, there is a continuing flurry of reports on the rapid economic progress China has made as a result of the wise economic policies of its rulers, the beneficent effects of foreign investment, or the superior productivity connected with the country's cultural peculiarities. The presumably rapid growth rate may in part reflect the low base estimated at the time of China's admission to the World Bank, which made China eligible for soft loan funds, even though China was recognized to have a per capita income in PPP terms that was considerably higher than India's.

The PPP income-level figures show that China had a per capita income level of $1,910 as compared with $1,210 in India in 1990. The World Bank estimates that the income distributions in the two countries hardly differ.[3]

As I shall show later in this article, because this discrepancy in PPP income relationship is mirrored in many of the other physical indications of welfare—food output, industrial product availability, outputs of social services—it would seem a relatively accurate indicator of the current status of the two countries. China is generally reckoned to have had the same relative per capita income advantage over India after the Second World War. If that is the case, the exchange rate conversion figures would imply that India's growth over the past 50 years was much faster than China's over the same period. However, it is generally believed that China's growth was faster.

The levels of living in China and India have thus maintained the same relative position, and the income growth rates have been largely comparable, over most of the past half-century. Income growth in China has certainly been considerably more rapid since 1978, when China began to liberalize its economy. Indian observers obviously hope that the accelerated liberalization since 1991 will produce a comparable acceleration in the income growth rate, but it is still too early to assess the overall effects of that liberalization. However, even the liberalized Chinese economy is in many ways more restrictive than the preliberalized Indian one.

**The Tally**

There is a history of comparisons of Chinese and Indian growth—showing, as usual, at least as much about the state of Western academic social science as about the social realities in each country.[4]

Because of the treacherousness of the statistics, it is probably worthwhile to desegregate into sectors the relatively rapid growth reported in both countries. We should account separately for grain and nongrain agriculture, manufacturing, and services. Even within each of these last two sectors, as I will suggest, there is a dichotomy between good and bad data. In the case of both China and India, there is a segment of manufacturing that will not stand international competition and that is often a net drain on the country's resources. Both countries would be wealthier if they imported the goods now produced in these uncompetitive plants. There is also a large segment of the manufacturing sector that is often highly competitive—and that might be more so if it were not penalized by government attempts to subsidize the weaker section of industry. In services, there are some sectors, such as health and education, that are undervalued (especially in India) and others that represent pure social waste—or at best a form of outdoor relief for the otherwise unemployable.

In the following discussion, I will rely largely on data from the book under review and easily available statistics from World Bank and United Nations sources. It seems that agricultural production in China, after an initial spurt derived from the one-time privatization of agriculture in the late 1970s, has grown at 4% a year, as contrasted with a 2.66% growth in India, although there are reasons to believe that both rates may prove hard to sustain, let alone accelerate. Actual privatization in terms of transfer of title is still quite limited in China. Private firms account for roughly 7% of China's value added. By contrast, the figure is 90% in India or the United Kingdom.[5] The growth in China comes entirely in the nongrain sector as a result of a reluctance to provide remunerative grain prices to peasants. In India, where agricultural prices are higher, the growth is more evenly spread between staple grain crops and others. Because the initial level of grain production was somewhat higher in China, the lack of attention to grain production may be more sensible.

The rate of industrial growth in India has, according to the World Bank, been half the rate in China. It should be noted that this has occurred despite a much higher rate of growth in energy consumption in India.[6]

Both countries have large, lumbering public sectors with low profitability and productivity but have more agile private sectors. Although the Chinese private sector, per se, is still small, the public sector is now relatively decentralized, and the number of town- and

village-owned enterprises is growing rapidly. India's private sector is large and dynamic—though characterized by subsegments of "sick" industries carried along by the accommodating banking industry. Many of the ailing firms have been directly taken over by the public sector.

Some other comparative industrial production figures are reported through the Statistical Division of the United Nations Department for Economic and Social Information and Policy Analysis. These are inherently unreliable, however, and comparative data for China and India are available for only a few commodities. In many cases, of course, both countries do not produce the same goods, or the pattern of production is connected with the differing natural resource endowments and consumer tastes in the two countries. One comparable area is cotton woven fabrics, of which China produced roughly 40 billion meters and India 37 billion in 1990; although no comparative figures are given for synthetics, one might expect that the Indian disadvantage would be greater.[7] These figures—which, incidentally, are at complete variance with the general belief that India's per capita cloth availability is quite low—imply a cloth availability of about 37 meters per capita in each country.

