POLITICAL ECONOMY OF LIBERALISATION WITH REFERENCE TO INDUSTRY: A COMPARATIVE STUDY OF INDIA AND CHINA (1980-95)

Thesis submitted to the Department of Political Science, University of Hyderabad in fulfillment of the requirements for the award of the degree of

Doctor of Philosophy

in

Political Science

by

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DECLARATION

I, Burra Srinivas, hereby submit that the work entitled **Political Economy of Liberalisation with Reference to Industry: A Comparative Study of India and China (1980-95)**, presented for fulfillment of the degree of *Doctor of Philosophy*, in *Political Science*, has been carried out by me as an ICSSR Doctoal Fellow, under the supervision of Dr. P. Eashvaraiah, Reader, Department of Political Science, University of Hyderabad and Dr. Arun Kumar Patnaik, Fellow, Centre for Economic & Social Studies (CESS) and that this has not been submitted for any other degree or diploma here or elsewhere.

Place: Hyderabad

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CERTIFICATE

This is to certify that **Mr.Burra Srinivas** has worked under our supervision for his thesis entitled ***"Political Economy of Liberalisation with Reference to Industry: A Comparative Study of India and China (1980-95)"***, at the Centre for Economic and Social Studies (CESS) and also at the Department of Political Science, University of Hyderabad. This thesis represents his bonafide independent work and doesnot constitute part of any material submitted for a degree here or elsewhere.

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CHAPTER 1

INTRODUCTION

Contents

Since the end of World War-II, there has been increased realisation on part of the nations about the need for programmes of economic development to improve socio-economic conditions of their people so as to provide better living standards. Both India and China started off with this motive more or less at similar point of time in the 1950s.

It may be noted that China in 1949 was a communist country with a closed economic system where the right of ownership of means of production was with the state. But, India was a democracy with a mixed economy model where private ownership would be possible. Yet, both India and China have opted for a planned economic development. A notable common feature in China and India is that of the state sector. This sector which has heavy and capital intensive industries makes these economies allocate more resources than the market economies. The notable difference between the two countries has been that, in China being a command economy prices are relatively less important than in India, where prices play important role not only in individual consumption decisions, but also in the investment decisions.

Relevance of Comparison:

China and India together represent nearly a third of the world's population and about two-fifths of the population of the developing world. Development strategies in these countries have undergone very important, often qualitative changes. While the large size of both these nations limits the exact replicability of their development experience for most of the developing countries that are far smaller, a comparative analysis of their experiences may provide a great deal of useful insights into the process of development.

It is a known fact that without "Political Will" there cannot be any innovative economic activity. Hence, study of political policy issues concerning liberalisation becomes relevant. Study of economic issues without studying their political dimensions becomes incomplete. For a comprehensive analysis, inter-relations between economic and political issues and their overall impact on society need to be studied.

Hitherto, comparative studies conducted on both Indian and Chinese processes of liberalisation are done with an economic perspective, seldom they analyse socio-political implications of liberalisation. There is certain methodological validity in the audacious attempts carried out from time to time to compare the contemporary systems. To posit that one is the antecedent of the other that, in political economic matters too, as in nature, there is a space-time continuum and the past, present and future all exist simultaneously in different parts of the world. In fact, the whole logic of the methodology of comparative studies springs from this belief of the theory of relatively being as applicable to society as to nature.

This can be illustrated by a comparison of Chinese and Indian experiences of liberalisation. Both are large countries, having immense resources, fairly well developed industrial bases, vigorous agriculture sectors. Both have deeply fragmented societies and relatively large elites' contending with even larger segments of the poor and deprived for sharing political as well as economic power. Hence, comparison of both India and China in post-liberalisation period with reference to changes in industry as well as its socio-political dimensions would help understand the process of development and prospects for future of both nations.

Review of Comparative Literature:

Hereunder we present a brief review of comparative literature on liberalisation in India and China[1]. It has been already noted that only some studies have studied Indian and Chinese systems and that too from "pure economics" standpoint. Not many studies have seen the socio-political implications of reform process in both nations.

Bagchi (1987) in his study **Public Intervention and Industrial Restructuring in China, India and Republic of Korea** enquires into the rationale of public intervention to bring about structural change in India, China and Korea. Ostensibly the three countries embody very different philosophies in the design of their political structures. However, the author points out an interesting phenomenon that all three have governments which intervene regularly in the economic process, though the interventions are not the same and the circumstances in which they enter are different.

The study also illustrates the relations between large and small enterprises, the functioning of the markets and shaping of the competitive environment which have been regarded as legitimate concerns of government activity.

The author argues that, policy makers trying to bring about structural changes need to be aware of conflicts between means to achieve several desirable ends. It also needs to be stressed that the pattern of income distribution and the state of employment have very significant implications for the prospects of bringing about structural change of a particular kind.

The study deals with industrial restructuring strategies adopted by China, India and Korea so as to help us better understand the power and limits of public intervention as well as efficacy and limitations of market process in bringing about structural changes in a world fraught with uncertainty and unpredictable change. The study also highlights the ill effects of structural changes on the economy in a comparative perspective.

Bhagawathi (1993) **India in Transition: Freeing the Economy**, discusses the effects of inward-oriented strategies followed by India. His overview of policies being pursued by India since Independence brings in to focus the pathetic performance of India in the past. The economic reforms started in 1991 are discussed in historical and analytical perspective. In his analysis of the model of development pursued by India, Bhagawathi puts an interesting comparison between India and China. Given the choice between the two, the western economists' perceived threat from China and hence, appealed for aid and assistance to the development model of India. Their perception was that India has all the qualifications to be a counterfoil to China[2]. This support was visible until 1960s. However, since mid-1970s there has been marked shift in such viewing as thee was a new generation of comparative analysts in US who perceived less threat from China to their nation.

Indeed, the economic reforms of China in late 1970s and early 1980s and their self-critical approach towards Cultural Revolution years paved way for Chinese gains. During this period, there is nothing in Indian pronouncements of this period, which compares with the unrestrained optimism and expectations of the Chinese leadership.

Bhagawathi points out that while "India was moving in the right direction in internal economic reform, China had moved in the wrong direction in internal political reform". The Tiananmen Square massacre of June, 1989 set the Chinese image back to what it had been in yesteryears. Inspite of some positive spadework India also was unable to take advantage of the situation; it couldnot reduce the amount poverty in the country. Its development model was constantly interfered by the government in production and investment, etc., which made it lose the scope for gains.

Thus, both India and China had fallen behind, trying to catch-up in the 1980s, with reforms whose inspiration came partly from the successes of their South-Asian counterparts. Rest of Bhagawathi's analysis tries to explain the defective policies and mistakes of India and then goes on to provide a workable model for India's development.

Bhalla's (1992) work, **Uneven Development in the Third World: A Study of China and India**, is comprehensive study of comparative development experience of China and India. It makes distinction between the strategies adopted for the achievement of development and the outcome of development. In analysing strategies adopted by both nations Bhalla seeks to focus on the degree of their unevenness, that is the deviation from what may be considered balanced development of different entities such as production sectors, industries, geographical areas, etc.

Bhalla employs an index of dispersion of sectoral rates of growth and an index of dispersion of Incremental Capital Output Ratios (ICORs) and the "modified" Lardy index to measure the unevenness of growth in China and India. In China the index of dispersion in sectoral growth rates shows a steady decline, while the index of dispersion of sectoral

ICORs shows a decline in the earlier period that was reversed later. In India, there was an initial rise in the index of dispersion of sectoral growth rates, followed by a steady decline later. The course of the index of dispersion of sectoral ICORs was the same as that in China. The author concludes that overall there was reduction in the unevenness of growth in both countries[3].

The author compares development outcomes in the two countries with reference to growth, income distribution, technology and access to health and education. China achieved a much higher overall growth rate than did India. Throughout the author tried to relate differences in development outcome to differences in strategies. However, in the final chapter an interesting analysis is made to uncover the political economy behind the adoption of specific strategies in case of each country.

Dreze and Sen (1995) in their work entitled **India: Economic Development and Social Opportunity**, analysed the task of economic development in India in a broad perspective in which social as well as economic opportunities have central roles, tries to compare Indian experience with that of China. They outlined in particular what India can learn from other countries especially China. The study basically pays special attention to the role of basic education in social transformation as well as economic expansion.

They feel that comparing the successes and failures of India and China, one can judge the effects of economic reforms. The authors feel that both pre- and post-reform situations in the two countries are comparable. The Chinese successful liberalisation programmes and its massive entry into international trade has been projected as a model for India to act upon. The authors argue that, the accomplishments relating to education, health care, land

reforms and social change in the pre-reform period made significantly positive contributions to the achievements of the post-reform period in China when compared to its Indian counterpart. Hence, they argue that India had to take the lessons for the same.

The main purpose of Gupta and Others (1995) in their work **Development Patterns and Institutional Structures in China and India**, is to find out how India and China, with similar short and long term problems in steering their large economies (with a heavy public sector domination and an inefficient, highly protected production structures) through a reform process based on liberalisation and openness, are meeting the challenges that have arisen, given their different political systems and reforms strategies? They contend that both India and China can gain tremendously from comparing experiences.

This book, however, covers only few selected areas of their reform packages, consumer demands, exchange rate adjustments, export performance, etc., apart from general comparisons. The basic problem of the book is that the authors consider the Indian economic reforms to have started since 1991-92. Notwithstanding the official declaration of the same, we must know that in India also we had started our New Economic Policy (NEP) since early 1980s itself. If this premise were to be taken, such comparison as has been done in this study, would have been useful to see the relative merits or failures of both the systems. However, this study did not initiate the same.

This volume also identifies interesting, yet relevant problems pertaining to both nations. The Chinese economy is at present considered to be over heated and needs to contain inflation and prices. It has to streamline centre-state relations and institutional framework for the conducive use

of indirect market based instruments of economic development by government. Though India also faces the problem of inflation (incidentally, this weakness of India as against China is also our stand) unlike that of China, it is because of little growth it achieved. The problems of centre-states, with regard to the percolation of economic reforms need rethinking. While India needs decentralisation China is trying to regain its lost control over its provinces.

In the long run, China has the most challenging problem of establishing compatibility between its reform strategy and political structure and economic institutions. In this context, India is fortunate as its political institutions are closely geared to a democratic market-based system that would ensure proper economic activity.

Swamy (1973 & 1989) tries to compare the economic growth of India and China in both his works on **Economic Growth: India and China**. He tries to analyse the reasons as to why India and China (the developing countries) did not respond to the forces of industrial revolution and modern economic growth?

This he attributes to the lack of good leadership in two nations. He contends that, after 1940s both India and China more or less stable governments, which had tried to transform their economics into modern industrial ones. Swamy, after meticulous calculations in national income accountings reached a radical conclusion that, in the period of 1950-78 both countries progressed much faster than in the earlier ten decades and the overall growth rate in national income was about the same. However, in the past few years, though both countries accelerated their growth rates, China under Deng's reforms outstripped India in all sectors of economy. His analysis shows, that the Chinese had used their resources inefficiently, than the Indians;

Notwithstanding their higher efficiency, Indians are backward in the indices of poverty elimination, illiteracy eradication ad health development, etc., where in Chinese had done decisively better.

His study contains most of the qualitative work on agriculture, industry and national income, the purpose of which is to establish a consistent series of value-added figures for agriculture and industry, establish the proper weights for addition of the net value-added figures, and estimate the growth rates of China and India on the basis of these consistent series.

Patel's (1994) work **Indian Economy: Towards the Twenty First Century**, traces the path of development in his analysis on planning. He argues that though India achieved economic progress domestic inequalities of income, wealth and economic power had widened. So is India's share in world economy. Its share in world income, industry, trades and agriculture has fallen sharply.

He points out that liberalisation of the economy involves reliance on the market and the individual capitalists. These changes also underline that the management of the Indian economy in the future will be very different from that of the past. In his analysis of India's eclipse in the world economy, he presents the sharp contrast between India and China. By way of empirical evidence he proves that between 1950-80 China had gone far ahead of India in many areas of economic performance. These gains he attributes to:

1. Universal education in China as against education as a welfare policy in India (though policy pronouncements are there India coundnot achieve success).

ii. **Enrollment of more number of female students and less dropouts than in India. And**

iii. **The Cultural Revolution period with its emphasis on better red than expert had decimated its intellectual and technological skill development.**

Apart from analysing Indian planned economic development, Patel tries to explain that the reasons for liberalisation were wrongly timed. He points out several options which the government had in its hand but eventually the government failed to adopt them and had approached International Monetary Fund (IMF) for Structural Adjustment Programme (SAP). While exploring the future of economic policies and the leap towards globalisation, Patel argues that this would only accentuate further the domestic inequalities.

Srinivasan (1988) in his work entitled **Economic Liberalisation in India and China: Issues in an Analytical Framework**, points out that both nations have similar rates of growth when they initiated planned economic development. He says that the success of liberalisation in both nations depends on the moderation of protectionist tendencies that are fast emerging in industrialised economies. Further, economic liberalisation in China may lead to generation of forces clamoring for political liberalisation (this is also another important issue that we would try to analyse as part of our study). In India, though the mixed economy has given institutional framework particularly a functioning market), building political support for liberalisation is more difficult. However, in China, though such structures are to be built, it can carry forward economic liberalisation with less fear of opposition. Where as the same is not the case in India.

Srinivasan points out that in order to count on the external liberalisation, internal liberalisation is a must. This is because of the fact that the economic controls in these countries had made those persons in-charge of these economic affairs more powerful. Hence, in order to break from such non-advantageous position, both nations have turned to economic development. The success or failure of this policy depends upon short or medium run, on the structure of the economy and determined by its evolution during long period of economic controls. He then tries to present an analytical framework to sort out the issues involved.

Understanding Terms and Concepts:

The terms and concepts involved in the study are:

Political Economy:

From a broader epistemological viewpoint, political economy accommodates political, economic, sociological, historical and other related influences in the phenomenological explanation of the comprehensive inter-disciplinary subject. The rise of political economy was evident during the pre-classical period, marked by the philosophies of mercantilism and physiocracy. And it further expanded in a very systematic way during the period of classical political economy. Marxian political economy is essentially an extension of the system of classical political economy, but in many respects, is also different from the former. Marx gave Political economy as subjects discipline a new direction and dimension.

The basic thrust of political economy from classical to Marx has centered on the question of production. Accordingly, the process of production can be regarded as a contradictory unity of two relations: (1) the relation between man and nature, and (2) the relations of production. Of these two, the second point forms true subject matter of radical political economy. Hence, it can be defined as the study of production relations in terms of their interconnections with the contemporary development of productive forces as directed by history.

