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The Political Economy of Growth in China and India

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Abstract

This paper attempts to examine the growth performance and its impact on inequality and poverty in China and India. The recent upsurge in growth rates in China and India is seen widely as the "success" story of globalisation. It is also claimed that these developments will make a significant impact on the reduction of global inequalities and poverty.

Although a number of scholars have analysed the recent economic performance of China and India, however, these studies have not taken into account the past policies and its impact on current performance. We find there is a gap in the current discussion, which overlooks historical and economic factors on the recent performance.

This article critically asses the claimed fall in global poverty due to mainly the rise of China and India in recent years. The article questions the "pro-globalisation" argument, which suggests that there is a link between 'market liberal' free market polices and falling poverty. It is argued instead that the evidence concerning poverty reduction is ambiguous, and is not that the most successful economies have adopted pro-globalisation policies.

Studying the developmental changes taking place in these two countries is important because they together account for 37.5% of the global population. These populous neighbours, regarded as symbols of poverty and failure until two decades ago, contain large numbers of people are living below the officially defined poverty line.

Key Words

China, India, neoliberal economic reforms, economic growth, FDI, poverty, inequality, inter-sectoral and regional variations.

Introduction

This study is a modest attempt to understand the dynamics of the development of the economies of China and India, particularly since the adoption of neoliberal economic reforms. Although a number of scholars have analysed the recent economic performance of China and India, (Ahluwalia, 2004; Bhalla, 2003; Srinivasan, 2006 and others) however, these studies have not taken into account the past policies and its impact on current performance. We find there is a gap in the current discussion, which overlooks historical and economic factors on the recent performance. We will also critically analyse the issue of poverty reduction in these two economies presented by international financial institutions. (World Bank, 2006)

The paper deals with the comparative performance of both countries for the last twenty five years. Indian development performance during the pre-reform period compared to other developing countries such as Africa and Latin America was impressive, but certainly not so impressive as the East Asian tiger economies. These two nations, also known as 'emerging economies', account for more than a third (37.5%) of the global population. These populous neighbours, regarded as symbols of poverty and failure until two decades ago, contain a large number of people living below the officially defined poverty line. Another similarity is that both are ancient cultures with distinguished histories. In the remote past both nations were known for prosperity, high living conditions and cultures. (Maddison, 1998) However, their most recent history of the last two centuries went through colonization, underdevelopment and transformation of their economies to suit the specific needs of capitalism in the West European countries.

This article critically asses the claimed fall in global poverty due to mainly the rise of China and India in recent years. The article questions the "pro-globalisation" argument, which suggests that there is a link between 'market liberal' free market polices and falling poverty. It is argued instead that the evidence concerning poverty reduction is ambiguous, and is not that the most successful economies have adopted pro-globalisation policies.

The argument is outlined in four sections. The first section outlines briefly the over view on China and India economic performances. The second section challenges the claim made for poverty reduction due to neoliberal reforms and globalisation friendly policies. The third section examines its impact on sectoral and regional developments and finally, we critically evaluate the issues of foreign direct investment in both economies.

Both China and India have undertaken neoliberal economic reform policies. For instance, since economic reforms in 1978, Chinese growth has been remarkable compared to other both developed and developing countries. While in India economic growth performance since adoption of economic reforms in 1991, has been modest and falling behind on many fronts relative to Chinese performance indicators. It is known that Chinese and Indian GDP per capita (PPP terms) were at similar levels in 1978, **(1)** but since then China's rapid growth has left India behind.

The view of global enthusiasts is that the rapid economic growth in China and India will have an important impact on global poverty. Further they claim that with the onset of globalisation total number of poor people have declined. They cite the macroeconomic variables such as rises in GDP and per capita income to validate their arguments. (Sala-i-Martin, 2003; Bhalla, 2003; Srinivasan, 2006, among others) Others who have expressed sceptical views on the impact of globalisation have tended to examine the patterns of inequality within these countries. They look at inter-regional development and conditions of the poor within the countries, which is hidden by the per capita GDP figures. (Cornia, 2003; Chandrasekhar and Ghosh, 2004)

Over the last two decades or so, the most populous nations in the world China and India have been growing at considerably higher rates than the world average. These unprecedented growth rates have provided new optimism for global enthusiasts. (Fisher, 2003) According to Fisher (2003) these two countries together account for the majority of the poor in the world and the above average growth rates of these two large nations, largely due to globalisation, would reduce global inequality and poverty. According to Forbes magazine the number of Indian billionaires rose from 9 in 2004 to 40 in 2007: a rich country like Japan had only 24, and France 14. The combined wealth of Indian billionaires rose from US$106 to US$170 billion within a year, 2006-2007. (cited in Jain and Gupta, 2008)

Similar views have been expressed by the Business Week also: "Our line of Stars recognises the growing importance of China and India on the global economic stage.

