Beyond Hubris: China and India, Before and After Reforms**

Speaker: Prof. Ashwani Saith

Chair: Ravi Bhoothalingam

Date: 07 January 2019

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Following a brief opening remark by the Chair, Mr. Ravi Bhoothalingam, the speaker proceeded to elaborate on China's pre-reform economy, with comments on rapid communisation in China. The speaker noted that the commune system allowed the Chinese state to appropriate economic surplus from peasants and reinvest it, primarily in industry and education, thus creating the antecedents of China's post-reform economic boom. This was achieved by compelling communes to operate at subsistence levels and the speaker likened the policy to a scaled up version of India's welfare plans. Rural communes, according to the speaker, were not viewed as potential markets in China, but rather as suppliers of raw materials to the industrial sector. Surplus labour from these communes was put to the industrial sector as migrant workers, thus allowing a degree of labour mobility. As such, the growth potential latent in the rural communes left untapped.

According to the speaker, India's experience with land reforms and taxation in the years after independence left it in a similar situation vis-a-vis untapped growth potential in the countryside. The speaker noted that death rates in China and India, considered a telling indicator of a society's economic health, were remarkably similar in the 1960s. However, in contemporary times the divergence between India and China in their economic endeavours is stark. While ordinary Indians still struggle to afford basic consumer goods, Chinese consumers all over the country find them well within their means. The speaker provided data on a number of durable assets including computers, TVs, refrigerators, washing machines etc. illustrating that China consumed far more of these per person than Indian consumers. He warned against falling prey to hubris based on the fact that India's growth rate has surpassed that of China's which is experiencing a slowdown. Being five times as large as that of India, China's economy grows from a much larger base, meaning that GDP growth rates are a bad metric with which to compare the two economies. The "depth of infrastructure" in China, spanning from sprawling metropolises to the smaller towns are particularly telling of the large development gap between the two neighbours. It was noted that one of the reasons behind the gap was that while institutions in India are restraints on activity, in China they are used as policy instruments to attain goals that are determined.

The speaker contended that the economic prospects of the two countries going forward were promising. Constraints of diminishing returns tend to disappear after structural transformations in the economy away from the primary sector towards manufacturing and services, a trend that is well underway in both economies. The financial services was proffered as an example of the unrestrained productivity of the services sector. Both economies will be presented with certain challenges on this account. Glaring inequality is the most pressing, and is acute in both India and China. In both economies, it has led to a "potential conflict between state and capital," with the former endeavouring to guarantee employment in the economy and the latter treating labour as a dispensable and unproductive input.

Thereafter, the speaker turned to the perceived opportunities from supply chains migrating away from China. He cautioned against unreal expectations, claiming that historically, the proportion of jobs lost from supply chain migrations to the populations hoping to receive them have been falling since Japan developed in the 1980s and 1990s. The real opportunity for India lies in the domain of bilateral trade, where complementarities are high. India's trade with China represents the classic trade pattern of a developing country with a non-developing one. The ongoing trade war between the US and China also provides some opportunities for India to exploit complementarities with both.

Finally, the speaker turned to the pressing issue of the Belt and Road Initiative (BRI), proffering a pessimistic outlook on its prospects. Since returns on investment on infrastructure projects in distant regions are difficult to ascertain, the risk component of the BRI is significantly high. Moreover, the political influence that has accompanied Chinese finance to Africa has invited pushback from within Africa as well as the rest of the world. The speaker termed China's BRI-led diplomacy as "functional neo-colonialism," maintaining that while it lacked the worst elements of the colonialists it produced strikingly similar outcomes. Most of the recipient countries could not profit from the infrastructure facilities being built due to a "weak ecology of supply responses."

With respect to the ongoing trade war between China and the US, the speaker noted that given the level of global interdependence, instability in China is transmitted globally. China's economic growth is of paramount importance to the global economy since it accounts for 40 percent of incremental demand. He expressed hope that good sense would prevail in American and Chinese political circles, leading to a diffusion of tensions.

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