Like its classical counterpart, radical political economy analysed production, distribution and the question of surplus. According to Popov (1984), Riskin (1987), and Chatopadhyaya (1994) the study of political economy observes that while surplus is originating in production, it could be realised through circulation. Hence, the form and manner in which surplus is generated, appropriated and distributed under different modes of production becomes basic for analysis. In this framework, political economy analyses the genesis of social conflict that arises between production relations and the forces of production and the consequences of such conflicts in the analysis of capitalism. Radical political economy analyses in detail the growth and decay of capitalism. It focuses more on the competitive capitalist mode of production and the class conflict between labour and capital and comes to the conclusion that owing to inherent contradictions in capitalism, it will ultimately breakdown[4].

Ghosh (1997) says that the present day "political economy cannot wholly accept classical political economy for many reasons, it would be essential to develop a theoretical paradigm or structure that integrates analytical sophistication with empirical rigour and policy orientation. In analysing empirical issues, a political economist should use quantitative tools of analysis, if necessary. Any softness in this regard may prove to be detrimental to the growth of scientificity in the discipline. A positivist political economy will, indeed, be healthy for the subject.

Political economy does not necessarily have to be always normative; normative prescriptions can be based on positive analysis" (Ghosh, 1997:46 and See also Ghosh,1990 for details on political economy).

Globalisation:

Globalisation means coming of national economies of the world closer. Trade is primarily the vehicle for the circulation of capital which nations claim including those of various currencies. According to Haque (1997), this has very little to do with the transfer of goods among national economies. The principle of globalisation is based on the Ricardian theory of comparative advantage. Key concepts involved in the subtle use of theory to canvas support for these processes of globalisation, liberalisation, etc., are competition, efficiency and growth, all shown to be related to markets. These concepts belong to a theoretical system that claims to express the essence of the capitalist economy, showing it as promoting efficiency and growth through competition.

Theorists such as Gupta (1993) argue that, globalisation of markets under the aegis of capitalism are theoretically sound and move in the right direction. As it is generally perceived that capitalism promotes growth, globalisation of markets will promote efficiency and growth globally. However, such hypothetical representations of capitalism that it promotes growth globally needs to be critically examined as its real life features are distorted (See endnote.4 for details).

Liberalisation:

Economic liberalisation refers to changes in the relative price structure; domestic and foreign, by free market operations. The basic rationale behind liberailsation was to reduce the discreationary role of government with respect to economic matters and thereby increase the space for market forces to operate. It is believed that through this process of deregulation, the economy will become an efficient producer leading to a higher rate of growth of output. Guha (1990), Gupta et al., (1993), Mani (1995), Bhaduri and Nayyar (1996) present basic concepts of liberalisation and their short and long term implications. Liberalisation programme has trade, fiscal, monetary, financial, price, incomes and industrial policy components. In the process of changes in the policy package it influences changes in the real activities in the economy and its production, consumption and distribution structure. Their effects come in short, medium and long term and there are trade-offs between different instruments used and their totality of effects undertaken by the governments concerned.

Though it is the long and medium term effects, which are of interest to the policy makers, the short-term effects are equally important especially for the acceptance and continuation of the reform programme. The social impact normally gets reflected in the changes in the purchasing power of currency, that is prices, changes in the real income of the different income groups and their impact on employment and occupational distribution.

While reviewing different economies under the economic reform programme, one should not equate 'liberalisation based on market orientation' with 'outward looking export incentive strategy'. Notwithstanding the combination of export led growth strategy and significant government control in Asia-Pacific region that brought growth and development, the most difficult part is the transition from initial imbalance to a phase of stabilisation[5]. Common experience shows that in countries with low per capita

income and poverty, like that of India and China, where the initial process of these adjustments started from a balance of payment dis-equilibrium and large fiscal deficit, the transitional pain over the contracting period is likely be prolonged and more intense.

Privatisation:

Privatisation may be termed as the policy changes that reduce the controlling and regulating role of the state and remove other government interventions in the economic system. Though, economic reforms are based on the philosophy of the state acting as a facilitator and having faith in the market economy, privatisation generally is interpreted in the narrow context of public sector enterprises (PSEs). The twin forces, which aid privatisation, are deregulation and decontrol. The government withdrawal from regulation of market activity and introduction of new contractual ventures would bring more privatisation.

Field (1995), Gupta et al., (1993) says that, the perception of the term privatisation differs depending upon the characteristics of their existing private sectors. In Britain, a strong and competitive private sector defines privatisation as transfer of ownership of PSEs to private hands. On the contrary, in China, due to non-existence of private sector, privatisation was perceived as introduction of contractual management. In India, the private sector is non-competitive and is protected and supported by the government. It enjoys the privileges of sellers' market and is exposed to very little risk.

Such type of environment offers little scope for initiative and has widespread sickness in private sector industries. The linkage between initiative and ownership is

not strong in these private industries. Hence, transfer of ownership per se need not be an essential pre-requisite of privatisation. Hence, promoting of private initiative with or without transfer of ownership and autonomy in the management of PSEs may be defined as privatisation.

Industrialisation:

The process of transformation from predominantly agricultural economy into the one where the manufacture of goods increasingly contributes to overall output and exports may be termed as industrialisation. According to Ghosh, et al., (1992) and Swamy (1994), throughout this process of transformation, the percentage share of agriculture to total Gross Domestic Product (GDP) declines and that of industry increases. Changes in the economic and social organisation of production and distribution are necessary precondition for industrialisation.

The relation between industrialisation and economic growth is a subject of continuing controversy. Early arguments for accelerated industrialisation were based largely on the assumed properties of technology in manufacturing and related sectors. The importance of economies of scale and growth of productivity in manufacturing and the cumulative benefits that shall be brought about in the form of external economies were stressed.

Industrialisation was advocated to offset the supposed disadvantages of specialisation in primary production and the associated secular deterioration in the terms of trade. There is a change in achieving industrial growth and industrialisation under the present context of globalisation. In this context, industrialisation is not only a response to changing demand and supply conditions but also a principal means of acquiring modern technology.

The argument for shifting from an inward-oriented to an outward-oriented strategy was greatly strengthened by the success of newly industrialising economies thus charecterising this export-led outward oriented policy as a model for rapid growth. However, as the present experience shows the South-east Asian economies on which such argument is based have collapsed giving rise to doubts on its validity.

According to Whynes (1983) the industrialisation model traces the rise of industry to shifts in domestic demand, the growing intermediate use of industrial products and the transformation of comparative advantage as factor proportions change. Although this phenomenon can be observed in virtually all developing countries, their relative importance varies according to each country's structure, natural resource endowment and development policies.

Class Formation:

Classes represent groups of people differing from each other by the place they occupy in a historically determined system of social production, by their relation to the means of production, by their role in the social organisation of labour and by the dimensions of the share of social wealth which they dispose and the mode of acquiring it.

The question of class formation had been discussed by many such as Wright (1978), Poulantzas (1974), Alavi(1982), Chassudowsky (1986), Chatopadhyaya (1994) and Weil (1997). According to these theorists, the formation of class has certain objective positions within class structure, which are torn between the basic contradictory class relations of capitalist society. Class formation is not simply a matter of economic relations, but involves the culture and politics growing out of them. It involves a process of self-creation on the part of production relations-defined groups. Thus, the formation of class may be emergence of a new class, reformation or deformation of an existing class or both due to polarisation of capitalist production relations.

Corporatism and the Concept of Welfare State:

The concept of corporate is profit motive. A corporate business house looks for enhancing its market and its base. This apart, its management shall be professional and would strive to achieve targets. According to King (1992), there is a linkage between the decay in pluralist policies and the decline of a competitive market economy. This establishes the point that interests in politics are similar to the development of a large stratified and concentrated business sector, on the one hand and a small & medium sized sector on the other. In the former case domination of markets is possible, while in the later company failures and mobility are clearly marked. Similarly, the political market reflects the unequal influence of some interest groups as oppressed to others. Large corporations exert economic power in the market and also influences political power to enable public policy discriminate in their favour.

The democratic political market begins to be eclipsed by power of interest groups, especially those of the economic producers (capital and labour), similar to the uneven development of corporatisation in the economy. As a consequence of uneven expansion of the role of the state, some interests become corporatised while the rest remains pluralistic.

Reinterpreting the growth of the welfare state in corporatist terms suggests that it results from the bargaining process between state and providers, rather than responsiveness to the needs of consumers and clients. Similarly, if the welfare state is successfully defended from a strategy of welfare expenditure cutting, it will be because it directly challenges the power of corporate groups. State recognises the importance of corporatism in some fields such as education, health, etc., where corporatism is not just related to 'production', but also incorporates social policy making.

In a class approach to welfare corporatism, welfare institutions are seen much as integrated and largely dependent mechanisms subordinated to the process of wider emergent corporate industrial state. However, Ackoff (1994) says that, there are difficulties in such a class approach to welfare corporatism. The liberal form corporatism, does share features with pluralist form such as a certain distribution of power, the importance of interest groups and the relative absence of a dominating and increasingly all powerful centralised state, etc.

Capitalist Production Relations:

Many scholars depict exchange as a relationship between commodities or between commodities and cash. The societal angle of exchange seems to be missing. When it comes to production, it is seen usually in a technical combination of inputs to get output. These inputs are clubbed together into broader categories like, land, labour, capital, etc. Ghosh (1990), Chatopadhyaya (1994) and Kurien (1994) says that, it is important to consider production as a social activity with specific human relationships, which in turn gives rise to different forms of human relationships.

Capitalist production is not merely 'exchange', it becomes one, when the labour power works with it and adds 'value' to it.

According to Kurien (1994), historically, irrespective of the nature of organisation of production, people who were actually engaged in work have produced more than what is required for their survival. This 'surplus' which was generated in the process of production was appropriated and utilised. The progress of human society can be related to the manner of appropriation and utilisation of this surplus. In the simplest social organisations where practically every member had to be a worker, the surplus is utilised to support the old and to look after the infants. In more advanced situation a part of the same was utilised to maintain the 'chief'. In feudalism, a part of the surplus was appropriated and utilised by the landlord solely on the claim of ownership. Under capitalism the surplus generated by those who work being appropriated by owners, solely because they are the owners of capital. This is 'exploitation' per se.

Under capitalism form of surplus and the manner of its appropriation changes as there is a tendency to convert all that is produced into value (monetary one) through exchange. Since what is produced is value added, its surplus becomes surplus value[6]. The capitalist owner after retaining his share passes on to the workers their share as wages.

Capitalists would find themselves at a monopolist status and enjoys surplus profits, until other capitalists come into the fray. In the ensuring imperfect competition, advertising of a product becomes crucial to promote particular type of good. However, as in the world of nature the bigger fish tend to swallow the smaller one, the general tendency will be for the larger capitalist to drive out his

smaller competitors or to take them over[7]. Competition brings about major changes in the profile of capitalism and constant change is one of the basic tenets of capitalism. The wave of liberalisation as a global phenomenon has endowed legitimacy to different economic systems derived from capitalism, not withstanding the failures in developing countries.

State Capitalism:

Capitalism in general is where the capitalist exploits the labour and amasses wealth through appropriation of surplus value. However, in certain cases, state by virtue of being a regulator of market activity, itself acts as a capitalist producer with its product as a commodity to the extent it employs wage labour. Here, the salaried employees (both technocrats and bureaucrats) and all the agents of state become functionaries of capital.

They extract surplus value from the immediate producers who remain alienated from and opposed to their own products. Thus, state capital represents a form of direct social capital where all the contradictions between labour and capital becomes maximum. Production and property looses its earlier private character and would be recognised juridically as public property. Social exploitation of relations of production that was manifest in capital would come to the fore. State capital could be an individual capital as it forms a fraction of the social total capital although, it may be recognised juridically as belonging to public ownership. Other forms of capital would belong to private ownership. Alternatively, the state can also take over the entire social capital where the centralisation of capital occurs and would be under single juridical public ownership of the state (See King, 1992 and chatopadhyaya, 1994 for details).

Socialism:

Socialism is a transitional phase on the road to communism. Under socialism there still remains classes, occupational division of labour and also elements of market economy. According to Ghosh (1990), under socialism apart from being dictatorship of the proletariat, there also must be nationalisation of the means of production as obligatory. During this period of transition reforms like progressive taxation, social welfare, planning, workers' participation, universal free education, etc., will have to be introduced.

Socialist production is to be managed in a planned way to meet the needs of the society. Chatopadhyaya (1994) says that such a plan is to be formulated by an independent socialist state. Socialism is not only an economic system but also a political one. Hence, planned production based on social ownership of means of production must bring maximum social welfare. The principle of "each according to his ability, to each according to his work", shall be in operation as there will be limited goods and services. Hence, difference between mental and manual labour, skilled and unskilled labour shall remain under socialism. Here wage is a form of income distribution according to performance, on the basis of nature of work and the grading system. Incentives are also given for fulfilling the production targets[8].

Although socialism stands for classless society, classes such as workers, peasants and intelligentsia shall remain under socialism. However, there is no class contradiction amongst them inspite of the fact that there exists private property in this transitionary phase. Socialism tries to establish equality in the sphere of production as far as possible. The class distinctions are

gradually abolished and fully obliterated during the higher phase of socialism (communism).

State Socialism:

Against the model of 'communes' to overcome alienation through transformation and dissolution of state authority through the creation of self-governing communities in which people would directly participate in decision making and implementation, the Russians conceived an alternative model with a strong state as necessary for the transformation of property relations, for overcoming material want and inequality and for defending the socialist revolution from its enemies.

The political system of state socialism rests on the assumption that the communist party expresses the political interests of the working class and as state ownership and control of production effectively eliminate class conflict no other parties are required. Based on this assumption, according to Field (1995), the liberal-democratic role of political institutions, which would articulate the demands and interests of the pressure groups are absent under state socialism. The communist party considers such institutions as forces, which would weaken the collective leadership of working class. The party becomes authoritative source of values and monopolises of political organisation.

However, Chatopadhyaya (1994) writes that, the objective existence of value categories such as commodities, money, bank, credit, etc., in USSR could ideologically be accepted for a transitional economy which would be eliminated in the future form of socialism. However, this argument of soviets clearly shows that they deviated from Marxian form of socialism[9].

Market Socialism:

Market Socialism seeks to combine the recognised advantages of markets with respect to efficiency and a system of social property rights, which would contribute, to the achievement of the objectives associated with socialism.

For attaining socialism, according to market socialists, the role of markets needs to be diminished in an economic system and it must be replaced by mechanisms of economic planning. It also requires having predominance of social property rights rather than private property rights. Advocates of market socialism such as Hayek (1935), Kornai (1992), Bardhan & Roemer (1993) and others while arguing it as a third way between capitalism and socialism accept many theoretical and empirical arguments that have been raised over the years against primary reliance on planning rather than the markets[10]. They therefore seek to change capitalist institutions primarily by embedding within a competitive market structure, a system of enterprise ownership characterised by some form of social property rights.