India has a large "informal sector," as probably does China. Roughly 90% of India's labor force are not in the organized sector. The great bulk of these Indian workers are employed in peasant agriculture.[8] Their production in agriculture is largely caught in the normal agricultural production figures. It is their nonagricultural production of industrial goods and services that is harder to deal with. For the purposes of this article, the implications would be primarily statistical. I have seen very little on the Chinese informal sector. The Indian informal sector is misnamed because it is captured for many purposes in the Indian statistical system and subject to some degree of legal monitoring—unless we are referring to totally illegal activities. The major implication is that the size, although not necessarily the trend, of production in these activities is grossly underrepresented in the statistics the World Bank chooses to use. But the overall impact on national income and production growth figures as distinguished from estimates of their level is marginal. Although the matter is not without controversy, there is reason to believe that formal- and informal-sector activity should move in parallel.

Since the liberalization of the Chinese economy in 1980–89, growth in the Chinese service sector is reported by the World Bank to be 150% higher than growth in the Indian service sector. The underlying problems with any data about services in China should lead us to doubt the value of this figure. It is possible to look at such items as military expenditure, the number of teachers and students, and the number of medical personnel to get an idea of these valuable sections of the service sector.

A large part of the service sector in both India and China is involved with national defense. India has 1.3 million military personnel and China has 3 million, at an annual cost of about $8 billion and $22 billion, respectively.[9] I leave the reader to determine whether this should be counted as part of national welfare—but there is no question that it should all be counted in all the income measures we and the World Bank use.

Services in connection with health and education are another matter. The World Bank reports 123% of the eligible age group are in primary school in China, meaning that many enrolled were either younger or, more likely, older than the reference group of 5–9-year-olds. The comparable figure for India is 98%. Both figures show dramatic increases since 1970, which seems contrary to the general impressions of observers. Either some dramatic, unexpected transformation has occurred or the change is largely fictitious. The figures for secondary school enrollment are 51% of the eligible cohort for China and 44% for India. The primary school pupil-teacher ratio is 60:1 for India and 22:1 for China. I suspect some of this apparent difference reflects greater inflation of reported student enrollments in India, but it is still indicative of a considerable quality gap.[10] The reported adult illiteracy figures are also of questionable validity. The World Bank reports 27% for China and 52% for India[11]—even though India has one-third less primary enrollment and triple the pupil-teacher ratio of China.

Comparable health services input data were not readily available However, in terms of output, infant mortality is reportedly 31 per 1,000 in China versus 79 per 1,000 in India, malnutrition indexes for children under the age of 5 are three times as high in India as they are in China, and 3.7 times as many children in India have excessively low body size as children in China. China has twice the numbers of doctors per capita as does India, though there are real problems of comparability that mostly go against the Chinese advantage. But all of these health output data are consistent with the considerably lower levels of food intake for all age groups in India as compared with China.[12]

**The Future**

Whatever the past pattern, the question of greatest concern is the possibility of sustained economic growth in either or both countries and its value for their people. Part of this depends on the political sustainability of the regimes, and part on the distributional pattern of income and the cost of growth to the environment. Both countries have paid considerable attention to the distribution of income in the past and to the environment more recently. Both countries appear to pay less attention to distribution today, although that does not mean that inequality is in fact increasing. Both have discovered environmen-

tal concerns—but it is still far too early to see whether they have reached some sort of sustainable balance in their exploitation of their environment.

*India*

Starting in the 1980s, but with special emphasis since the foreign exchange crisis in 1991, India has moved to open its economy by encouraging foreign investment, reducing domestic regulation, and even reducing the height of its barriers to foreign imports. The country is just beginning to feel the impact of the liberalizations in these areas.[13] The effects, so far, seem to be positive and will certainly boost the sectors of the Indian economy with which they are concerned. The foreign investment should relax the infrastructural constraints, especially in electric power generation, and the deregulation should increase the efficiency with which units produce. However, neither the investment nor the deregulation can directly govern Keynes's "animal spirits," the investors whose actions govern the overall pace of the economy.

The logical forecast in the Indian case is for some acceleration of production, although how much remains difficult to determine. Commentators often underestimate the constraints on the speed of development posed by factors other than those connected with misguided state interventions; these factors include technology, folkways, and even luck and nature. There is certainly more to life than public policies.

*China*

Although China began its liberalization in the late 1970s, in many respects its regulatory controls are still heavier than those in India. In China it is by no means clear how rapid the pace of liberalization will be or to what degree devolution of regulatory control from the central to the provincial level will decrease rather than increase inefficiency. One notes with horror the incipient recollectivization of agriculture, reported in the Srinivasan book to be under consideration, to ease the difficulties of local cadres collecting grain for subsidized urban distribution. Ideally, the path of liberalization and growth will be sustained in China as well as in India.