Chinese companies, flush with cash from rising exports and cheap access to capital, are buying up energy assets and brand names around the world…. India continues to evolve from an economy that delivers great software, outsourced tax returns, blood-pressure drugs, and angioplasties cheaply to one that offers high-end services such as management consulting and auto and aerospace design”. **(2)** (Business Week, 2005:11)

China and India: An overview

There have been various studies over the years to understand the differences and similarities of economic performance and development strategies in China and India. Comparing China with India, apart from differences in institutional framework, various studies have argued in favour of India’s long term growth because of democratic institutions. As Klein (2004) argues, “India is joining the high growth club of nations, but in their own way, as democratic a nation. Politically and culturally, the two nations differ markedly, but economically they have some great similarities”. (Klein, 2004:31) This view is also presented by Sen (2005), “(China) become a leader of the world economy with stunning success, from this India, like many other countries, has been learning a great deal, particularly in recent years. The insularity of the earlier economic approach to economic development needed to be replaced and here the experience of China has been profoundly important … But the role of democratic participation in India suggests that some learning and understanding may go in the other direction as well.” (Sen, 2005: 42)

In the terms of economic growth for the last two decades, China and India have shown notable performance and also in terms of integrating into the global economy and carrying out economic reforms. India and China are increasingly perceived as two emerging economic powers. Both countries together account 38 % of the global population (Chellaney 2006). However, they have followed different economic policies in the past. First China, after a long period of isolation and then India, after inward looking economic policies, began to open up and trying to integrate with the global economy (Prasad and Rambaugh 2004). As a prominent British business magazine points out: “India is often portrayed as an elephant; big, lumbering and slow off the mark. Now investment bank reports are beginning to talk of it as a new Asian ‘tiger’. If that’s what it wants to be, it makes sense for it to study China: the tiger in front is Chinese”. (The Economist, 2005)

It is true that China’s overall economic growth rate from 1978 to 2001 was on average 8.1 annually. Its exports grew from US$18.1 billion in 1978 to $266 billion in 2001, i.e. annual growth rate of 12 %. By 2002, the manufacturing exports accounted for 90 % of total exports. (UNCTAD, 2005: 8) China’s share of world GDP (PPP adjusted) has increased from 5 % in 1980 to 14 % in 2005. These impressive figures have coincided with dramatic shifts in economic policy since 1978, including abolition of commune system in agriculture and allowing more autonomy for private sector in the economy.

The growth performance of Chinese economy since 1990s has been extraordinary by any standard. Between 1990 and 2005, per-capita GDP increased at the rate of about 8.4 % per year. The upsurge in growth was driven by industrial expansion that has made

China a manufacturing powerhouse. For example, the share of manufactures in GDP rose from 33 % in 1990 to 42 % in 2005. This rapid industrial development was largely driven by country's huge success in expanding international trade. The share of export in GDP increased from 19 % in 1990 to 37 % in 2005, while the share of manufactured goods in total exports increased from 65 % to 84 % during the same period. **(3)** Moreover, the emergence of China as a very important nation for manufacturing has been accompanied by the country's dramatic rise in R&D expenditure. The country has become the fourth largest R&D spender in the world and its total spending was around $85 billion (PPP) in 2003. India itself is among the top ten R&D spending countries, spending $30.62 billion, but this represents only one-third of China's spending. (The Economist, 2005)

The statistical profile is presented in Table 1, which indicates that China's performance indicators were better than India. China's saving and investment rates were much higher than India's. Per capita national income in China is double (i.e. US$1100) than India's US$ 540 in 2004. Similarly on the question of people living below the poverty line in China the figure is 16.6 % while for India number is significantly higher i.e. 34.7 %

Table 1: Relative Statistical Profile of two Economies, 2004 (US$)

Indicator/Unit	India	China
Population (millions)	1,064	1,288
Density (sq mile)	358	138
Gross National Income (per capita) $	540	1,100
Gross National Income at PPP (per capita) $	3,062	6,410
Manufacturing value-added (bn $)	67.1	408.4
Life expectancy	63	71
Malnutrition (under 5)	45.8	12.1
Poverty (% living below 1 $ a day)	34.7	16.6
Electricity production (billion kwh)	596.5	1,640.5
Foreign Exchange Reserve (bn$)	144	711
Tourist arrivals (millions)	2.4	33.1
FDI inflows (billions $)	3.4	66.6

Source: *World Development Indicators*, 2006, The World Bank, Washington D.C.; The Reserve Bank of India; The People's Bank of China, several years.

Will Hutton (2007) points out three major factors contributing to this upsurge in Chinese growth. Firstly, the role played by the state, for example, the village industries that played a vital role in the economic growth throughout 1980s. Secondly, Deng Xiaoping's modernization policies highlighted the importance of economic development. As he notes:

"Today's China could not have started from nothing in 1978". (Hutton, 2007:90) Under Mao Zedong, China did achieve in increasing industrial growth and both living conditions and life expectancy rose substantially after the 1949 Chinese revolution. Thirdly, Hutton calls it "a significant element of luck, which then has been clearly exploited by Chinese". (Hutton, 2007:96) It happened at a time when China was recovering from the crisis of 1989 and actively seeking foreign capital and technology to play an important role in the Chinese economy. And also the willingness from the Chinese *Diaspora,* especially in

Hong Kong and other South East Asian countries to provide most of the foreign investment before 2002. (Hutton, 2007:146)

Neo-liberal Economic Reforms and Reducing Poverty

India after 1950s has followed "mixed" economic policies with significant private sector participation. However, after the Gulf War in 1991, the Indian economy experienced acute crisis, which culminated into BoP crisis. Under such circumstances the government accepted IMF conditionality and adopted the neoliberal economic reforms (Siddiqui 1990). The neoliberal economic reforms undertaken in 1991 have substantially expanded the scope of private capital and reduced state regulation. **(4)** (Girdner and Siddiqui, 2008) Moreover, with the changing global situation and the collapse of the Soviet Union, the Indian ruling elites realised that following the advice of the international financial institutions would help them to have greater access to western markets and technology. However, the pre-reform period is widely considered as period of a path of slow growth of around 3 % "Hindu rate of growth" to a higher growth in the post-reform period of average 6 % per year. (Ahluwalia, 2004; Srinivasan, 2006)

China, by contrast, had a very different institutional structure for most of the pre-reform period, where command economy had played a key role in resource mobilisation. Even after the wide ranging reforms that have taken place after 1978, government influence on the economy remains substantial. Because of the significance of state owned enterprises in total production and investment and its ability to influence aggregate demand. The state owned enterprises (SOEs) still have a significant, but in recent years declining role in the economy.