In the context of liberalisation and opening of the economies of India and China, this concept of market socialism becomes extremely relevant. This makes us to critically analyse the process of liberalisation in both India and China from a theoretical standpoint[11].

The Process of Liberalisation:

In 1978, economic reforms in China were initiated when Deng took over power after the demise of Mao. Since, then, the "Four Modernisations" policy of China in Agriculture, Defence, Industry and Science & Technology are in operation. The Chinese resentment for misallocation of funds and also the bias against foreign technology and capital during the Mao regime provided a basis for the Chinese liberalisation.

In India, economic reforms began in a small way as early as late 1960s with the devaluation of its currency and had brought visible changes during the 1980s when it opened for massive technological collaborations to develop domestic industry. But, the real thrust for reforms came in 1991. The Balance of Payments (BoP) crisis during the early 1990s was only a catalyst that had unleashed the hitherto closed economy of India to the outside world.

Unlike China, India faced problems on both the domestic and external fronts due to the shortage of capital resources and low exports, widening thus the Terms of Trade (ToT). In order to overcome this crisis India was led to liberalise its economy.

Thus, we can say, while China has liberalised its economy from certain strength, India has done it because of a financial crisis in its system. However, unlike in India where there are experienced entrepreneurs, who are capable to carry the groundwork for the success of reforms, China needed a total restructuring of its economy (de-collectivisation of rural and urban land, breaking of co-operatives, etc.). Thus, the structural shift of India and China from a centralised command economy to that of a market-oriented economy and from import substitution to export led growth strategy is broadly meant to achieve rapid progress and development. But, while the objectives and ideological deviations are similar, there is great deal of difference in terms of strength and potentialities.

During the course of working of the new policy in 1980s the hitherto dominant sector agriculture was taken over by industry. Subsequently, investments in both nations were targeted towards industry. Agriculture shrunk in size, but ironically labour force displaced by agriculture could not be accommodated by industry. Hence, unemployment, pressure on land for food, etc., increased in both nations.

In such a backdrop, it is timely and relevant to study the policy changes during the decade of 1980s and its impact on industrial sector of both the economies. This study will focus on the political and economic conditions of industrialisation led by foreign investment. It will also examine the emerging new industrial relations and political issues, which are natural outcomes of the policy of liberalisation of industry.

In China, the post-Mao development strategy has departed significantly from the earlier goal of egalitarian development. Their emphasis is on rapid economic growth. Emphasis was on light industry rather than heavy industry; on increased consumption rather than increased investment and command economy led by the state rather than market responsive socialism. Furthermore, an open door policy of liberalising imports of foreign technology as well as investments has replaced the earlier policy of national self-reliance.

Liberalisation of Indian economy started as a response to the inherent weaknesses in the state capitalist system where private entrepreneurs had flourished under the state controls. The business elite had explored the protected and assured market in India by 1980s. The technology was obsolete and Indian consumers were striving to have new brands of goods. In such backdrop, the Indian industry, which is starving of foreign capital and technology had asked for liberalisation. Thus, during 1980s there was emphasis on deregulation and decontrol, which we shall observe in detail in the chapters to come.

In 1991, the government has introduced new economic reforms that had unleashed new political as well as economic forces. There was liberalisation of import of foreign technology and capital flow. The previous Nehru-Mehlanobis model of import-substitution was replaced by the export led growth strategy. Limit for foreign equity participation has been raised between 40 per cent to 100 per cent depending on the type of industry. Industrial licensing was abolished. Monopoly and Restrictive Trade Practices (MRTP) Act and Foreign Exchange Regulation (FERA) Act were withdrawn. New programmes for poverty alleviation and development such as Jawahar Rozgar Yojana (JRY), Prime Minister Rozgar Yojana (PMRY), etc., were given thrust. This apart, a new social security package for the workers under the New Pension Scheme (NPS) of 1995 was initiated as also the component of National Renewal Fund (NRF) which is specifically made for reviving sick industries as also to provide training and redeployment of workers.

Thus, both India and China had started with similar development strategies- heavy industrialisation and growth maximisation during 1950s till the late 1970s and market liberalisation in the 1980s. In China unlike in India, even after the growth of private enterprises and capital formation, public ownership of means of production remains intact[12]. Private enterprises and allied activities still form small part of the total economy. During early 1980s central control and planning were reintroduced to control the business activities for development and growth instead of capital accumulation.

In India also uncertainty prevails due to political instability. The dilemma of state control versus liberalisation also faces the Indian planners and policy makers. Although a shift from planned economy to free market system brings in greater efficiency and higher growth, it tends to raise income inequalities and create social unrest. Another area of hindrance to market reforms that, the major subjects like agriculture, health, education, etc., are state responsibilities. Another feature of reform with respect to industry is that, in India industrial development was planned and was assisted by foreign agencies through constant capital and technology inflows. This had left deep-rooted linkages between Indian industry with foreign investors. Since liberalisation, these linkages are more aggressive and are now trying to dominate Indian markets.

However, this was not the case with China[13]. In post-Mao China, a balance was achieved between light and heavy industry. But, a shift towards market oriented development and priority growth over equity seems to have led to greater income inequalities.

In both these nations, liberalised imports of foreign technology due to an import intensive production patterns (and shortfalls in food grain production leading to further imports) have contributed to fiscal imbalance. Thus, it would therefore be appropriate to examine the extent to which policy changes led to uneven and unbalanced growth in economic and social aspects in both countries.

Objectives and Scope of Study:

This study focuses on the structural changes brought about in India and China since 1980s and their impact on Industrial sector. It examines the similarities in the previous era and the changes brought in thereafter viz., trade liberalisation, inviting foreign investments, export led growth strategy, et al., and their impact on performance and growth of industrial sector in both nations. The study also examines the emerging industrial relations.

A cursory look at both Chinese and Indian industry shows hat before the policy of liberalisation the state control and finances were more in both nations. Industrial sector flourished with state protection. There is private oligarchy with respect to India. But, after decentralisation and the declaration of new industrial policies by both India as well as China, market is determining the prices. State withdrawal from regulating economy is evident. Creating serious imbalances and inequalities with respect to industrial production and distribution. Workers retrenchment and new industrial relations are common outcomes.

Although there were differences between India and China in the three decades of planning and developmental experience from 1950-80, they have been more distinct during and after liberalisation. It is also worthwhile to examine in what respect they are distinct and as to what factors are responsible for this notable distinction in the economy of both nations.

Furthermore, if we compare the general political and economic ideologies of the two countries, the Indian economic ideology and political system is having capitalist characteristics. According to theory, an economy with capitalist orientation should grow faster and efficient than an economy with strong socialist orientation. Indian economic ideology and political system has capitalist characteristics and the Chinese had strong socialist egalitarian policies although in the version of market socialism of Deng. However, by contrast, Indian economic growth rate always remained below that of China over the t past the difference is progressively increasing. So, it would be pertinent to examine the same.

This study focuses on the process of liberalisation in both nations and its impact on industrial sector. We know that before the policy of liberalisation state control and finances were more for industry in both nations. Industrial sector flourished with state protection. But, since liberalisation state withdrawl from regulating economy and market determination is evident. Similarly, structural changes brought about by India and China under liberalisation makes it easy for mobility of both internal as well as external capital. Thus, this study would analyse the impact of liberalisation on foreign investments and their impact on industrial growth. However, cursory look at the issue points out that inspite of the fact that China is a totalitarian state, investments have been more there rather than a liberal democratic and market friendly state like India during the period 1980-till date[14]. Hence, it would be pertinent to analyse the reasons for such differences in inflow of investments as well as its impact on industry in both nations.

Liberalisation often leads to heavy inflow of technology and capital, which would replace the existing production forces and alters the existing relations of production. This technology invasion replaces labour, best example being computers. This tendency would displace scores of people who were hitherto, employees and creates unemployment problem. In this context, it would be timely and relevant to examine the changes in industrial relations and present the emerging trends for workers vis-à-vis employers and the changing nature of the state.

Hypotheses:

1. Liberalisation has brought in visible changes in industry in India and China as opening up to foreign investments results in faster industrial growth.

2. Liberalisation has far-reaching adverse consequences for labour and industrial relations in both India and China.

Methodology:

The study will be with comparative political economy approach, which is suited for the theme. It is rather implicit while analysing the performance of industry and allied sectors in both India and China before and after the policies of deregulation and decontrol came into being. This study intends to look at the socio-political dimension of liberalisation in both these nations with special reference to emerging industrial relations.

The study is based on institutional publications such as reports, policy papers, etc., of the World Bank, the International Labour Organisation (ILO), United Nations Industrial Developing Organisation (UNIDO), Asian Development Bank (ADB), etc. Large number of other studies pertaining to the issues discussed above are also consulted.

Reasons that are influencing economic structure in the process of liberalisation can be inter-related. However, some of these reasons cannot be quantifiable. So, these qualitative reasons are examined and explained in theoretical presentation and economic tools such as regression analysis are used for quantifiable variables.

Limitations of the Study:

- Our study focuses on the changes in India and China during the period 1980-95. However, we tried to examine this scenario with substantial statistical evidence available from different sources. Some overlapping with respect to years may be because of the data taken from different sources.

- In this study industry connotes the whole of industry as a sector (that is the sectoral share of industry in all macro-economic parameters). Hence, we do not go into the details as to which specific sub-sector (such as manufacturing) of industry has benefited or is loosing as a result of liberalisation. However, wherever possible such issues are discussed subject to its relevance for this study.

- This study is not meant to discuss or analyse the other implications of liberalisation such as external debt, international trade, balance of payments, valuation of currency, etc., as these are quite economic in nature.

- Specific policies pursued by China during pre- and post-liberalisation periods are presented in an order as has been followed by the Chinese leadership. However, as regards India, periodisation was not possible as the policies pursued were more or less continuation of the previous ones albeit with little difference. Hence, there would certainly be some gap between both nations' policies and practices.

Chapterisation:

Our study is divided into six chapters.

In Chapter-1 we present the problem and a brief review of comparative literature of both nations and setout research objectives and methodology adopted in this study. Here, a case is presented as to why we are comparing both India and China. This apart, certain theoretical and conceptual issues such as political economy, globalisation, liberalisation, privatisation, etc., have been presented.

Chapter-2 clarifies the context in which reform initiatives have been undertaken in both India and in China. It traces the basic tenets of the policies followed by both nations prior to liberalisation (1950-80 period). It deals with theoretical issues and practice of socialist egalitarian policies as also performance of industry in both nations during the three-decade period, prior to liberalisation. As it is worthwhile to look at the past policies before discussing changes brought about in both nations, this chapter, is a prelude to make a good ground to discuss the policy changes under liberalisation.

In Chapter-3 changes in policies pursued by both India and China as part of reform process are discussed. This forms the basis for understanding as to what were the changes brought about in India and China under liberalisation. The divisions of policy changes into specific periods as has been followed by both nations are presented.

In Chapter-4 industrial growth as well as performance during liberalisation period in both India and China is analysed based on certain macro-economic indicators pertaining to industry consulting data from latest ADB, The World Bank, ILO and UNIDO, publications.

In Chapter-5 we try to investigate as to what are the changes emerging in the industrial relations front as a consequence of liberalisation. Here, an attempt is made to comprehend the nature and course of changes in industrial relations in post-liberalisation period in the two countries with reference to the state and industrial classes.

Chapter-6 presents summary and a brief critique on inferences drawn from the study on the issues concerned.

NOTES

[1] Please note that we are only reviewing those studies, which are looking at the process of liberalisation in both nations in a comparative perspective rather than reviewing individual studies pertaining to country analysis.

[2] Excellent leadership, its size, resources and important of all it was the worlds' most populous democracy.

[3] According to the author, the shift towards greater balance in both countries can be explained by changes in development strategies. Both China and India initially emphasised heavily on heavy industries. This emphasis was later reduced in both countries. In Maoist China, agriculture was deliberately subjected to a transfer of resources due to unfavourable terms of trade. The policy of local self-reliance and control over migration from rural to urban areas contributed to a widening of regional inequality. These policies were later relaxed. In India, there is no clear evidence of subjecting agriculture to unfavourable terms of trade though it was discriminated against in terms of its share of investment. The Indian federal structure also resulted in a bias against agriculture, education and certain other sectors in which the states had greater autonomy and responsibility. Overtime, both countries adopted policies and strategies for greater sectoral balance although the author finds in this regard that China's success was greater than that of India's.

[4] Marx's methodology, which is based on dialectical materialism, suggests that contradictions ultimately arise in the system of capitalism and his basic objective was to focus on these unequal production relations that capitalism engenders. Marx adopted the labour theory of value from the classical political economy. However, for him it is the exchange value of the product that has social phenomenon. Under capitalism the worker is not paid for the total value of his labour in making a commodity and surplus value is thereby generated which the capitalist appropriates. However, in the long run, due to the rise of organic composition of capital, surplus value remaining constant, the rate of profit would fall. This apart, there would be spread of unemployment and low wages, which would along with disproportionate growth and falling rate of profit, and realisational problems would push the capitalist economy to the vortex of crisis.

[5] Note that it is exactly this imbalance during the phase of consolidation, after initial high growth and development that the south-east Asian economies fumbled.

[6] Under capitalism, there will be transformation of surplus (physical) into value (monetary). This would be possible largely because of the presence of market. Markets succeeds in completely hiding the vertical transfer of surplus value from worker to capitalist, through its ability to present all transfers as horizontal ones between two parties 'at the same level'. Market becomes crucial once when labour power is converted into commodity through exchange and for hiring of workers for production activity.

[7] Such merger of existing capitals is what centralisation of capital refers to. Please note that in the recent past, in both India and China, mergers and acquisitions of companies by MNCs as well as native Big Businesses became common feature. This is because of the fact that the capitalists within these nations compromised for the role that they get as servicing agents to global capital.

[8] This is evident in China during the GLF period workers were given to achieve higher production targets. See chapter-2 for details.

[9] The conceptual and theoretical framework of soviet state socialism was complete inversion of Marx's concept of the emancipated union of producers. On the contrary, the soviet 'political economy of socialism' turns out to be a vast exercise of rationalising the policies pursued by it.

[10] The question of reliance on market structure rather than planning might be to make a middle path by combining both market and planning. This juxtaposition of both is thought to be ideal combination to bring in growth and development as well as retain socialist egalitarianism.

[11] Please note that our argument is not for the kind of market socialism which China promotes. However, it is for the sake of this analysis that we critique the premise rather than to prove whether so and so is the scientific way of achieving market socialism.

[12] Please note that in China, though technically ownership of property is with the state, there is some similarity between Indian and Chinese post-reform situations regarding the ownership of property is concerned. This

is more pertinent after the introduction of new individual & household contract responsibility system in China. Hence, except for legal sanctity, ownership of means of production is for certain are with individual eversince reform process started in 1978.

