Comparison: India and China

Both India and China experienced great economic growth and achieved significant improvement in health, technological development, and education. Neither achieved the degree of economic development of Japan.

A shared legacy

- India and China entered the post-Imperialist era sharing the world's greatest development problems and most of the world's poor people. For the first three postwar decades, both succeeded in raising substantially average output and incomes, while neither was close to the developing world's top performers. China grew faster on average than India, with massive swings in policy and performance with the vicissitudes of its centralized politics.
- Alongside huge differences in state ideology and policymaking processes, there were many similarities in economic resources, structure and strategy between the two giants. Most basic was their shared abundance of labor relative to other resources necessary for development--land (or natural resources), and capital.
- Bureaucratic decision, rather than value in a market, determined how resources were allocated:
  - China - domination of decision-making by a central bureaucracy + the encouragement of heavy at the expense of light industry and agriculture \(\rightarrow\) the Soviet model
  - India - the Soviet model of central planning in the very different setting of a parliamentary democracy
- India and China were big enough for ambitious dreams:
  - drawing their economies' needs from within their own wide boundaries
  - quickly joining the rich and powerful countries of the world in the breadth and sophistication of their industrial capacity
  - a capacity to support a large military backed by related industry
  - and their pride as large countries pressed for the realization of this possibility

The origins of reform

CHINA: [1970s]

- Both economies seemed to perform well through the early and mid-1950s; and China better, as both demonstrated that it was possible to raise output per head and living standards in these huge and populous economies. There were weaker constraints on large, sudden policy shifts in China's Leninist political system than in India's rambling democracy.
- Encouraged unrealistically by the apparent success of early ventures into collectivization and central planning, Mao Zedong launched the Great Leap Forward in the late 1950s \(\rightarrow\) yielded an early harvest of tragedy, a legacy of bitterness within the Chinese leadership, and cast a shadow of policy instability and uncertainty through the chaos of the Cultural Revolution (1966-76) into the early years of the era of economic reform.
- By the 1970s, there was realization in both China and India that economic performance was not all that it could be. Other economies, especially in East Asia, seen by Chinese and Indians as having poorer prospects, seemed to be doing better. This was affecting international standing and perceptions of security \(\rightarrow\) The worst psychological state to be in is to have a superiority complex and an inferior status.
- China's perception of its own underperformance was heightened by the success of near neighbors--Japan and Korea, and most pointedly the Chinese economies of Hong Kong and Taiwan.
- After several years of incoherent policy - and Mao’s death -- in 1978 Deng Xiaoping succeeded in winning support for decisive commitment to open the Chinese economy to
the outside world, and to accept a larger role for markets in domestic resource allocation. There was a clear sense of the direction of necessary change, and willingness to experiment with a wide range of new policies and institutional arrangements in that direction.

- The Chinese economy responded dramatically to reform, particularly to the early reform steps in agriculture: household rather than the people's commune as the basic unit of agricultural production + the acceptance of sale in markets for a large and expanding proportion of agricultural output.
- In addition, export trade tripled; raw materials were replaced by labor-intensive manufactures as the main exports; and direct foreign investment became an important source of capital formation and technological up-grading.

INDIA: [1990s]
- China's success emphasized its role as a natural rival for superior status and increased pressures for reform in India → left uncorrected, the divergence between Chinese and Indian growth performance would lead eventually to a large shift in relative military weight. Thus was the scene set for reform in India.
- The reforms initiated in 1991 in India have been pursued more or less consistently through all the pressures of a Federal and democratic constitution. The lesser urgency of the background conditions and the different political framework have contributed to less radical and less decisive action on reform in India.
- But the similarities are at least as impressive as the differences: reform is gradual in both China and India, with both eschewing the “big bang” and the shock treatment that have sometimes been favored by advisers to reforming governments in Eastern Europe and the CIS.

Starting points
- China's per capita income at the commencement of its reforms in 1978 was somewhere close to India's in the early 1990s, at the commencement of its own reforms.
- Comparison of India and China is further complicated by huge regional variations within both. This is not surprising, given their vast geographic extent, the poor quality and high cost of transport and communications - reinforced by official restrictions on mobility in China, and by ethnic, linguistic and religious difference in India.

Comparative advantage and export specialization
- On a world scale, both India and China have a large endowment of labor (= people)
- Much more of the Indian land mass is economically arable than is that of China
- Both India and China have pockets of excellence, of real comparative advantage in technologically sophisticated production
- Internationally competitive manufacturing with greater technological sophistication will promote an element of economically efficient diversification in both India and China.
- China (1.24 billion) has a substantially larger population than India, but a lower annual population growth rate. If these tendencies in population growth continue, the labor force of India will come to exceed that of China in the early decades of this century.

Competitors or complements
- India's reform and internationalization has been positively supported by reform in China. Indian reform was helped first by success in China through the spur to action provided by the success of a rival, and by the example that internationally oriented growth in a big country was possible.