Here we will briefly analyse macroeconomic variables during the post-reform period in both countries. The Chinese share in world imports, especially in manufacturing has increased from 1.1 % in 1980 to 1.7 % in 1990 and rose to 6.3 in 2004. Imports of machines and telecommunication equipment did help the country's export sector to become more competitive. India's import share during the same period changed from .05% in 1980 to 0.8 % in 2004. (Wolf, 2008)

In the last decade China has emerged as the largest exporter of manufactured goods to the United States with a merchandise trade surplus of about $180 billion. This did help China in becoming the biggest holder of US dollars as reserve (Fishman 2006). In terms of merchandise exports, the Chinese were about eight fold those of India, in service Chinese lead was small. In recent years China has emerged as the second largest merchandise exporter in the global economy, accounting about 9 % of the global merchandise trade, India's place was twentieth in the league of world traders, accounting only 1.1 % of multilateral trade. **(5)**

On the other crucial macro-economic issue, China recoded trade surplus over the last decade, while India recorded deficit. Since 1991 foreign exchange for both countries has increased dramatically. However, China's reserve has risen more than five times of India's. For example, in 2005 China was the second largest holder of US dollars reserve, while India was the fifth. On FDI too India was much behind China (World Bank 2006 and

2007).

There are various reasons for the differences in economic performance of both economies. The crucial difference is the Chinese savings rate, which is in the high 40's in nearly twice than India's in the mid 20's. Indeed given the higher saving rates combined with higher increase in FDI inflows, China has witnessed a remarkable success in investment in manufacturing sector and infrastructure.

On the basis of rapid economic growth in China and India, the World Bank has claimed that global poverty has fallen in the last twenty year (World Bank 1997, 2004, 2005). In 1980, there were 1.4 billion people living in absolute poverty and by 1998, the number had fallen to 1.2 billion. (World Bank, 2002: 30) Other recent studies also suggest that the number of people living in poverty has fallen by 400 million. (Chen and Ravallion, 2004; Ravallion, 2008)

The prime reason provided for poverty reduction is said to be due to the countries that have adopted 'globalization-friendly' policies. The World Bank (2002) Report is the most exponent of such view. The Report has conclusion based on a study of 92 countries, the study differentiates more and less "Globalised" countries. This is measured by examining trade tariffs from 1985 to 97 and trade volumes (based on GDP ratios) from 1975 to 1997. The main argument is that more globalised countries had higher rates than less globalised. The study concludes that market friendly 'proglobalisation' policies are good for growth and ultimately, it is good for poverty reduction. Such claims heavily rely on the rapid growth of and poverty reduction in China as pointed out in the following assertions:
"Since China has had such a remarkable growth record over the last two decades, the authors (Dollar,and Kraay, 2002) should not have been bothered to include the other countries. All that is needed to obtain the desired conclusions is that China's growth accelerates". (Milanovic, 2003: 674) This is clear that if China is excluded, then the claim of success would have been hard to defend.

Moreover, the claims made for poverty reduction has been challenged in a number of ways. Absolute poverty is defined as those people living on an income of less than US $1 a day, based on PPP exchange rates at 1985 prices. In fact Reddy and Pogge (2003) suggest that PPP is not correct measurement of what the poor actually consume in a developing country. The PPP does not actually measure what the poor households are consuming, but instead measures what everybody consumes in a developing country. These figures also show downward trends over time, because the food share is falling in consumption spending, while services share is rising. The assumption is that the income of every household rises equally. This is very unlikely and rich spends more on services than poor.

Even on the 1 US$ count, the number of those in poverty has risen by about one-third in Latin America, and one-half in sub-Saharan Africa. (Sumner, 2004) Therefore, due to these above reasons we should treat the claims for a decrease in global poverty with some scepticism. Moreover, the questions arise how "openness" is measured, which essentially relies on trade/GDP ratios. It is also possible for a country to have high trade/GDP ratios and yet still have relatively closed trade policies, as was the case for most of the East countries in the early phase of their industrialisation. Some of the poorest countries actually have high trade/GDP ratios. From the period of 1999 to 2001, more than half of the least developed countries had actually higher trade/GDP ratios than the most developed world. (UNCTAD, 2002: 3)

We find slightly exaggeration in the claim about relationship between openness and high growth rates when examining the figures from China and India. Both countries are counted in highly globalised countries even though their trade and investment polices remain less open than some of the least developed countries. The claim also does not stand with the reality of growth. For example, in India, where rapid growth pre-dated their adoption of "free-market" polices, the growth rates in the 1990s were hardly difference from the 1980s. (Rodrik, 2001) It is true that average tariff rates in India declined from 80 % in 1991 to 40 % in 2001. However, despite lifting of some restrictions on FDI, India remains far from open economies. Capital controls remain strong and still relatively high tariff on selected imports.

In India the percentage of population below poverty line has fallen from 36 % in 1993-94 to 27 % in 2004-05, However, the absolute number of total poor stood at 302 million in 2005, accounting for a quarter of total poor in the world.