[13] This can be one of the important causes, which determines the large inflow of foreign capital investments, both direct as well as portfolio investments, into the Chinese economy.

[14] We must note that one reason for this influx might be that China is a new market as far as consumer durables and non-durables are concerned. While India had access to these technologies ever since 1970s itself.

CHAPTER 2

THEORY AND PRACTICE BEFORE LIBERALISATION WITH REFERENCE TO INDUSTRY (1950-80)

Contents

Before we try to study the determinants and the process of liberalisation in both Indian and Chinese economies and its socio-political implications, it would be pertinent to see as to how both nations pursued their policies until 1980. In this chapter, we try to present the same.

A comparative study needs to encompass social, political and economic factors that make or break the process of liberalisation in both the nations. It is an open question whether economic liberalisation in China can go far enough without generating forces clamoring for political liberalisation[1]? The political economy of India's development strategies have been analysed by many (Gupta, 1996; Draze & Sen, 1995). According to Gupta (1996) and Draze and Sen (1995), China provides new perspectives for analysis of India. On the one hand, India's mixed economy has in-built institutional framework giving advantage to be taken by liberalisation. On the other hand in China, the political leadership had to carry forward its economic liberalisation has established many new institutions.

In such a backdrop of hitherto existing features of economies until 1980s, we must see how changes had commenced in both Chinese as well as Indian policies. In the first instance let us see the policy norms and their practices in India and China. The attempt is made here to analyse the policies in the two countries in the decades before liberalisation[2], in a comparative framework.

Section-I

POLICIES PURSUED BY CHINA:

Having inherited a backward and bankrupt economy after the revolution of 1949, the people's government in china started restructuring the economy towards establishing socialist production relations. On the agrarian front, massive land reforms were carried out to establish socialist agrarian relations[3]. The hard feudal rent system was abolished, destroying the feudal system, liberating forces of production in agriculture and gradually expanding the internal market. So as to maintain the purchasing power of the money wages of workers and urban residents, deposit accounts were established in all peoples' banks, which could retain the purchasing power of the original deposits against the prevalent prices for commodities thus bringing real value of money wages.

In spite of governmental efforts, there used to be wide spread fluctuations in market prices. Therefore, in the Spring of 1950 the government took the decision of unifying the management of all financial and economic works. This meant centralising the control of financial and economic works for balancing the nation's income and expenditure. Within six months China had successfully controlled inflation and stabilised market prices throughout the country (See Riskin 1987, Dixin 1982 and Malenbaum, 1982).

Socialist Transformation:

After revolutionary transformation- the mobilisation of the capital and also implementation of land reforms- in China, it was the turn of national capitalist industry and commerce, which were taken over by the government and to be run by the state itself. Dixin (1982) writes: "Before the revolution, the economy used to be in three types: the state run economy, the individual economy of the peasants and handicrafts and the capitalist economy of the national bourgeoisie. After the revolution the capitalist economy was in contradiction with the socialist state run economy, and the individual agricultural economy could not meet the needs of national economic development" (Dixin, 1982:6; See also Runsheng, 1989:4).

While transforming national bourgeois-owned industry and commerce, Marx's proposal of redemption towards bourgeoisie by the proletariat under certain circumstances was adopted. Lenin's arguments on the role of the state capitalism under the dictatorship of the proletariat were also stressed. The various transitional forms of state capitalism in china included the purchase of the products of private industry for the processing of materials and the supply of manufactured goods, the use of private commerce to sell the state goods on a commission basis and the establishment of joint state-private enterprises.

The emphasis was on making relations of production correspond to the nature of the production forces. Once this transformation has been completed the Chinese were in a position to develop the national economy according to the requirements of the basic laws of socialism, the laws of planned and proportionate development of the national economy and the principle of 'each according to his ability to each according to his work'. The period between the early fifties and the late seventies can be divided into four major phases viz., (1) The First Five Year Plan Period (1953-57), (2) The Period of Great Leap Forward (1958-60), (3) The Period of Readjustment (1961-65) and (4) The period of Economic Conflict and Cultural Revolution (1966-76). During the 30 years between 1950 to 1980, China did not follow one and the same strategy (See Guoguang et al, 1987; Dixin, 1982; and Riskin, 1987). Let us examine these phases below.

(1) The First Five Year Plan Period (1953-57):

The development strategy adopted during this period had actually been planned for a long period- the period covering three five-year plans- and the tasks were proposed for the entire period of transition. The objectives are to carry gradual socialist industralisation; realisation of socialist transformation of agriculture, handicraft and capitalist industry and commerce; and to improve peoples' living standards by increasing production and raising labour productivity.

It is well known that the first plan document is not merely a technocratic exercise. It was meant to build infrastructure including planning and statistical capabilities. The major objectives[4] of the plan were: (1) To build 694 large scale industrial construction projects for economic construction; (2) To lay emphasis on the relations of production; (3) To foster growth of farm and handicraft Co-operatives and (4) To bring majority of private industry under the state capitalism.

The Plan was not only ambitious because of construction of heavy and capital intensive infrastructural projects but was also regarding projected growth rates of outputs especially that of modern industry (refer Table.1 for details). In keeping with the plan's emphasis on heavy industry, high growth rates were planned for producer goods industries. This has increased the output of the same by three times and that of consumer goods increased by 83% (Riskin, 1987:58).

Guoguang et al (1987) says that as shown in practice, this strategy was correct. "Most of the major norms set for this period were fulfilled in advance or over fulfilled; the yearly increase of the gross value of industrial and agricultural production averaged 10.9% and the increase of the national income 8.9% ; industry and agriculture, and heavy industry and light industries grew proportionately; the economic results achieved were relatively good... the people's living standards were improved... collectivisation was carried out in all sectors thus bringing to an and the socialist transformation of the means of production" (Guoguang et al, 1987:17-18).

Table 2.1
Major Five year plan Targets and Results in China

Aggregates	1952	1957 Plan Target		1957 Results	
	Output	Output	Growth Rate(%)	Output	Growth Rate(%)
Industry	27.0	53.6	14.7	65.0	18.0
Industry(Modern)	22.1	45.0	15.3	55.6	20.3
Agriculture	48.4	59.7	4.3	60.4	4.5
National income					8.9
Gross domestic Product (GDP)	70.4			104.7	8.3

Note: All figures are in billion 1952 yuan except for National Income and GDP which are in billion 1957 Yuan.

Source: Riskin, 1987:58

All these tasks, whose fulfilment had originally been planned to be accomplished during a period covering three five-year plans, were actually accomplished in a matter of less than five years. This, according to Guoguang et al (1987), "led to the emergence of shortcomings and deviations in work and encouraged over anxiety for quick results".

(2) The Period of Great Leap Forward (1958-60):

In 1958, the original strategy of steady economic progress in the first plan was replaced by a strategy of rash advance generally referred to in China as one of the three red banners- the general line, the great leap forward

(GLF) and the people's commune. This stressed for more advanced socialist character in the relations of production and the productive forces. Entire nation was made to participate in an effort to double the production. Three main objective difficulties were identified during the implementation of the first plan:

1. There was inadequate growth of agricultural production and procurement due to the poor incentives given to the agricultural sector.
2. The highly centralised form of planning and administration was ineffective as the economy grew in size and complexity and especially after 1956 when industry and commerce came under direct state control. And
3. Industrialisation during the plan could not solve unemployment problem. "The total labour force may have increased by some.40-50 million between 1952 and 1957,, Whereas total non-agricultural employment grew by less than 5 million, leaving perhaps 90 per cent of the increased labour force to be absorbed in already highly labour-intensive agriculture" (Riskin, 1987:111).

The main 1958 administrative decentralisation strategy fits into Mao's ideological pre-occupation for a mobilisational strategy to turn the China's redundant labour force into its strength. This strategy of Mao can be broadly categorised into two themes.

The objective issues of the GLF were as follows: (a) 'Walking an two legs": technological dualism by way of allowing large scale capital intensive modern industrial units to function along side small scale labour intensive technologically backward units; (b) Planning & Management: The production were fixed by the centre and implemented by the provinces. Administrative decentralisation did occur with regard to the implementation of plan targets. However the centre lost touch with the reality as the local conditions were best known to the provinces that did not have any say over the same. (c) Incentives: The government provided incentives for those who achieve higher targets so that there would be competition that would increase higher productivity. This is the link between political direction and economic organisation (Politics in command). This directly effectuate the distribution of income underlying social relations as well as the individual perception of a 'just' system[5].

The GLF, being a labour intensive-technology policy, required labour in large scale. Hence, in order to mobilise labour force, rural peoples' communes were established. The reorganisation of rural life into communes was to prepare for a quick transition to communism. "By 1958 all the 740,000 rural collectives containing over 120 million households had been reorganised into same 26,000 rural peoples communes, averaging roughly 5000 households each. By 1961 efforts were under way to reduce the size of the communes. The organisation of the commune contained a three tier structure (a) the commune level at the top; (b) an intermediate level called production brigade which corresponded to the old collective and to the natural village: and (c) production team, which reflected the old co-operative and the neighbourhood. The team consisted of an average of 30-40 household each, the brigade around 160 households. The commune was the basic unit for economic classification of income, distribution and exchange[6].

The organisation of the commune reflects Mao's objective of eliminating "the distinctions between city and countryside, worker and peasant, mental and manual labour. It also encompasses his view that only attacking these distinctions would intern bring in great productive energies. The establishment of the peoples' communes with all-round management...is the fundamental policy to guide the peasant to accelerate socialist construction, complete the building socialism ahead of time, and carry out the gradual transition to communism (Selden, 1979:402). Thus, the commune was the institution within which agriculture, industry, commerce, education and culture would be brought to the countryside.

The GLF was a multi-dimensional social phenomenon and no short explanation would do justice to its deep impact on the Chinese society. However, a brief evaluation of the same would be relevant to the objectives of our study. Riskin (1987), quotes various sources for comparing industrial growth rates during the Leap. To quote him, "comparing the official statistics with three western estimates of Chinese industrial production. All the four estimates agree that there was a "great leap forward" in industrial growth from 1957 through 1959 or 1960. Table 1.2 displays in row (1)-(4) the estimates referred to by Li, together with Rawski (1980) and Field (1978). "It is apparent that, although the recent estimates sharply discount 1960 industrial performance, all agree that industrial growth in 1958 and 1959 exceeded the official estimate (18 per cent - see Table.1) for the first five year plan" (Ibid). If we observe table 1.2 there is a large gap between the official and other estimates regarding production output. There is variance in other's estimate vis-à-vis industrial production during the leap period. The increase in percentage of industrial production for 1958 varied between 19.5 per cent and 42.1 per cent. In 1959 the same varied between 21.5 per cent and 32.3 per cent. In 1960, industrial out put percentage varied between 5.1 per cent and 15.7 per cent. However, opinion of all these estimates indicate that the leap period contributed for overall increase in industrial production.

Table 2.2

Alternative Estimates of China's Industrial Growth Rates,1958-60

Source of Estimate	Industrial net of gross output value (Price Base)	% of increase in :		
		1958	1959	1960
(1) Liu & Yeh	Net (1952)	19.6	27.0	--
(2) Y.L.Wu et al.	Net (1952)	19.5	32.3	15.7
(3) K.Chao	Net (1952)	30.3	31.5	--
(4) Official	Gross (1957)	66.3	39.2	29.0
(5) Rawski	Gross (1952)	45.0	22.1	4.0
(6) Field	Net (Mixed)	42.1	21.5	5.1

Source : Riskin,1987:133.

However, during the GLF quality and variety were neglected in order to produce more. Hence, the problem lies in interpretation of the same. There was no constraint on industrial enterprises to sell what all were produced as it was counted as their contribution towards economic development, irrespective of whether or not the goods so produced has any use value[7].

The basic shortfalls of the Leap are (1) "Politics in Command" - in the enthusiasm to override objective constraints Chinese used this principle. It is evident form the fact that yields would rise in direct proportion to the depth of ploughing and closeness of planting etc. The objective interpretation of this slogan, in accordance to a Maoist principle, can be that the evaluation of policies must take account of their impact on social and political relations. However, these were ignored and gross exaggeration of figures occurred. (2) Glorification of industrial output in quantitative terms without regard to quality or variety is another problem. Although the means of production provided by the industry to agriculture doubled this period, they could hardly make up for the decrease in the labour force on the account of poor quality, unsustainability and ineffectiveness. (3) The third problem is that of over centralisation. It ranged from initial confiscation of personal property and the military organisation of labour and commandism of cadres to eliminate private plots and overcentralisation of commune organisation. It also included the social services under communes such as dining halls, which were run in a coercive fashion.

Thus, the impracticability of this strategy became clear and hence was discontinued after three years. The annual growth rate of the gross value of industrial and agricultural output was only 0.6 per cent, with the industrial average at 3.8 per cent. The annual output of steel, including steel of lower quality, reached only 8 million tons"[8] (Guoguang et al, 1987:19).

(3). **The Period of Re-Adjustment (1961-65)**

During the sixties, China started to correct the errors made hitherto, and thus a strategy of "readjustment, consolidation, filing out and raising the standard" was followed during 1961-65. The policy of 'agricultural priority' meant more than a cutback on the heavy industry, capital construction and developmental plans so as to match the available farm surplus. This also meant increase of investments towards agriculture and of those industries which support agricultural sector such as the fertilizer plants, the tool production units etc. Guoguang et al (1987) point out that a number of noteworthy decisions were taken. To quote a few: "Agriculture should be made the foundation of the national economy and in planning the order of agriculture, light industry and heavy industry must be followed...an effort should be made to achieve overall balancing, particularly the balancing of national material production, finance and credit etc. (Gouguang et al, 1987:19).

The plan objectives now included readjustment of the proportions of various national economic sectors, with agricultural production getting top priority and the readjustment of the relations of production, enforcing the three tier system of property ownership in the peoples commune[9], with the ownership by the production team as the basic form.

"The national economy showed a turn for the better in 1962 and a general improvement in 1965 after three more years of readjustment. During the three years from 1963 to 1965, the average annual increase in gross value of industrial and agricultural output was 15.7 per cent with industry at 17.9 per cent and agriculture at 11.1 per cent. The average annual increase in national income was 14.5 per cent. Naturally, much of this increase can be seen as a restoration of original production, but by 1965 the national economy was fully recovered and had begun to develop a new. In that year grain production reached 215 million tons and steel production was 12 million tons rising to 15 million tons a year later" (Dixin, 1982:11).

All this shows that the change in strategy to 'Sixty articles' could cut down inflation and bring growth. If streamlined properly, the Chinese economy could have better results. But, the failure of GLF was accepted at the internal level, policy shift was not made public. Thus, the strategy was forced by circumstances and it was not given public acknowledgement. Therefore, much of the past mistakes started raising their heads once more when the economy was back on tracks.