**The Prognosis**

To what extent India's income growth will continue to accelerate remains to be seen. The expected acceleration will probably narrow the gap in growth rates between India and China; however, because India's real starting level per capita is half as high as China's (perhaps the same ratio between the two as existed in 1946), the relative position of the two is likely to persist. Although countries such as Thailand and Korea have had sustained annual rates of per capita income growth of 6%–8% for more than a decade, it is unlikely that countries as large

as India and China can match this level. The 7.6% annual growth in per capita income reported for China in 1980–92 undoubtedly reflects a number of one-time gains connected with the system's shift in a more liberal direction.[14]

The treatment of trade in Srinivasan's volume will be equally of interest to many readers, though its focus is less comparative than the work elsewhere—probably because the histories of the two countries differ systematically. The Srinivasan account of India's development contains, as the reader would expect, some stimulating ideas, particularly in terms of critiquing the data that are available on trade and external balance.

Overall, the book represents a considerable contribution both to our knowledge of each economy and to the ongoing attempt to study both economies in comparative perspective. It is important reading not only for those specialists who follow these two economies or are interested in more general questions of international trade but also for those interested in more general questions of international trade. I am sure that Srinivasan will develop his trade and exchange data critique elsewhere in different contexts, but his critique represents an item of some importance for those interested in applied trade economics.

**Notes**

1. T. N. Srinivasan, ed., with contributions from Justin Yifu Lin and Yun-Wing Sung, *Agriculture and Trade in China and India: Policies and Performance since 1950* (San Francisco: International Center for Economic Growth, 1993).

2. World Bank, *World Development Report, 1994* (New York: Oxford University Press, 1994), table 30, p. 220.

3. For purposes of comparison, the United States had $23,120; Pakistan, $2,130; and Bangladesh, $1,230 (ibid., table 30, pp. 220–21).

4. These comparisons include the following: Wilfred Malenbaum, "A Gloomy Portrayal of Development Achievement and Prospect: China and India: Review Article," *Economic Development and Cultural Change* 38 (January 1990): 391–406 (this article reviews work by Robert F. Dernberger and Richard S. Eckaus, *Financing Asian Development,* vol. 2, *China and India,* Asian Agenda Report 8 [Lanham, Md.: University Press of America, 1988]; and Wilfred Malenbaum, "India and China: The Comparison Revisited, 1950–80," *Economic Development and Cultural Change* 31 [October 1982]: 45–84); Barry Richman, "Chinese and Indian Development: An Interdisciplinary Environmental Analysis," *American Economic Review* 65 (May 1975): 345–55; Subramaniam Swamy, *Economic Growth in China and India, 1952–1970* (Chicago: University of Chicago Press, 1973); Thomas E. Weisskopf, "China and India: Contrasting Experiences in Economic Development," *American Economic Review* 65 (May 1975): 356–64.

5. Penelope B. Prime, "Optimizing Market Reforms in China," *Economic Development and Cultural Change* 42 (July 1994): 869–78, esp. 871.

6. World Bank, table 5, p. 170. Incidentally, the distribution of industrial production in such areas as food, clothing and textiles, and machinery is reported to be roughly the same in both countries (ibid., table 6, p. 172).

7. *Commodity Production Statistics, 1982–1991,* vol. 2 of *Industrial Statistics Yearbook, 1991* (New York: United Nations, 1991), tables titled "Cotton Woven Fabrics" (ISIC Based Code 3211-): table 28, pp. 250–51, and table 28A, pp. 252–53.

8. Centre for Monitoring the Indian Economy, *Basic Statistics on the Indian Economy* (Bombay: Centre for Monitoring the Indian Economy, 1989), table 9.2.

9. International Institute of Strategy Staff, *The Military Balance, 1993–94* (London: Brassey, 1993).

10. World Bank, table 28, p. 216.

11. Ibid., table 1, p. 162.

12. Ibid., table 27, p. 214, and reference.

13. Shiraz Sidhwa, "Sharp Boost in Indian Foreign Investment," *Financial Times* (August 19, 1994), p. 3. Direct foreign investment flow in the first half of 1994 was 11.3 billion rupees, as against 17.86 billion for all of 1993 and 6.75 billion for all of 1992.

14. World Bank (n. 2 above), table 1, p. 162.