The evidence in China regarding poverty reduction appears that poverty has declined by 45 % in two decades from 53 % in 1981 to 8 % in 2001. While, in India poverty reduction was only 17 % during the same period. (The World Bank, 2006) However, when we analyse this figure within agriculture sector in India the whole arguments looks less convincing. For example, within the agriculture sector if we look at the data on food grain output for India, it shows stagnation. The total food production in India in 2001-02 was 212.9 million tones. For the next five years the corresponding figures were 174.4, 213.2, 198.4, 208.4, and 213 million tones respectively. This clearly shows that there is a severe supply side constraint in food grain in India during the current decade. (Patnaik, 2007) It will have a wide impact on the largely rural population. For instance, the per capita real income of more than two-third of India's total population depends on agriculture and allied activities, which are lower in 2008 than it was in 2002. Expenditure data from National Sample Survey Organisation's (NSS) 61st Round (2004-05) show that rural and urban per capita cloth consumption, real food expenditure and calorie intake have all declined from their already low levels since 1993-94. (Patnaik, 2007)

In India we have witnessed the extensive poverty coexisting with growth. The number of people living in absolute poverty has declined slowly over the 25 years, but still 302 million people live in absolute poverty. Table 2 shows the percentage of people living below poverty line in India. There has been some progress made in reducing poverty in both urban and rural areas since late 1970s, but still a large number of people remain poor.

Table 2: Trends in Poverty in India (% of people living below poverty line)

Year	Rural Planning Commission estimate	Urban Planning Commission estimate

1977-78	45.2	53.1	
1987-88	38.2	39.1	
1993-94	32.4	37.3	
1999-2000	23.6	27.1	

Source: Economic Survey, various issues; Sen and Himanshu (2004)

In contrast China did better on the question of absolute poverty, which declined from 53 % to 8 %. However, inequality in China also grew faster than in India. Inequality has grown also grown in India since the adoption of neo-liberal economic polices, but less sharply. The 20 % poorest section of the population's share in national income is 5.9 %, compared to 8.2 % in India. However, since China has double average per capita income of India. Therefore, the poorest are worse off in India in absolute terms. (Radhakrishna, 2008)

In the post reform period the Chinese record in terms of the reduction in the absolute number of poor is impressive (Bouche et al 2004). In early 1980s people's communes were dismantled, land was allotted to households and the farmers were encouraged to abandon the previous "grain first" policy and to diversify production and farm prices were increased by about 30 %. At the same times the production and availability of fertilizers and other agricultural inputs were increased steadily. The government also launched poverty reduction plan (1994-2000) to bring down the number of absolute poor from 80 million to 30 million by 2001. **(6)** This along with the sharp rise in farm product prices especially food has helped the farming communities to raise their income. (Chandrasekhar, and Ghosh, 2004)

The available evidence suggests that early years of reforms had worsened inequality in China. As Table 3 indicates that the national, rural-urban and regional inequality measured by Gini, have risen over the period of 1984-2000 (Kanbur and Zhang 2005b). It seems that the important reasons for this rising inequality was due to attract investment to the coastal regions, the government provided a range of incentives.

Table 3: Estimates of Inequality in China from 1984 to 2000

Year	Gini (%)	GE (%)	Rural-Urban	Inland-Coast
1984	25.6	10.9	6.3	0.4
1987	27.0	12.0	6.8	0.6
1989	29.7	14.4	9.3	1.0
1990	30.1	14.9	9.5	1.0
1993	32.2	16.8	10.9	1.7
1995	33.0	17.7	11.5	2.3
1998	34.4	19.6	12.2	2.9
2000	37.2	24.8	13.9	3.8

Source: Kanbur and Zhang, 2005a.

Elisabeth Croll (2006) studied the impact of economic reforms on Chinese people. In her detailed study of living conditions for the last 30 years found that inequality has risen sharply. For instance, the top 10 % of the China's population owned 45 % of the country's personal wealth, while the bottom 10% had just 1.4 percent.

As Croll (2006) notes:

"Chinese society is more accurately represented by an income or wealth pyramid showing a very small minority at the top, the majority at the base and a small and burgeoning middle class sandwiched between. Not only are those between fewer than commonly imagined, but many are more likely to be downwardly than upwardly mobile". (Croll, 2006:22) She also adds that there are also huge differences between different regions of China, with rural poverty concentrated in the western provinces. (Croll, 2006; Weiss, 2002)

Inter-sectoral Changes and Inter-regional Disparities

In order to understand the overall impact of economic reforms it important to examine inter-sectoral changes. As it has significant impact on job creation. Analysing at sector wise growth from 1991-92 to 2004-05 the growth in the primary sector and the secondary sector was slower than tertiary sector in India. In the same period growth in the tertiary sector was higher in comparison with the period from 1980-81 to 1990-91. Below in Table 4 we present data from the developing countries. We find that contribution of agriculture sector in the GDP for all the developing countries shown in the table has declined. However, in South Korea, China, Malaysia case the increase of manufacturing contribution to GDP was quiet dramatic during their reform period, in contrast to much slower increase in India post-economic reform period.

Table 4: Sectoral Distribution of GDP. Selected Asian Countries

Country	Agriculture	Industry	Services
	1960	1980	2000
Agriculture	3.1	-1.5	3.0
Industry	7.6	-1.2	6.5
Service	6.7	4.5	8.4
GDP	5.6	1.3	6.2

Source: Reserve Bank of India and Ministry of Finance, various years, Government of India: New Delhi

In India, a decline in the growth of the agriculture sector was observed in the 1990s, (see Table 5) which continued until recently. Also yields per hectare for a number of food crops declined during the same period (Siddiqui 1999). This also coincided with the decline in governmental expenditure in agriculture, & subsidies for fertilizers in recent years. (Patnaik, 2007) Growth in agriculture, for the production of both food & non-food crops, is based on a number of assumptions pertaining to government expenditures, input prices, rainfall, and price behaviour. (Planning Commission, 2007: New Delhi, Siddiqui, 1997)

The industrial sector is much larger in China. In value terms manufacturing produces six times higher in China than in India.