(4) The period of Economic Conflict and Cultural Revolution (1966-76):

The national economy was restored to normalcy and expanded due to the policy of readjustment. It was expected widely that agriculture would now be pursued vigorously to meet the needs of the people. Scientific, commercial as well as industrial progress would come about. But, due to the policy of great proletariat cultural revolution (GPCR) in 1966, the third five-year plan was shelved.

During the ten years that followed, internal political struggles hampered economic construction. There was an attempt for premature transition to Communism[10]. The basic key industries, especially heavy industries of Steel were given prominence. There was an attempt to get rid of capitalist elements in relations of production, to criticise bourgeois rights and to preach egalitarianism in the people's livelihood.

The background for such a mass campaign for Cultural Revolution was that by 1966 Mao was interested in reducing the role of the bureaucracy (both party and administration) which became more aloof from masses to the same level as that of general people. Thus, he had initiated 'cultural revolution'. Lee (1978) points out that "the cultural revolution can be best described as Mao's attempt to resolve the basic contradictions between egalitarian view of Marxism and the elitist tendencies of Leninist organisational principles. By drawing the Chinese masses into the political process, Mao wanted to reverse the trend towards re-stratification caused by the bureaucratisation of the party, and he also wanted to build a mass consensus on the future direction of the society. Yet, to Mao's apparent disappointment, when he removed or weakened the control exercised by the party organisation... all the latent tensions and contradictions in the society surfaced" (Lee, 1978:3).

Phases of GPCR :

The cultural revolution proper lasted around three and a half years from late 1965 to early 1969. The acute phase of it was very brief when People's liberation army (PLA) had to be called to bring normalcy. The phases of Cultural Revolution can be broadly categorised as under:

In the first phase between 1965-66 the revolution was 'cultural' in nature in which a series of plays, novels and essays written in the early 1960s and implicitly critical of party policy and of Mao were subjected to attack, their authors condemned, and their backers in the party leadership purged.

From mid-1966 in the second phase, it moved on to university campuses and into the streets and was dominated by the activities of the 'Red Guards', university and middle school students, who attacked 'capitalist roaders' in party, government and school administration, as well as mainfestations of the 'fpur olds' - old ideas, old culture, old customs and old habits. It is during this time that the movement turned as in each locality it split into two or more contending factions.

In the third phase between late - 1966 and early - 1967, peasants and workers seized power in a large number of factories in many cities[11]. Mao could realise the loss of party and state control, inherent in the direct democracy of the commune model, and opted for the establishment of revolutionary committees consisting of a triple alliance of mass organisation representatives,, cadres and PLA soldiers.

In mid-1967, PLA was called upon to put an end to the violent disruptions by rival mass organisations and to prevent them from developing into all-out civil war.

By this time, Mao could sideline his chief targets Liu Shaoqi (Head of State) and Deng Xiaoping (party General Secretary) and hence ordered PLA to bring normalcy. During this time the Cultural Revolution turned against 'ultra left' and purged a number of leaders associated with the radical factions and with the assault on 'capitalist roaders' in the army.

Mao's urgency to bring political normalcy can be explained by international developments especially the deterioration of relations with the USSR. The Soviet Union had large military presence on the Chinese border and border clashes occurred just before Ninth Party Congress[12]. During the same period, China was facing rough weather in the South-East Asia against the United States, given the situation, Mao thought it prudent to bring normalcy in internal political situation as well as bringing rapprochement with the West, especially the United States, on international affairs. This resulted in normalisation of relations between the U.S.A. and China in 1972 with the establishment of full level diplomatic relations between the two.

The rebuilding of party and the rehabilitation of formerly denounced officials took place in the early 1970s. Amongst the later was Deng Xiaoping, former general secretary of party, who was branded as 'capitalist roader'. At a secretly called Tenth Party Congress in August, 1973 Deng Xiaoping was elected to the Politburo, along with four ill-fated cultural revolution leaders, who were supported by Mao: namely Jiang Quing, Wang Hongwen, Zhang Chunqiao and Yao wenyuan (later branded as 'Gang of Four').

In January 1975, Deng took responsibilities of running government as zhow Enlai was hospitalised. Mao could not attend second plenum of Tenth Central Committee and also the Gorth National People's Congress. In the later meeting Chow Enlai put forward his famous call for 'four moderanisations' in two stages: (1) to build an independent and relatively comprehensive industrial and economic system by 1980 and (2) to accomplish the comprehensive modernisation of agriculture, industry, national defence and science & technology the end of century, so that China is amongst top rankers in the World[13].

Finally, after the death of Mao in 1976, the gang of four that spearheaded the Cultural Revolution was smashed. But, the deep-rooted impact of the ten years were not taken into account by the leadership after the Cultural Revolution and high targets were set. Capital construction was extended beyond the resource availability. All this greatly hampered the economy and added to the financial difficulties.

It was only after the Third Plenum of the eleventh central committee of the Chinese Communist Party in December, 1978, when Deng formally tookover reins of leadership, that the focus of China had shifted towards 'socialist modernisation' and that the famous '4 modernisations' of industry, agriculture, defence and science & technology were carried out, thus bringing another shift in the policy of China, which can be referred to as the beginning of the policy of liberalisation. We shall discuss this issue in detail in the Chapters to come.

Section-II

POLICIES PURSUED BY INDIA:

It is more than four decades since India had initiated planed economic development. The basic objectives have been the removal of poverty, the building of modern society making possible use of science and technology and the attainment of self-reliance. There had been mixed reactions to such plans. Such was the divergence of Indian planning that there were substantial gains in the economy, a majority of people have remained poor.

The Indian economy was dominated right from the colonial era by the metropolitan capital and that the policy of mixed economy pursued by it after Independence was to suit the interests of capitalists, i.e., - the national bourgeoisie to be free from metropolitan capital[14]. So the state capitalism and the state intervention were felt necessary for the development of a relatively autonomous Indian capitalism, displacing the metropolitan capital from the pre-eminent position it had occupied in the colonial economy. There was stiff opposition to the assistance given by the International Monetary Fund (IMF), the International Bank for Reconstruction and Development (IBRD) and also to the metropolitan states. So, the state capitalist regime in India introduced several barriers in the name of Foreign Exchange Regulation Act (FERA), Monopoly and Restrictive Trade practices (MRTP) Act etc., to regulate the economy in favour of native business interests.

Import-substitution and concentration on basic industries, which were initiated during the second Five Year period, were reasonable for strong and self-reliant economy in the long run. Thus, many a tariff and non-tariff barriers that were erected against the import of goods and technology from foreign nations was understandable as it would be detrimental for the development of native business. Hence, there was a stress on the policies of import-substitution and self-reliance. Many concessions were given to agriculture and industry. Public sector with the state sponsorship grew ever since the First Plan due to its emphasis on heavy industries.

Growth Performance:

Beginning from the first plan itself, the state in India has been positively intervening in economic activity. This was emphasised in its importance on agricultural production. By 1960s due to the adoption of 'Green Revolution' (dominated by the use of high yielding varieties (HYV) seeds) technology, substantial increase in food grain production was achieved. Market operations also increased as a subsidiary effect. Due to increase in incomes in this sector, more manufactured goods are demanded by the people, which further strengthened the manufacturing sector, especially that of pesticides, fertilizers, and other inputs which are needed for agricultural production. As a result of increased market operations, agricultural credit began to play a major role in rural sector, which required land ownership to be privatised[15]. Cash transactions came to replace traditional patterns; money wages replaced wages in kind, long term employment was replaced by casual hiring of labour, etc.

There were significant changes on the industrial front also. The import-substitution policy resulted in the country becoming totally self-reliant in consumer goods by the end of 1970s. This sector registered growth largely due to diversification and technological upgradition. Kurein (1994) points out that, as capitalism developed production and productivity increased. "In aggregate terms; the rate of growth to the Indian economy… was less than 1.5 per cent per annum. From the beginning of the 1950s to the end of 1970s the rate of growth had moved upto 3.8 per cent; in the 1980s the growth rate was close to 5 per cent[16] (Kurein, 1994:37).

The long-term growth rate trends of the economy, according to Challaiah (1988), has been around 3.5 per cent between 1950-51 to 1984-85 periods[17]. However, "a period-wise analysis indicates that the trend rate of growth of the Indian economy during the 25 year period since 1956 brought down below 4 per cent mainly through the poor performance during the decade from the mid-sixties to the mid-seventies (see Table 1.3 for details), which recorded an average rate of GDP of only 3.4 per cent and a fairly low rate of growth to industry at 4.4 per cent"(Challaiah, 1988:10; See also Malgavkar, 1988:10-11; Bardhan, 1984:17-18).

Bardhan (1984) says that, "between 1950-80 the proportion of contribution of manufacturing sector to net domestic product (at 1970-71 prices) was small. It has actually increased from 12 per cent in 1950 to 15 per cent in 1981-82" (Bardhan, 1984:17).

Table 2.3
Period Wise Trend Growth Rates in India

Period	Agricultual Production	Industrial Production	Gross domestic Product (at factor cost)
1955-56 to 1964-65	2.95	7.65	4.18
1964-65 to 1973-74	3.08	4.42	3.38
1973-74 to 1984-85	2.98	5.03	4.28

Source: Challaiah, 1988:12.

Due to substantial and steady growth in agricultural output over the years, buffer stocks of food grains could be established resulting in decline of food grain imports. The diversification of industrial structure and the growth in capacity in several key sectors marked a big stride towards self-reliance and created the capacity to enter the export market in non-traditional areas. There came into existence scientific manpower that has skills to run modern industrial economy.

During mid-seventies, there was sizeable increase in exports of industrial goods and skilled manpower leading to higher export earnings and sizeable inward remittances. At the sametime, there was increase in savings supported by well founded financial infrastructure. Bardhan (1984) argues that the rate of gross domestic savings as a percentage of the gross domestic product at 1983-84 prices rose from little over 9 per cent in early 1950s to over 15 per cent by mid-1960s and to over 22 per cent in early 1980s (same is presented in Table 2.4).

As the table indicates, even when one takes three year moving averages to smooth annual fluctuations, this rate was slightly less than 15 per cent in the mid-fifties, climbed to its peak at nearly 18 per cent in 1966-67, then there was a fall in this rate until 1974-75, since when it has started rising again, and in 1981-82 it was about 17 per cent. The ratio of fixed capital formation in the public sector also resembles this above movement, like rising to its peak in mid-sixties and then declining for a decade and then climbing to the earlier level (Bardhan,1984:24-26).

Challaiah (1988) points out that, "the rate of gross savings which stood at 16.5 per cent of GDP in 1969-70 increased to 24.5 per cent in 1978-79 and the ratio of tax to GDP which stood at only 12.4 per cent at the beginning of seventies had risen to 16.9 per cent by the end of the decade" (Challaiah, 1988:12). The Indian economy grew at the rate of 4.23 per cent during the decade of 1973-74 to 1983-84, which is slightly faster than previous years.

But, the basic strategy which had governed planned development since 1955-56 had been formulated without reference to the rate of growth of population, which had hampered the take-off phase of the economy into self-sustained growth[18]. Thus, the failure of the policy as a whole meant that the lack of control of population and unemployment.

Developments Relating to Policy in India Prior to 1980s:

Since the launching of planned development process in 1951-52, India's commercial policy served as an important segment of India's overall economic policy to fulfill production, consumption and employment targets in different plans. Indian development planning was charecterised by an inward-looking trade and industralisation strategy of import-substitution. Ray (1993) points out that, "prolonged protection of industries irrespective of costs and quality considerations led to the development of a high cost and unproductive industrial

Table 2.4
Savings and Investment Ratios in India
(Three year Moving Averages)

Year	Gross Domestic Savings as Percentage of Gross Domestic Product At 1983-84 Market Prices.	Gross Fixed Capital Formation as percentage of Gross Domestic Product at 1970-71 Market Prices.	Gross Fixed CapitalFormation in Public sector as percentage of Gross Domestic Productat 1970-71 Market Prices.
1951-52	9.5	12.2	3.3
1952-53	9.0	11.1	3.5
1953-54	9.0	10.5	3.7
1954-55	11.2	11.2	4.5
1955-56	12.8	12.8	5.0
1956-57	12.9	14.7	5.8
1957-58	11.8	14.7	5.7
1958-59	11.5	14.2	6.0
1959-60	12.3	13.5	6.2
1960-61	13.1	14.0	6.6
1961-62	13.8	14.5	7.0
1962-63	14.0	15.1	7.3
1963-64	14.2	15.8	7.8
1964-65	14.6	16.8	8.3
1965-66	15.2	17.5	8.4
1966-67	15.3	17.7	7.9
1967-68	14.8	17.3	7.1
1968-69	14.8	16.8	6.5
1969-70	15.8	16.3	6.2
1970-71	16.8	16.1	6.2
1971-72	16.8	16.3	6.8
1972-73	17.6	16.7	7.3
1973-74	17.9	16.7	7.2
1974-75	19.2	16.3	6.9
1975-76	20.2	16.8	7.2
1976-77	21.4	17.5	7.9
1977-78	22.8	17.9	8.2
1978-79	22.9	17.7	8.2
1979-80	22.9	17.3	8.1
1980-81	22.8	17.5	8.3
1981-82	22.7	17.4	8.5

Source: Bardhan, 1984:97-98.

structure. Moreover, the trade policies have discriminated against exports vis-à-vis import substitution production" (Ray, 1993:184).

Mehra (1993) says that, in the first two decades of 1950s and 1960s the main emphasis of foreign trade policy was import-substitution. "It was only in the Fourth Plan (1969-70 to 1973-74) that a detailed programme of exports was incorporated in the plan…As a result of this there was phenomenal growth in India's exports during the peiod 1969-70 to 1976-77, when exports increased by an average of almost 8 per cent a year in constant terms" (Mehra, 1993:148).

Because of such policy, there were good foreign exchange remittances and the import policy was liberalised in early 1970s, although indirectly[19]. The export policy resolution of 1970, laid emphasis on the need for a higher rate of growth of exports to reduce the dependence on external assistance. This was reinforced during the 1973 oil-crisis. Hence, throughout the decade of 1970s, export incentives were therefore expanded and intensified. On the basis of the recommendations made by the Alexander Committee, the trade policy for 1979-80 and 1980-81 carried forward the policy of import liberalisation and also simplified the procedures for the same. The trade policy during this period was for selective liberalisation, so as to increase domestic production and efficiency, while at the same time providing incentives to exporters.

"The beginning of the Sixth Plan, saw the import-export policy for 1981-81 retaining the broad framework of the trade policy... It allowed flexible and liberal access to import requirements for Actual Users, consistent with the aims of strengthening and diversifying the production base of the economy"(Ibid.). There were concessions given to both agricultural as well as industry, in terms of subsidies, loans, etc.