In agriculture sector, China began economic reforms in the early 1980s. Collective farming were eliminated, peasants were encouraged to manage their land as a household unit, being responsible for their own production and sell their produce to market. As a consequence, between 1978 and 1992, China's agriculture output rose to average about 6 % per year. While the annual average rate of growth of world agriculture output was only 1.8 %. By achieving higher growth rates, the sector not only increased farmers' income, but also created more rural jobs and higher wage rates. In 1980 the sectoral division of Chinese economy was such: agriculture 30%, industry 49 % and services 21 %. However, later in 2003, the share of agriculture fell, while industry and service sector grew. However, the growth in manufacturing sector was remarkable i.e. from 42 % in 1990 to 53 % in 2003.

In contrast to China, India's sectoral changes were: while the agriculture fell from over 40 % to 23% from 1980 to 2003 (Dev 2008a, Ghosh 2008), it was not the manufacturing sector that took over, but rather the service sector which became the dominant sector contributing over half of India's income.

In contrast to average 6 % of Chinese agricultural output growth during the 1980s, on Indian agriculture performance Dev (2008b) has found that, 'The average growth rate of agriculture during the 9th and 10th Plan periods (1997-98 to 2006-07) was 2.5 % per annum, while the growth on non-agriculture during this period was around 8 % per annum. The gap in per worker productivity between agriculture and non-agriculture has increased significantly. Farming has become an unviable activity, particularly for small and marginal farmers. On average, there has been one farmer suicide every 30 minutes since 2002'. (Dev, 2008b: 33)

The output of service sector as a % of GDP was higher for India with 51% in 2003 (Siddiqui 2005), whereas China's gross output in service sector remained 33 % during the same year. India witnessed greater value addition in this sector i.e. 48% in India vs 34 % in China, mainly due to rapid expansion in government administration and IT sector, which only employees 0.8 % of the services workforce and yet has exports worth $9.2 billion. Export growth of service was 15 % per annum in 1990s in India and 21 % in the latter of the 1990s. Between 1990 and 2004 the export of commercial services increased from nearly 43 % of total services exports to 75.1 %. The category of commercial services includes ICT, information and other telecommunication services.

During the pre-economic reform period (i.e. from 1950 to 1990), the Indian economic growth rate was 4 % per annum and growth in employment opportunities were 2 % during that period. While in the post-reform period (i.e. from 1991 to 2007) the growth rate was 7.5 % per annum but growth in regular employment was 1 % only. According to official statistics, between 1991 and 2004 employment declined in the organised public sector and the job creation in the private sector was also slow. **(7)**

An analysis of inter-regional development is crucial to understand overall impact of neoliberal economic reforms. This is special problems for India because its less developed regions are also more densely populated. The opposite happens to be in China e.g. in China the more developed regions happens to be most populous and least developed regions are less densely populated. During the last two and half decades quality of life for nearly 400 millions Chinese who live in Southern and eastern costal region regions have improved due to a steady rise in their real income. Scholars have given a number of reasons for differentiations in inter-regional growth. For instance Kanbur and Zhang (2005a) state that regional inequality in China could be explained by factors like openness and decentralisation. According to them, regional variations in growth have taken place due to the evolution of spatial inequalities in education and healthcare provisions in China. This It seem to suggest that effective policy making by the state will help to alter inter-regional differences. (Kanbur and Zhang 2005a)

In India the overall growth rates have been around 6 % as shown in the Table 6. However, the growth rates vary in different states. Here we have presented data for both for pre-reform and post-reform period. We find that poor states, for example, such as Bihar, Orissa and Madhya Pradesh have witnessed decline in growth rates in post-reform period compare to pre-reform period. We have analysed earlier that these very poor states happens to be densely populated. Thus, in the light of these regional developments the claim for reduction in poverty levels in India is less convincing.

Table 6: Economic Growth in Major Indian States, 1980-2005 (%)

States	1980-90	1990-2005	1980-2005
Andhra Pradesh	4.81	5.33	5.1
Assam	3.91	3.00	3.4
Bihar	5.20	4.2	4.6
Gujarat	5.71	8.11	7.1
Haryana	6.68	6.63	6.65
Himachal Pradesh	6.10	6.44	6.3
Karnatka	6.10	6.38	6.3
Kerala	4.50	5.69	5.2
Madhya Pradesh	5.18	4.74	4.9
Maharastra	5.98	5.92	5.95
Orissa	5.85	3.94	4.7
Punjab	5.14	4.14	4.6
Rajasthan	7.17	5.68	6.3
Tamil Nadu	6.35	5.70	5.97
Uttar Pradesh	5.88	3.76	4.64
West Bengal	5.20	7.12	6.32
All India	5.60	5.90	5.8

Source: Economic Survey various issues. Government of India

We think it is important to examine particularly agricultural growth rates in Indian states, already discussed in previous section that this sector being the largest employer of workforce. Table 7 present agricultural growth rates in different states India during the pre and post-reform periods. Among the low income states such as Uttar Pradesh, Madhya Pradesh and Orissa, agriculture growth decelerated compare to pre-reform period. However all India agriculture growth rates has also declined from 3.6 % from 1984 to 1995 to 1.8 % in 1995-2005 average per annum, which is lower than population growth.