However, it is commonly held that the incentives did not prove to be effective in promoting exports along the desired lines on long-term basis. Major fallacies in these schemes were their lack of continuity and the consequent uncertainty regarding their future values and the absence of any objective criteria of allocation. Moreover, incentives were varied and unevenly distributed across industries and administrative costs and delays involved were substantial.

Liberalisation Since 1980s:

As was being discussed earlier, from 1980 onwards, there were attempts to gradually remove the anti-export biases inherent in the inward looking policy environment prevailing over the three decades of 1950-80 of planning for development. Major element of this policy change was liberalisation of trade (import) policy regime. Basic idea was to facilitate import of capital goods, raw materials and technology in order to expand and modernise the industrial production, so as to achieve higher growth rates of industrial outputs and of exports. These changes in industrial and trade policies during 1980s would be discussed in the coming chapter.

Section-III

INDIA AND CHINA: A COMPARATIVE VIEW OF 1950-80:

As we have discussed earlier under individual country experience, both India as well as China have gone for a planned and centralised economic development during the three decades of 1950-80. Nevertheless, record of these years shows that, marked deviations have been compensated by continuous developmental activities in the two countries over the years. Malenbaum (1982) presents the simple decade average series (see Table 2.5) and points out that the real message of development experience of these two countries is considerable stability of the overall expansion efforts, notwithstanding the shorter period of irregularities. The contrasting rates of growth in total product and per capita product emerge with reasonable consistency. They show China's output to be well above India's as illustrated below.

Table 2.5
Average Rates of Growth by Decades in India:
GNP, GNP Per Capita

Period	GNP (%)		GNP Per Capita (%)	
	India	China	India	China
1950-60	3.8	7.9	1.8	5.6
1960-70	3.7	5.6	1.3	3.3
1970-80	3.3	6.7	1.3	4.6
1950-80	3..6	6.7	1.5	4.5

Source: Malenbaum, 1982:54.

Prior to direct analysis of pertinent elements in development records of India and China, some perspective is provided hereunder by comparison with growth rates in other nations and time periods in the following quotations.

"The GNP and GNP Per Capita in India are low relative to those in most lands. India along with 37 African and Asian countries is included in the "low income" category of World Bank with a weighted average annual growth rate for 1960-77 of 1.4% per capita; India is listed at 1.3%. China is recorded in "middle income" grouping of 55 nations with 3.6%; the figure for China is 5.1% Per Capita" (World Bank, 1979:126-27).

Malenbaum (1982) compares both these nations directly applying purchasing-power parities to total national expenditure, using the United International Comparison Project (ICP)[20]. "For 1975, approximate data show China with expenditures per capita almost twice the ratio of India, the U.S. level at 100:12.3 versus 6.6. In 1975 U.S.dollors, the absolute levels for real GDP per person are India $ 472 and China $ 879. China's real income in the ICP analysis was substantially above India's 1.86:1... the comparable 1950 estimates in 1975 U.S. dollors for India and China are $ 328 and $ 294" (Malenbaum, 1982:55).

Stark differences in above estimates show significant gap between the real level of output per person in both countries[21]. Similarly, it is also evident from ICP analysis of Malenbaum (1982) that, between 1975 and 1950, "China's programme achieved twice India's over the development years". The question is what explains this wide difference of performance between India and China? Malenbaum says that, "an upward bias in real product introduced by adjustments or misinterpretations when the incomplete official record is adopted, often from afar, to provide the complete consistent, and non-official record" (Ibid.:56). That is to say that the Chinese estimates do not correspond to the real performance of its economy compared to India which gives more or less reliable figures.

Industrial Growth and Development:

During 1970-82, the average rate of industrial growth of India was 4.3 per cent. An important point to be noted here is that of the rates of industrial growth have also been well below the industrial targets laid down in successive plans[22]. Bhalla (1992) points out that, "imbalances were observed in the divergent growth rates for output of consumer, intermediate and capital goods. During 1965-66 to 1979-80 period, heavy machinery industry (both electrical and non-electrical) grew much faster than the consumer goods industries like food and textiles. From the mid 1960s onwards the growth of output of heavy industry decelerated whereas the growth of consumer goods industries continued without any acceleration[23]" (Bhalla, 1993:99).

In contrast to industrial stagnation in India, China recorded impressive rates of industrial growth during 1954-71. This is largely due to high and constant rise in industrial investment. This high growth rate of industry is policy induced (see Section-I for details). There is a clear-cut policy of giving primacy to capital accumulation, sacrificing consumption and emphasising heavy industry. "Emphasis on heavy industry and relative neglect of light industry has been noticeable since the early 1950s itself. After a temporary parity between growth rates of light and heavy industry intra-industrial imbalances grew rapidly. In 1950, the share of light industry in gross value of production was 70 per cent, whereas in 1979 it was only 39.5 per cent" (Ibid.:103).

Thus, in a comparative perspective, India during late 1970s could not reorient its strategy for achieveing high industrial growth rates, whereas in the post-Mao period, a significant readjustment between light and heavy industry has taken place in China. Since then, heavy industry has become much less significant than during the Mao-period[24].

The relative growth of China's national output to that of India, is principally due to comparative growth of industrial activities. "From 1952, China's NDP (net domestic product) multiplied 4.8 times, India's 2.7 times; for industry the corresponding figures are 13.3 times and 4.4 times... in industry, for the years 1952-80, China expanded to 7.5 times the per person level of 1952, and India to 2.5 times. Again, this record for China not only exceeds that of India, it is relatively unique in the World today as well as in the history of national growth" (Malenbaum,1982:59).

Sectoral Output of Industry and Labour Force:

Both in India and China, due to the presence of planning apparatus, there existed state guidance for development as also for maintaining balance between different sectors of the economy. Both nations predominantly are agricultural sector dominated economies. Hence, during this three-decade period of 1950-80, emphasis on agricultural sector was more explicit. Equal importance is also given to industrial sector for the purpose of providing developing respective economies. Hence, during this period, especially since 1960s, industry became more dominant source of employment. Same shall be discussed at a later stage.

Bagchi(1987), while analysing for China's industrial performance, says that, "the share of industry in total product increased from 34 percent in 1952 to nearly 56 percent in 1982 and that of agriculture declined form more than 45 percent in 1952 to 28 percent in 1982…(Similarly) if we look at the changes in real values of industrial and agricultural output we find that where as agricultural output increased from an index of 100 in 1952 to 306.6 in 1982, the index of industrial output increased over the period from 100 to 2115.7 (see table 1.6 column 2&3 for details). The compound annual rate of growth of agriculture comes out as 3.8 percent and that of industry as 10.8 percent over the thirty-year period" (Bagchi,1987:65-66).

Total output value of industry in million yuan is being presented in table 1.7, which corresponds to above analysis. An important point to be noted here is that of the total industrial output, the shares of state owned and collective owned industry dominate others. The share of output value of column 5 and column 6, though marginal in the 1950-80 period, has increased over the years, especially since the advent of liberalisation process (1978 onwards). Accordingly in 1988, they stand at 79048 and 49532 million yuan.

As table 2.6 shows, the growth of heavy industry far outreached that of light industry in China. There is fluctuation in the ratio of outputs of the two branches overtime. The fast growth of industrial output in China has also been accompanied by fast rate of growth of industrial employment (see column.7). The percentage of labour force employed in industry to total labour force in 1982 is around 13.2 percent. The industrial output per worker has also expanded at a faster rate.

Indian economy is dominated by agriculture. Hence, industrial and other activities are marginal in nature. Bagchi (1987) presents the structural characteristics of India's national income and their evolution during the 1970s (Table-2.8). He says that, "the share of secondary sector, and especially of manufacturing remains very small, although it grew by a few percentage points during the decade. The share of agriculture in NDP declined over the decade...The vast majority of the people (70 percent or above) derive their livelihood from agriculture...only minority are employed as salary or wage earners in registered or large scale enterprises or organisations and the majority are self-employed or employed unregistered, enterprises...25.9 percent of the workforce is casual labour" (Ibid.:115).

Table 2.6

Chinese Industry: % of Total Product of Society, Indices Of Gross output value and Labour Force Employed (Selected Years)

Year	Industry as % of the total product of Society	Gross Industrial output Value (1952=100)	Of the Gross Industrial output Value		Labour Force Employed (million persons)
			Light Ind.	Heavy Ind.	
1	2	3	4	5	6
1952	34.4	100	100	100	12.46
1957	43.8	228.6	183.2	310.7	14.01
1962	51.1	275.9	193.5	428.4	17.05
1967	49.8	471.8	366.4	663.6	20.32
1972	57.3	962.9	582.2	1675.1	34.96
1977	59.6	1408.4	873.7	2402.9	48.09
1982	55.6	2115.7	1515.0	3177.1	59.30

Source:Bagchi,1987:66,67&68.

In India, ever since the emphasis on development of largescale and heavy industries as means towards achieving rapid industrial growth, it has occupied a prominent position in the structure of industry. Data in table 2.9 shows the sectoral distribution of labour force in India between 1951 and 1981. In 1951, the economy was dominated by the primary sector, which accounted for 74.4 percent of the labour force. The shares of secondary and tertiary sectors were marginal. However, the share of secondary and tertiary sectors has been growing against that of the primary sectors over the years. Though the share of industry in national product is increasing, it could not become alternative employment source for the population.

Table 2.7

Total Output Value of Industry in China(Selected years)

(million yuan)

Year	Total output Value of Inudstry	State Owned	Collective Owned	Private Industries in Urban & Rural Areas	Others
1	2	3	4	5	6
1952	34900	26583	1138	7179	---
1957	70400	56419	13397	584	---
1962	92000	80776	11224	---	---
1967	138200	122252	15948	---	---
1972	256500	217717	38783	---	---
1977	372500	286937	85563	---	---
1982	581122	432600	144242	340	3940

Source: Government of China, 1989:127.

Narayana (1990) gives the exact figures of the structure of industries in India. Table 2.10 gives the details of the percentage share of important industries to total industries. Narayana says that with the growth of capital and employment, there has been structural change in the use of capital[25].

Table 2.8

India's Net Domestic Product and its structure, 1970-71 to 1980-81

	Primary sector		Secondary sector		Tertiary se-Ctor		Total
	Value Added (Rs.Bn)	Percen-tage share in NDP	Value Added (Rs.Bn)	Percentage Share in NDP	Value Added (Rs.Bn)	Perc-entage share in NDP	(Rs.Bn)
1970-71	173.07	47.4	67.90	19.7	104.22	30.3	345.19
1971-72	178.44	48.2	76.11	20.6	115.64	31.2	370.19
1972-73	195.44	48.0	84.40	20.8	127.08	31.2	406.93
1973-74	261.59	51.5	97.53	19.2	149.09	29.3	508.21
1974-75	288.89	45.7	120.08	20.1	188.40	31.5	597.37
1975-76	277.32	41.4	131.79	21.1	214.13	34.4	673.24
1976-77	283.95	39.3	150.29	22.4	235.63	35.2	669.87
1977-78	325.50	40.0	169.53	22.4	262.66	34.6	757.69
1978-79	338.68	37.9	189.88	23.4	289.23	35.6	812.79
1979-80	342.25	35.4	211.30	24.0	328.64	37.2	882.19
1980-81	424.28	36.7	244.30	23.0	393.51	37.1	1062.09

Source:Bagchi,1987:116.

The growth of industrial employment and output has not been commensurate with the capital investments made in heavy industries. Traditional industries like textiles continue to be the major source of employment.

Table 2.9

Sectoral Distribution of Labour Force in India (in percentage)

Sector	1951	1961	1971	1981
Primary	74.40	72.30	72.60	69.30
Secondary	10.56	11.70	10.70	12.90
Tertiary	15.04	16.00	16.70	17.80

Source: Sathyanarayana, 1996:5.

The capital and basic goods industries, "shared 73% of the total productive capital in 1970 but shared only 35% of the total employment, 41% of output and about 48% of value added. However, these capital and basic industries raised their shares in 1970 compared to those in 1959 in employment, output and value added; from 20.2% to 35.1%, 26.1% to 41.2% and 28.6% to 47.7% respectively"[26] (Narayana, 1990:205).

Table 2.10

Share of Major Industries to Total Industries in India(%)

S.No	Item	1959	1965	1970
1.	No of Factories	59.6	60.6	65.7
2.	Productive Capital	89.4	93.1	94.1
3.	Employment	84.1	85.6	85.7
4.	Output	86.7	88.3	87.4
5.	Value Added	88.6	90.7	94.0

Source: Central Statistical Organisation, Annual Survey of Industries (Various Issues) and Also Narayana, 1990:202.

India and China: Comparative View on Industrial Front

Whatever be the driving force, both India as well as China had egalitarianism that ensured to provide employment to majority of the population (notwithstanding the substantial presence of casual labour in both nations). Bagchi's (1987) comparison of the production structure of China and India is presented in table 1.11. From the table it is evident that the output generated by industry in China is quite high than that of India. However, in the case of agriculture and services Indian performance stands better than that of China.

Table 2.11

Comparison of Production Structure, 1979

Sector	India	China
Agriculture	34	38
Industry	40	27
Services	26	35

Note: Figures are percentage shares in total GDP at Market Prices.
Source: Bagchi, 1987:69.

Similarly, sectoral distribution of labour force of India and China is presented in table-2.12. According to Malenbaum (1982), "the spreads in India between the output and the labour ratios in 1970-71, 49%-74% in agriculture and 21%-10% in industry, have widened appreciably from the 62%-73% and 145-9% spreads in 1951. But neither sector were they as great as those shown for China in 1957 or 1975... The spreads in China in 1975, 24%-77% in agriculture and 48%-11% in industry, have apparently continued to widen" (Malenbaum, 1982:62).

Table 2.12

Labour Force: Sectoral Distribution in India and China (Percent)

	India		China	
	1951	1971	1957	1975
Agriculture	72.8	73.8	82.1	76.6
Industry	9.3	9.8	5.9	10.7
Services	17.9	16.4	12.0	12.7
Labour Force(mn)	140	227	279	414

Source: Malenbaum,1982:63.

China's impressive record can be attributed to major public actions in the organisation of work force in agriculture and industry to cope with economic (and often political also) feedback from the output-employment imbalances that evolved in China's growth process. In India there is unequal output employment ratios which suggest resource underutilisation. Hence, the economic progress of India is slow when compared to China.

In the following chapter we shall discuss the nature and course of policy changes in both India and China since liberalisation. Here, we shall analyse as to how the shift has occurred from Nehru-Mehlanobis model of socialism to market-oriented export led growth in India and from socialist egalitarianism to market socialism in the case of China.

Notes

[1] The demonstrations in 1986 Thiananmen Square incidents in 1989, opening of stock markets in major cities like Beijing, Shanghai, etc., in 1994 and recent ruthless suppression of protests by peasants and workers in the country side are clear indications of such an attitude in China.

[2] Our comparison in this chapter pertains to the three decades before liberalisation that is between 1950-80 period. This is based on the premise that liberalisation in India and China started more or less at similar point of time (1978 in case of China and 1981 in the case of India). Details regarding this standpoint are presented in our chapters to come.

[3] Some 43.3 million hectares of land was distributed among landless peasants and those with insufficient land. For details see Dixin, 1984:4.

[4] Note that at this principle level of plan, Agricultural production was not given importance.

[5] Although, external incentives (whether material or honorary) continue to play a role in the GLF, the ideology of the leap favoured greater reliance up on internal incentives, especially those related to job enlargement and worker participation in management. Workers who were part of 'triple combination' technical teams or acquired managerial responsibilities, and who were attending spare time factory schools to upgrade their skills, were expected to identify more closely with their enterprise and to internalise its interests as their own.

[6] However, the status of economic unit was later shifted downward, first to the brigade and finally in 1962 to the team, where with some exceptions it stayed for more than two decades.

[7] With planning in disarray and market forces inoperative, the industrial output was of poor quality. For example, the production

costs of crude steel, was not produced in varieties needed by users. Such output sybolised by steel ingots rusting beside rail-road tracks, or farm tools breaking at first use, represents wastage of resources. Yet the industrial growth statistics under table-1.2 was based on accepting it as useful output and valuing it at official prices. Such an exercise made some writers like Guaguang (1987), Fechtwang et al (1988), etc to argue that GLF cost China 'almost a decade' of economic growth.

[8] This shows why in the period of second five-year plan only an insignificant rise was registered in the gross value of industrial production, and there was a fall both in agricultural production, and national income, peoples' living standards lowered and the economy was thrown into serious dislocation.

[9] The three-tier system of ownership of the means of production refer to the ownership in the peoples' commune, the production brigade and the production team. For details see Dixin (1982), Riskin (1987) and Guoguang et al (1987).

[10] This attempt of transition to communism by Mao may be termed as hasty one as the people's psyche was not properly toned. Moreover, the overemphasis of purifying party and administration created tensions throughout Chinese society.

[11] An interesting feature of this period was the 'January Revolution' in Shanghai, in which the party and the government leadership of China's largest city was expelled and a Shanghai Peoples' Commune established on the model of the Paris Commune.

[12] The Ninth Party Congress was held only 8 months after Soviet intervention in Czechoslovakia, which has given rise to the Brezhenev doctrine proclaiming a Soviet right of intervention in the affairs of other socialist countries.

[13] During same period, Mao initiated process for a new constitution, which was adopted by the National Peoples' Congress, which among other things gave workers right to strike.

[14] A task which had never been fulfilled due to the strong linkages present between the metropolitan capital and the Indian capital. However, we can say that, during the cold-war period, mainly due to the existence of two rival contending bloc's in international politics, India could play significant role. This should not be misunderstood to be India's strength, but it was made possible due to the existence of cold war. Dutt (1984) was partially correct for his proto-imperialist concept during this aforesaid period. But, since early-1980s India was gradually pulled into the global capitalist network and had succumbed to its pressure for bringing in more liberal political and economic framework.

[15] During 1960s, increased monetary and credit operations and savings in rural India has increased the demand for more banking operations in rural areas. This can be called as a major objective force for nationalisation of banks in 1969, so as to have more branches in rural areas.

[16] Kurien (1994) himself points out that, these high growth rates were not steadily maintained: there were many fluctuations in the agricultural sector mainly because of weather conditions and in industrial sector because of constriants on both the supply and demand sides. However, increase in all-round production and productivity have been quite impressive. For example, total out put of food grains has gone up from around 50 million tons in early 1950s to 180 million tons in recent years. For details see Kurien, 1994:37-8.

[17] Malgavkar (1988) points out that, industrial growth increased at an average of 7.8 per cent during 1955-65, same fell to 4 per cent during 1966-75 and increased to 5.1 per cent during 1976-83. The decline in the rate of growth varied between 1.4 per cent in 1979-80 to a growth of as much as 9.6 per cent in 1976-77. The slow growth rate of industrial production was explained as due to supply bottlenecks,

inadequate performance of infrastructure, demand constraints emanating from reduction in import-substitution, slower rate of growth in agriculture and changes in income distribution. These factors corraborate the argument made by Kurien (1994). See for more details Melgavkar, 1988:10-11 and Kurien, 1994.

[18] The failure to erradicate poverty and curtail the growth of unemployment can be traced to defective planning strategy. This might have happened because of the fact that development planning in India never took the growth rate of population while planning. To get substantial analysis on planning and Indian economy, see Bagchi (1991); Sinha (1988) and also Mehra (1993).

[19] Two major forms of subsidies to exporters were announced: fiscal measures and import entitlement scheme. The former included exemption of sales tax, direct tax concessions, outright subsidies, freight concessions, etc. The later entitled the exporters to transferable (premium fetching) import licences for a large number of authorised items.

[20] The ICP analysis starts with national product data in domestic currencies. It converts such initial GNP per person data into real expenditures in US dollars by collecting actual prices, as far as possible for comparable categories of the final goods and services purchased in the comparing countries, relative to US expenditures in these categories.

[21] Very different conclusions are presented by Swamy (1973), he contends that, net domestic product during that time increased at an annual rate of 2.3 per cent in China and 3.7 per cent in India. The growth rate for India matches the data presented in table-2.5, while the same for China is less than ¼ of the presented figure. This significant non-corraboration between the two datas, may be linked to Swamy's analysis based on value-added figures for industry and agriculture. For details see Swamy, 1973:62-3.

[22] For example, the target growth rates for industry for the first three five-year plans were 7; 10.5 and 10.7 per cent per annum respectively. Whereas the achieved rates were 6; 7.2 and 8 per annum. This contrast the Chinese industrial achievements. We have already discussed that industrial growth rates have exceeded the plan targets. For details see Bhalla, 1992:99.

[23] There is lot of controversy regarding the cases of indsutrial stagnation in India. Many authors put forward different explanations for the same: slow growth of agricultural output and resulting low wage goods, supply and low demand for industrial goods; a slow-down of the rate of growth of public investment especially in infrastructure like railways, power and industrial regualtions and controls...such as industrial licensing system and indiscriminate protection of Indian business from foreign competition through FERA and MRTP, etc.

[24] Oflate, only after the liberalisation policies were fully introduced in the 1980s, that in India also the emphasis on heavy industries especially those in public sector are relatively loosing their significance.

[25] For the benefit of our analysis the comparative figures for the years of 1959, 1965 and 1970 are given hereunder in the following table:

Structure of Industries

S.No	Item	1959	1965	1970
1.	No. of Factories	8607	13425	13598
2.	Productive Capital (Rs.Bn)	17373.5	64441.0	111064.2
3.	No. of Persons Employed	2870016	3986377	4257411
4.	Gross Output (Rs.Bn)	26914.3	64923.0	113988.1

Source: Narayana, 1990:196.

[26] Basic and capital goods industries such as iron and steel, basic industrial chemicals, electrical machinery, petroleum machinery, etc.

CHAPTER 3

LIBERALISATION SINCE 1980S: THEORY AND POLICY CHANGES WITH REFERENCE TO INDUSTRY

Contents

Since late 1970s, there has marked shift in the policies of both India and China. The political and economic factors[1] during the period contributed to this shift. Hitherto, agriculture and heavy industry were stressed for building infrastructure in both the nations. However, since late 1970s, both India and China started to lay emphasis on the light and medium industries having short gestation period. Due to change of guard in both nations during this period[2], there occurred visible changes in the economic sphere, especially with reference to industry.

There occurred marked changes from state controlled industrialisation to market oriented reforms, from import substitution to export led growth strategy. State withdrawal from market activity is visible. In China, the shift is primarily from state centred socialism to 'market socialism' and in India, it is a departure from Nehru-Mehalanobis model of socialism towards market economy. This becomes the subject of our discussion in the present chapter. We shall try to see the nature and course of liberalisation in both nations with special focus on industry.

In Section-I, we shall outline the policy changes in China, in Section-II we shall discuss the policy changes in India. In both sections, we shall see the nature and course of liberalisation in both nations. This throws light our hypothesis that there occurred visible changes in Industry due to liberalisation.

Section-I

POLICY CHANGES AND COURSE OF REFORM IN CHINA:

As we have already discussed in chapter.1, the China has been following a zig zag course[3] right from the initiation of planned economic development. There has been frequent changes in the priorities as to which sector of the economy must be given preference and the mode of achieving development itself. However, following explicit objectives for China's liberalisation programme and continuation of the socialist development, have been shared by the Chinese leadership since 1950s:

1. Institutional formation and transformation including (a) planned economy. (b) Ownership and management of the economy centered in state and co-operatives (or collective) institutions and (c) penetration and transformation of economy and society through expanded political, economic, educational and welfare functions of the party-state.

2. Rapid economic development and the improvement of the livelihood of the people. Industry, particularly the state owned heavy industry, would lead the way but agricultural development was vital to achieve national goals.

3. Elimination of exploitation and the certain inequalities, notably: (a) those relationships associated with the landlord, capitalist and merchant classes and (b) inequalities between men and women, minority and majority (Han) and eventually those between rural and urban population (Selden, 1984:1; Srinivas, 1995a:93).

Though theoretically the leadership was united in achieving its objectives, in practice, sharp conflict developed on the conceptions of sectoral investment priorities (agriculture, light industry and heavy industry), rates of accumulation, the rate of achieving institutional transformation, as to what is the role of the market and the planning in the national economy.

Three important policy decisions implemented during the first five-year plan period and during GLF period, as already discussed in Chapter-3, initiated a course that undermined both in theory and in practice the aforesaid objectives. This course of policies made state on collision course with the rural population. The overt consensus of leadership was destroyed. These policies sowed the seeds for the collapse of collective agriculture that was in progress in early 1980s[4].

Thus, from late 1970s, the co-existence of both market economy and socialist goals in China can be seen. This, according to Pairault (1984) resulted in following trends:

(1) Relative autonomy was given in the social division of labour to the units of production (state, collective, individual)

(2) The imperfections of the planning system led to social labour diverging from social needs...such situation meant that waste of social labour was acute and the structure (nature) production did not correspond to the structure of social needs (Pairault, 1984:36).

Changes in Theory and Practice:

The reform process initiated by Deng Ping in 1978, announced a complete change of economic direction with the announcement of the programme of 'Four modernisations' (of industry, agriculture, defence and science and technology). The new strategy had two major components: importing modern plant and technology to develop export-oriented industries and the introduction of 'market relations' to replace central and state/provincial control over most of industry and practically all of agriculture.

Deng facilitates the shift in ideological stance has been facilitated by Deng, when he deviated from the Maoist concept of 'politics in command'. He pronounced his concept of 'market socialism with Chinese characteristics', taking queue from the problems that were resultant of the earlier policies such as Cultural Revolution, where in production suffered badly and serious inequalities cropped in due to overemphasis on collectivisation.

Since then, under the concept of 'market socialism' Chinese followed the principle of 'economics in command'. However, Deng stressed that Chinese could not go back to capitalism and that socialism can only save china. The essence of socialism is to liberate and boost the productive forces, to eliminate exploitation and polarisation, and to achieve common prosperity eventually.

Deng says, that: most fundamental task during the present phase of socialism is to develop the productive forces…the criteria for judging the rights and wrongs of economic development and the reform and opening-up policies should depend on whether they are conductive to the strengthening of comprehensive national strength and whether they are conductive to the improvement of the living standards of the people"" (Deng as cited in Weil, 1996:20).

Thus, while Mao stressed on the importance of relations of production, Deng's 'market socialism' emphasised on the development of the productive forces. In this ideology of Deng, 'development', 'national strength' and 'improving the living standards of the people' are the overriding objectives, and though "to eliminate exploitation and polarisation, and to achieve common prosperity eventually", also are included as part of the 'definition' of socialism. It is this growth of productive forces that will help, according to Deng, resolve all other problems.

This is the essence of the Deng's theory of 'market socialism'. A one-sided theory of 'developmentalism' to which all other objectives are to be sacrificed, and through which all other goals including eliminating exploitative or polarising tendencies, can be resolved, if growth is just fast growth. Thus, the speed of economic expansion, itself becomes crucial according to Deng. In his own words, "don't hinder the development pace. Wherever conditions permit, you should develop as fast as possible.... Low speed is equal to coming to a standstill or even retrogressing...... Development is of overriding importance" (Ibid.).

Rapid growth therefore not only constitutes the essential definition of socialism for the reformists,, it is the goal which 'overrides' pursuit of any other social values, and it is in turn the foundation to 'save China' and its sovereignty.

Phases of Liberalisation (1978-till date):

Since 1978, economic reforms commenced in China with an objective to achieve growth and development through enlargement of the role of market. China being a centrally planned economy, the path to transition to a liberalised and globalised market economy was not smooth. There still are several areas where progress of liberalisation is very slow.

However, steps taken by the Chinese towards initiation of liberalisation are commendable. This is because of the fact that they could build several institutional and infrastructural frameworks to attract foreign investments and make exports from China possible. Unlike in India, where inspite of the presence of these frameworks, the leadership could not take advantage to vitalise economy.

Liberalisation in China according to Swamy (1989 & 1996), Srinivas (1995a) and Bandopadhyaya (1997) et al., was implemented in distinct phases. Same is given hereunder:

The first phase (1978-83) of reform extending upto October 1984, focussed on reforming agriculture sector, the financial system as also public finance. In the field of agriculture, in rural areas, decollectivisation was emphasised. Family production and contract responsibility system were introduced.

This involved three major policy decisions: separation of ownership of land from state management by contracting out land to farming families with ownership remaining with the collective, abolition of the peoples' commune system and upward revision of the purchasing prices of agricultural products. Thus, in agriculture, reforms had stepped up the procurement prices for agricultural products and reduction in the prices of agricultural inputs including agricultural machinery.

During this period there were steps to develop town and village enterprises. Commercial banks, separate from the central bank were established. In the area of public finance, major reform was that of the granting of financial autonomy to the local governments through the fiscal responsibility system. This introduced greater decentralisation of financial authority to the local governments. Special Economic Zones (SEZs) were set up for industrial development and export oriented units(EOUs) were also established during this period.

In the second phase (1984-87) of liberalisation, two key elements were enterprise reform centered in urban areas and the introduction of a three-tier pricing system-state prices, state guided price & the market price-and a hierarchy of wages according to work.

Before liberalisation, the public enterprises in China had little autonomy over management, wage policy and matters on labour relations like recruitment and exit policy. As a part of the enterprise reform, greater managerial autonomy was granted through introducing the management contract system. In addition, a flexible wage policy with wages linked to working hours and productivity was introduced replacing the old system of fixed wages. The enterprises were also given the autonomy to chalk out their own entry and exit policy for their employees. Regarding prices, as we already noted, multi-tier price system was introduced. Prices for consumer goods and non-staple food articles were liberalised and are to be decided by the market forces.