Table 7: Growth Rates of Agriculture in Indian Sates (in %)

States	1984-85 to 1995-96	1995-96 to 2004-05

Andhra Pradesh	3.18	2.69
Assam	1.65	0.95
Bihar	-1.71	3.51
Gujarat	5.09	0.48
Haryana	4.60	1.98
Karnatka	3.92	0.03
Kerala	3.60	-3.54
Madhya Pradesh	3.63	-0.23
Maharastra	6.66	0.10
Orissa	-1.18	0.11
Punjab	4.00	2.16
Rajasthan	5.52	0.30
Tamil Nadu	4.95	-1.36
Uttar Pradesh	2.82	1.87
West Bengal	4.63	2.67
All India	3.62	1.85

Source: Planning Commission, (2007) Government of India, New Delhi

In order to become modern industrial nation, basic education is considered very crucial. East Asian countries during their early periods of industrialisation they had achieved quite higher levels of enrolment. In India as the Table 8 shows us not only that all India gross enrolment ratio is low, but also it varies very much in different states. **(8)**

Table 8: Gross Enrolment Ratios – 2003-04 in Indian States (%)

States	Upper Primary (11-14 years)	Secondary (14-18 years)
Andhra Pradesh	64.9	44.6
Assam	N.A.	N.A.
Bihar	25.3	16.9
Gujarat	70.1	40.0
Haryana	65.5	45.5
Karnatka	76.2	41.7
Kerala	93.6	48.0
Madhya Pradesh	63.3	34.9
Maharastra	87.6	53.9
Orissa	54.0	32.7
Punjab	60.1	39.0
Rajasthan	61.5	32.6
Tamil Nadu	100.4	56.9
Uttar Pradesh	48.6	37.9
West Bengal	64.3	32.6
All India	62.4	38.9

Source**:** NSS 61st Round Report No.517, Selected Educational Statistics, 2003/04; Note: N.A. not available

Foreign Direct Investment Flows and Integration with Global Capitalism

Foreign Direct Investment (FDI) was seen as very important factor to make globalisation success and ultimately reduce poverty in China and India. It is true that foreign direct investment has been the most important source of capital, new technology and management in China since 1978. The largest proportion of overseas capital was invested in manufacturing sector and consisted of Greenfield investment in China. During the 1980s, FDI was largely invested in the labour-intensive manufacturing, especially into light manufacturing sector. However, in the 1990s, we find slightly changed and increased proportion foreign capital went to estate sector and high tech industries.

China has demonstrated the ability to attract foreign investments substantially on its own terms and also wise strategy to utilize them. According to official estimates, in 2004 China received over $60 billion as FDI, While India's just $5 billion, showing almost at a 12:1 ratio. Moreover, almost 68 % of the FDI in China originates from East Asian countries, mainly from people of Chinese origin. (Dunning, 2001) China is still dominated by state enterprises and a policy which makes credits easy available to them. This policy cannot easily be reversed because of enormous social consequences of rendering millions of people unemployed.

Table 9: Share as proportion of the total of Foreign Direct Investment inflows to Asia (in %)

	1990	1995	2002
India	0.76	2.8	3.3
China	18.0	47.6	45.9
Hong Kong	4.0	8.2	22.4
Singapore	24.8	13.7	8.4

Source: World Investment Report, various issues.

China's reliance on foreign direct investment (FDI) as an instrument for transforming its economy witnessed a dramatic results and surging from almost zero in the late 1970s to about $40 to $50 billion a year, roughly 5 % of the GDP. (see Table 9) As a result China in the last more than two decades has built a competitive manufacturing for exports. The growth of China's trade has been four and half times that of world trade since 1978 and the country's share rose from barely 0.9 % in 1978 to 3.7 % in 2005. Two-thirds of China's exports come from MNCs mainly owned by overseas Chinese, Japanese and US companies that besides bringing capital and new technology also provided access to foreign markets. Foreign investors took the benefits of low labour costs and the largest share of investment about 60 % went to manufacturing sector, followed by 24 % in real estate and transport, wholesale and retail at 6 %. Moreover, among the manufacturing about half of the FDI has been in labour intensive industries such as textiles and clothing, furniture and food processing. **(9)** Thus, the FDI contributed directly to the employment generation. The strategy is has been pushed beyond the Special Economic Zones (SEZs) in the coastal regions towards inland provinces.

The inflow of FDI between these countries has been quite different not only in term of amount but also the FDI origin. **(10)** India's growth has been till now, mainly supported by domestic enterprises, as against foreign financed enterprise in China. (Wolf, 2006) Some argues that IT sector could play increasingly vital role due to the existence of huge educated unemployed workforce. However, we should not exaggerate as IT related output is currently less than 1 % of the GDP, employing over half million people. **(11)** We should not ignore the critical role of manufacturing sector in employment generation in less developed country like India.

We need to mention here that initially in 1979, four SEZs in China were chosen for overseas capital investment, which were: Guangdong, Jiangsu, Fujian and Shandong. Coastal areas were preferred first for FDI and later into the inland provinces. By 1990s FDI has spread to all regions of China. However, there is wide regional differences are found in terms of overseas capital investment. For example, just five regions are able to attract about 64.6 % of total invested into China.

The role of foreign investment should not be exaggerated in developing countries economies. We need to look briefly the role of big corporations in recent years and also examine from historical perspective. The global corporations, mainly based in the West, continue to remain the main supporters of globalization. These corporations constantly look for opportunities all over the globe for lowering costs and new markets. During the 19th century of the imperial phase of capitalist expansion, industrial and manufacturing enterprises from the West followed various methods of expropriation, organising raw material supplies from colonies from low cost, while at the same time forcing the countries to open up their markets. Contrary to the widely held belief, military and state rather than 'free market' policies were deployed to promote the business interests. However, what we see the relationship currently between China and the big corporations based in the West are not like what prevailed in the 'Anglo-globalisation' period of 19th century, where a handful of west European countries at the centre forced the countries at the periphery to adopt macroeconomic policies suitable to the former.

Furthermore, the recent crisis in the west associated with economic downturn and stock market crashes are setting a new precedent. As this brief quotation explains: "this time (shift) is permanent and far reaching – a fundamental shift in power from the developed world to the developing world, and above all China and India. We have not witnessed anything like this since the inception of the West as an industrial powerhouse in the 19th century. …it heralds a major reduction in the global economic and political influence of the US, rather in the manner that the 1931 crisis announced the final and belated end of Britain's global economic supremacy". (Jacques, 2008)

We find it is important here to provide briefly past historical background of the economies of China and India in order to understand the differences in their current economic performances. The Opium wars of 1839 were followed by century of subjugation and humiliation for China by the Western powers where unequal treaties were forced on China. **(12)** In India, by mid of the 17th century British East India Company was able to establish trading post in Surat, Mumbai (earlier known as Bombay) and Calcutta. The growing internal crises in the Mughal Empire and Afghan invasion, followed by constant rebellion from Marathas provided unique opportunity for Britain to colonise India. And by the early 19th century Britain treated India as cheap supplier of raw materials and a captive markets for British goods, which were admitted duty free. **(13)** (Bagchi, 1976) Moreover, there was a transfer of surplus without any *quid pro quo* to India, **(14)** which financed, such capital inflows as did occur during the 19th and up to the 1st World War, the development of Britain and other temperate regions of white settlements. (Patnaik, 1997; Siddiqui, 1996) The colonial state laid claim to part of the surplus which it simply expropriated and shipped abroad (known as "Drain Theory"). **(15)** The commodities which were produced by the metropolis were not the same as pre-colonial period. (Bagchi, 1972) Therefore, the production structures have to be changed for the benefit of metropolis capital. **(16)**

Prominent economic historian Maddison (2001) has worked out that per capita income for both China and India in 1990 constant US dollar in purchasing power parity (PPP) terms for different periods. The two countries started the 20th century at a low income level. The share of their income was much smaller than their world population share. For example, according to Maddison in 1913 China's share of the world GDP was 8.9 %, while the share of population was 26.4 %. India's GDP share was 7.5 %, while its share of world population was 17 % for the same period. The data shows the trends in GDP growth and per capita GDP at constant prices during the period from 1900-01 to 1946-47 reveals that during the first half of the 20th century, there was near stagnation in per capita GDP, while growth in GDP was minimal. Maddison (2001) finds that the growth in national income in India was 0.8 % per year, whereas the increase in per-capita income was almost negligible at 0.4 % pear year. Moreover, the colonial period was characterised by open economies, balanced budget and unregulated markets. (Bagchi, 1976; Maddison, 2001)

On the issue of long term perspective, until the early 19th century China and India were among the largest economies in the world. Maddison (1998) calculated at the beginning of 18th century China and India together accounted for, in purchasing power parity terms, about 45.7 of the total global GDP (see Table 10). In 1820, beginning of capitalist epoch, as Maddison has termed it, China and India together accounted for 48.1 % of the global GDP. During the same period India's GDP alone was 15.7 %, and China's was 32.4 % of the world's GDP. Europe's GDP (26.6 %) was smaller than China, but larger than India. (Maddison, 1998)

Table 10: Distribution of world income (in PPP terms, as a %)

	1700	1820	1890	1952	1978	1995
China	23.1	32.4	13.2	5.2	5.0	10.9
India	22.6	15.7	11.0	3.8	3.4	4.6

Source: Angus Maddison, 1998.

A comparison of figures after adjusting for PPP makes a substantial difference of share of both countries in global GDP growth as seen in Table 11. The share of these two countries has been increasing over time, although more in case of China than India because of higher GDP growth in the former. Table 11 presents increasing share of China and India's in global GDP. For instance, China's share in global GDP has risen from 1.6 % in 1990 to 4.6 % in 2004, while India share increase was much slower i.e. from 1.4 to 1.6 % during the same period.

Table 11: Share of China and India in global GDP and its growths

	Share in Global GDP (%)	
	1990	2004
China	1.63	4.68
India	1.46	1.67
World	100.00	100.00

Source: World Bank, 2006, Table 4.1 and 4.2

Conclusion

This article has questioned some assertions concerning globalisation and poverty reduction in relation to China and India, the two important so-called success stories from where the general optimism has derived. The argument that poverty has been reduced has been problematic (Patnaik 2000). The proponents have argued that the high growth rates is direct consequence of market friendly polices than other countries. The experiences of other developing countries such as Sub-Saharan African and Latin American countries run counter to this argument (Siddiqui 1998).

The neoliberal economic reforms undertaken have had different impact on China and India in terms of job creation. In Chinese case economic reforms did create new job opportunities in fast expanding manufacturing sector, while in India it did not happen and employment growth was below GDP growth. From 1990 to 2003, in China industrial sector increased on average by 13 % annually, while in India it was less than half at 6.1 %. Chinese agricultural growth was 4 % per year while in India it grew only 3 %. The growth in different sectors of the economy also affected the job creation process for the two nations. China's workforce was 705 million and about 50 % of the total employed in agriculture sector, 29 % in service sector and 22 % in industry in 2003. By contrast, India's total workforce was 482 million, agriculture was the major employer with 60 %, industry 17%, and service sector employed 23 % 2004.

The foreign direct investment (FDI) and portfolio investments (FPI) are considered crucial both to achieve higher growth rates and global integration. Since reform China has received much more FDI than India. A significant proportion of FDI inflows to China is from overseas Chinese. China's policy of creating special economic zones (SEZs) to attract foreign investment by exempting investors from regulations and by providing better infrastructure has proved very successful. Moreover, in large share of foreign inflow of capital was invested in export sectors and infrastructure. This policy further benefited Chinese export firm to emerge more competitive in global production.

We find that the radical agrarian reforms during the early Chinese revolution ensured control of the state particularly over investment in capital assets and financial institutions were meant that the process of integration with the global economy was radically different from that which occurred in India. For example, during early years of revolution, China had already dealt the basic development issues such as adequate food supplies, primary education, literacy rate among female population, availability of health care to rural inhabitants etc. As a consequence, the domestic market for consumption of goods was also larger than in India. In early years of opening up, government ensured higher prices for agricultural produce and this kept number of absolute poor down. Chinese government also focused on increased investment on infrastructure development, combined with controlled trade reforms and investment liberalisation expanded export industries and generated substantial employment.

In India sector wise growth from 1991 to 2005 the growth in the primary sector and the secondary sector was slower in comparison with the tertiary sector. A decline in the growth of the agriculture sector was observed in the 1990s (Siddiqui 2008), which continued until recently. Growth in agriculture is based on a number of assumptions pertaining to government expenditures, input prices, rainfall, price behaviour (Swaminathan 2008). Trickle-down process of growth has been weak, since the growth is not located in sectors where labour is concentrated (for example agriculture) and also in states where poverty is concentrated (Bihar, Orissa, Madhya Pradesh and UP).

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Notes

[?] Klein (2005) concluded that "in recent years, we often approached such meetings with the thought there was a main, sole locomotive for the world economy, but that situation has run its course, and the motive power presently comes form China and India".

2 See Business Week, "Stars of Asia",11th July 2005, pp11

3 See in World Bank, *World Development Indicators* (CD-ROM, 2007)

4 The term "neoliberalism" is considered synonymous with "globalisation". John Williamson (1994) pronounced the concept as set of neoliberal policies, which in turn referred to the advice that was being given by the Washington based International Financial Organisation namely IMF and World Bank to Latin American countries during the late 1980s. These policies were: fiscal discipline, tax reforms, trade liberalisation, privatisation of government enterprises, to liberalise financial sectors by reducing controls over banking and greater role of FDI.

5 See *International Trade Statistics*, 2005, World Trade Organization, 2005, pp21, Table 1.5, Geneva

6 According to China's Statistical Yearbook (2004) that headcount poverty ratio declined drastically from 31 % in 1978 to 2.8 % in 2004 (Government of China), and in India ratio declined from about 60 % in 1950s to 23 % in 2003 and the most recent Planning Commission estimates suggest that poverty is expected to decline further to 20 % by the end of 2008 (Planning Commission, New Delhi).

7 See Economic Survey, 2005, which is the annual publication of the Ministry of Finance, Government of India, New Delhi.

8 See Dreze, J. and Sen, A. K. (eds) (1997) Indian Development: Selected Regional Perspective, Oxford University Press: New Delhi

9 Until 1992, almost all FDI in China was in the form of joint ventures. The term 'foreign invested' was used to reassure that these ventures were domestic firms with foreign participation. After 1992, a growing proportion of local affiliates of foreign firms are majority owned or wholly owned by foreign investors.

10 The term 'foreign invested enterprise' covers subsidiaries of TNCs (Transnational Corporations) and joint ventures. It is misnomer in China and here it means local affiliates of foreign owned firms. Many of these locals are joint ventures with Chinese enterprise.

11 Wipro, an Indian based IT (information technology) firm, has a revenue is $ 1.7 billion and employees 42, 000 strong workforce in year 2004. Its stock, which is traded on Wall Street, has climbed 230 % in just only two years. It has not only become leader in software development but also a pioneer in business-process outsourcing.

12 For detail see John Gallagher and R. Robinson, (1953) “The Imperialism of Free Trade”, *The Economic History Review*, Vol. 6. No.1, pp.1-15

13 See Ha-Joon Chang (2002) Kicking *Away the Ladder: Development Strategy in Historical Perspective*, Anthem Press: London

14 According to Dadabhai Naoroji, “India had since the late 18th century been steadily ‘bled’ of its industrial, agricultural and fiscal wealth, along several channels: enormous military expenses, import-export imbalances including duties on British goods, debt farming, and ‘Home Charges’ in the form of developmental loans and remittances as well as extremely unfavourable exchange rate”. (Dadabhai Naoroji (1901: 283) *Poverty and un-British Rule in India*, Swan Sonnenshein and Co: London

15 The “drain theory” was developed by Dadabhai Naoroji in his book (1901) *Poverty and un-British Rule in India*, Swan Sonnenshein and Co.: London. Others, too contributed to its theoretical development, amongst them such as R.C. Dutt. They held the view that the cost to India of British colonialization was, contrary to imperial rhetoric, to vast benefit of Britain and disadvantage to India.

16 For more recent debate on this issue, see Rama Dev Roy (1987) “Some Aspects of the Economic Drain from India during the British Rule”, *Social Scientist*, Vol.15, No.3, March, pp.39-47)

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