In the third phase (1988-91), the agenda was the reform of political economic, scientific, educational and cultural systems. During this period, due to growing inflationary pressures, the economy functioned under considerable control of the state. Prices of essential consumables such as food grains, edible oils etc., were reduced. At the same point of time, stock exchange were opened in Beijing, Shanghai and Shenzen. Exclusive Economic Zones (EEZs) were established in various coastal cities.

In this current phase (1992-Till Date) of liberalisation, China enforced the bankruptcy law as part of its effort to revitalise the state enterprises. During the pre-reform period there were large scale deviations between market prices and input prices. In order to correct such differences/distortions in price mechanism, the prices of production goods were adjusted to market prices.

On the external sector, China had reduced import tariffs, which earlier were very high. It reduced the licensing coverage so as to reform its international trade regime with a view to take active part in World Trade Organisation(WTO)(See Swamy, 1989:37-39 and 1995:7;Srinivas, 1995a:94-95 ; and Bandyopadhyaya,1997:21 for details).

In the first phase of liberalisation process, there was marked departure from the Maoist style of economics and politics. In the realm of domestic economics, the moderate reforms have expanded opportunities for private and collective ownership in both agriculture and urban services, offered greater autonomy to enterprise managers, gave economic incentives for peasants and workers and assigned market forces a greater role in the production, circulation and pricing of commodities. Reforms also have decentralised management foreign trade, allowed foreign investment with certain restrictions, established SEZs to attract foreign export processing enterprises.

According to Harding (1987), reforms also had their impact on the political sphere. He says that "moderate reform has been characterised by an explicit repudiation of the principal ideological tenets of the Maoist period, greater freedom and predictability in the daily lives of ordinary Chinese citizens, greater creative attitude in scientific and academic pursuits, and greater pragmatism, institutionalisation, and consultativeness in national policy making" (Harding, 1987:3).

According to Swamy (1989), it was only in the last three phases that the economy was opened up to foreign investments. "Over 10,000 technological projects were imported and about as many joint contractual and sole foreign venture enterprises were permitted of which 4,300 were commissioned" (Swamy, 1989:37).

By late 1984 and early 1985, radical reforms were introduced in China. These were aimed at creation of markets not only for consumer goods, capital equipment and raw materials, but also for land, capital, labour, technology and even foreign exchange.

Liberalisation in China since early 1988 till date, envision a fundamental change in the character of state ownership in urban industry, so that state enterprises would be leased out to individual entrepreneurs or to group of workers or would be leased out to individual entrepreneurs or to group of workers or would be issued shares of stock and be managed by board of directors who are intern responsible to share holders. Reforms were also aimed to reschedule foreign trade regime and in integration of

Chinese economy with global economy. Steps towards which were already initiated such as trade liberalisation where licensing coverage, tariffs on imports, etc., were reduced in an attempt to join WTO.

Despite the ambitious objectives of China's reformers, and the real changes which occurred in China since liberalisation, much of the basic structure of late Maoist china remains intact. Although the leadership talks about the need for ideological breakthrough, China still contains official ideology (that of socialism) which restricts the scope of political economic reform. Inspite of the fact that Chinese have initiated steps to restore 'market economy' and there is increase in private entreprenuership, State-owned enterprises still dominate the industrial sector. The government exercises powerful influence over prices, investment and allocation. Though life styles in cities and sub-urban areas have changed drastically, China remains to be a single-party state that suppresses fundamental dissent[5]. Similarly, though there is growth in urban centres, much of rural China still remains in poverty, regarding the inequalities in the Chinese system we shall discuss the same later.

The 'Open Door' to Foreign Capital:

In China, the 'open door' symbolises sharp turn towards participation in the world market to speed up economic growth and technological modernisation. Hitherto in China, foreign capital and technology played marginal role. Liberalisation of foreign capital and investment, which grants increased autonomy to individual state enterprises to undertake joint venture deals with foreign capital, interacts with the competitive struggle and encourages the combination of national enterprises with foreign capital.

Starting from 1983 with the automobile industry, entire branches of industry-which hitherto had operated according to the principle of 'economic self-reliance' - are 'combined' and transferred into joint venture operations with foreign capital (Chassudovsky, 1986:121).

Many Chinese economists began to study the law of comparative advantage and to urge participation in the international division of labour. Ziyang (1982) seemed to embrace these ideas when he explained during early 1980s as below:

"By linking our country with the world market, expanding foreign trade, importing advanced technology, utilising foreign capital, and entering into different international economic and technological co-operation, we can use our strong points to make up for our weak points through international exchange on the basis of equality and mutual benefit' (Ziyang, 1982:47).

The technological endowment of individual enterprises will determine their fate in the 'socialist competitive struggle'. The fabric of Chinese industry in this context, is hierarchical, characterised by different levels of technological endowment. The 'backward self-reliant enterprise', the rural factory and the neighbourhood collective are at the bottom of the ladder whereas the 'modern' joint venture assembly line using the most advanced technology, often foreign, is on the top. The issue is not of technological incorporation by China, but the penetration of foreign capital into it. It is significant to note that, foreign trade and investment were carried at the institutional and economic levels.

Like many other socialist countries, China has found it easier to develop links with the world market, rather than to reform the home economy. Somewhat similar feature can be seen in Indian case also. Indeed, the thought must have occurred to some leaders that foreign trade and capital, by making possible the importation of new technology and innovative management methods might let them side step the hard choices of reform (Riskin, 1987:317).

The unregulated entry of foreign capital, and the development of foreign trade 'along capitalist lines', subordinates the national economy to the world market, and the capitalist international division of labour in the context of an increasingly dependent process of capital accumulation.

Policy Reforms:

Major changes in planning, enterprise management and ownership in the handling of employment, wage and labour issues, and in pricing, banking and trade were introduced in quick succession. Such changes have in fact been under way since 1979. When, intrigued by the existing system of planning and management, the leadership began putting forward a stream of piecemeal reform measures. The nature of reform in China can thus be summed up in following principles:

(1)That the reform is experimental in nature and confined to a few regions. The reforms are in the same regions trying new property forms like co-operatives and the reinforcement of factory managers' authority, before studying the consequences and using these methods on a wide scale all over the country. (2) that China is moving form imperative national level planning to indicative and regional level planning whereby bringing decentralisation. (3) that the intervention of state shops trying to ensure price stability. (4) that there is diversification of property. The government has encouraged workers' self-managed co-operatives, mixed individual enterprises. Though they are allowed to function, their total share in industrial production is marginal and still state enterprises dominate the economy[6]. (5) The creation of a labour market at the national level. Under the 'old system' employees are allocated (in equal number of both sexes) by the local labour office, jobs are guaranteed for life and are hereditary. Wages are fixed by the administration and are generally uniform for the entire country and for all sectors of activity. The differential between the lowest and highest wage is extremely small. The bonus for better performance is paid to all workers of a factory almost identically equal to the 4 months wages by the state. This system is called the 'iron bowl' because it guarantees in principle the minimum essential requirement to the worker.

"From 1981 onwards, the urban reforms allowed factory managers to hold back profits of enterprises (paying only taxes in a fixed proportion to the state) to 'reinvest', as they say it. They were allowed to buy raw materials and components, and to sell their output, in the free market. Though, central/state controls still operates over key sectors of industry (such as in transport, power, armaments, etc.) practically all consumer industries, and most of heavy industry operate on this basis. Provincial and local officials were also given broader economic powers than before, in particular to negotiate foreign loans and investments" (Hore, 1991:72).

These reforms led to some of the highest rates of growth ever seen in China until 1985. The ruling classes response to such a growth was to limit enterprises rights to trade independently and to reassert central state controls over investments. But, the economy was going into recession. Thus, economic policy went quickly into reverse. By 1987 when there was slight improvement, state controls were tightened once more. The pattern of increased control, then relaxation followed by new controls has continued ever since. Till 1989, both growth as well investments had run well above planning, thus proving it impossible for the state to regain its control over economy.

The town and village enterprises (TVEs) which initially were set up to employ peasants who had no land after the agricultural reform, had grown at higher speed (in some cases they undermined the role of heavy industry in China's development). This generated new opportunities, inequalities as also political competition in formulating rural policy and within rural China (Ibid.:73).

On the other hand, the growth of TVEs has been largely at the expense of heavy industry, which had stagnated from the mid-1980s, mainly because of new industries, which are into their markets within both China and abroad. This might be because of the fact that the TVEs grew outside the state plan and could simply ignore the directions to slow down given by the state. Hence, inspite of number of credit squeezes imposed on TVEs from 198, they were able to sustain their growth.

This apart, even newly acquired powers of local managers and officials led to a fundamental redistribution of power inside ruling classes. By 1985, centrally planned investment was half of ruling classes. By 1985, centrally planned investment was half of the total investment planned. The rest came from the private sector (more specifically the locally controlled capital). They have their own interests at which they work rather than in the interests of the ruling classes as a whole. The contradictions found its sharpest expression in the epidemic of 'economic crimes', illegal business practices that had gripped the whole lower layer of officials since early 1980s. But, the whole problem was that of distinguishing the fair market economic reforms and that of unfair crimes[7].

If we see the real level of adverse effects on wages and working conditions before recession of 1989, was indeed very modest. The ruling elite know all the dangers involved, and moved cautiously. They talked in the early 1980s of extending the household responsibility system in agriculture to all factory workers. But, they could succeed only in imposing these programmes on new workers alone by the end of the decade.

During 1980s, another significant issue was of diversification of sources of industrial finance and banking. This, however, was part of greater decentralisation in the financial decision making. Thus, power flowed from centralised area to local officials, individual economic enterprises, rural co-operatives[8], etc., thereby bringing numerous ills. These economic ills had brought in the tussle between the moderates and extremists of the economic reform programmes into the fore. At stake was the policy of reform itself. The first group contended that the reform programme must be guided by state planning focussed on developing key areas of economy and that the speed of growth must be limited witnessing the backwardness of the Chinese economy. The other group speaks of the primacy of competing in World market. They say that China's centralised state control had left it behind the competition. Only further decentralisation and expansion of the market could give the economy necessary dynamism. Perhaps, the culmination of such a need for decontrol was the opening of stock markets in major cities in China which brought further reforms since 1992 into the Chinese economy.

Normative and Policy Implications of Reforms:

According to Kim (1984) the political economy of post-Mao China has undergone a remarkable reorientation from Mao's value-oriented self-reliance model to Deng's open-door model, through shifts from superstructure to base (or from command politics to command economics), from regional self-reliance to regional specification through the special economic zones (SEZs) and other schemes, from social egalitarianism and normative incentives to the economic division of labour and specialisation and material incentives. Kim (1984) adds that, "from symbolic diplomacy to 'realist' diplomacy, from mass participation in decision making to a more explicit hierarchy of authority and responsibility, from aid giving to aid seeking, from model projecting to model seeking, from fear of dependency to fear of isolationism and backwardness and from autocentric social development to export oriented growth" (Kim,1984:227).

The notion that China can claim its 'due' share of world market through a dynamic export led growth strategy seems unrealistic in the light of the deepening of structural problems playing the world market: (1) wide protectionist tendencies in the developed world in the wake of formation of trade groupings like NAFTA, EU, etc., (2) wide price fluctuations of commodities, (3) stagflation in industrial countries, which reduces demand for developing countries export and simultaneously increases the price of their imports (Raul Prebisch thesis) and (4) oil price fluctuations.

The open door policy brought not only foreign capital and technology, but also luxury contraband, pornography and other cultural ills that might corrupt China's super structure. " The extent of smuggling through the SEZs is estimated to run about $500 million worth annually" (it might be even more now). If all this is the outcome, can China succeed at all in its modernisation drive, without legitimising the above evils? Can not we revoke the centre-periphery theory and analyse the export led contradictions in Chinese model? Whatever be the consequences, the Chinese model had started their long march like many of its counterparts in the Third World towards open door policy (liberalisation) which would ultimately restore capitalism.

Section-II

POLICY CHANGES AND COURSE OF REFORM IN INDIA:

As has been presented in chapter-2, the real thrust of economic policy until the late 1970s in India was to provide opportunity to the domestic business elite to consolidate and expand its capital base and exploit the entire potential market within India. Thus, economic policy measures in India, under the guise of import substitution, sought to protect domestic capital from external economic threat. The public sector was given the main responsibility of building an economic infrastructure for the emergence of corporate monopoly business houses within India. But, failure of the strategy thus followed necessitated fundamental changes in economic policy, which incidentally took the form of liberalisation/globalisation drive.

In India, the change from protected management of the economy to a liberalised one was motivated by two factors.

Firstly, domestic market was virtually saturated with the existing levels of quality and technology and secondly, the inherent desire of the industrial elite to gain access to limited foreign markets. Added to this, growth of middle class with steady incomes during 1970s also contributed to change the government's policy as they were demanding more luxurious goods and comforts, which the Indian business could not meet without collaborations. The changes can also be explained in terms of external factors. As Mehta (1991) writes, "the changes introduced in Soviet Union, the reports of economic disorder in the socialise bloc, the tremendous progress in Far East where S.Korea, Malaysia, Singapore, etc., which followed export led strategy of development, had conditioned the nation's intelligentsia that socialism was economically unproductive, while liberalisation could lead to quick economic development" (Mehta, 1991:11).

India had to opt for loans, as the nation's foreign exchange reserves were not sufficient to finance a policy of economic liberalisation. Since the International Monetary Fund (IMF) was operating as a low interest option, India approached it for a massive credit agreement. Therefore, "when India approached the IMF for $ 5 billion aid in 1981, it was welcomed by elite classes[9] as they felt that, they were now ready for controlled competition and other collaborations. The Government of India envisaged it as boost to the Indian economy. But, neither the IMF nor the West was interested in indigenous economic development of recipient nations. A typical economic growth based on IBRO/IMF would harm the interests of 'certain sections'[10] of Indian monopoly capital and hence "the rejection of third instalment of loan in June,1984'.

The rejection of final instalment of IMF loan meant an Indian style of economic liberalisation. The initiative was to build up market in India for consumer durables for which the middle class has to be tapped and therefore their purchasing power must increase. Wage levels, expansionary effects on market, increased. But, according to an interpretation of Communist Party of India (Marxist): The Indian style of liberalisation "were restricted to public sector and government employees and other workers in organised sectors of the economy. There was a 23 per cent increase in their wages between 1980-81 and 1987-88" (CPI-M, 1991:83).

This was one of the factors that led to the economic boom of eighties. However, general trend was to move away from the traditional industries. There were few new policies aimed at placating the IMF. But, as the implementation of the loan conditionalities began to threaten the new industrial capitalist class, the government refrained from withdrawing the third instalment of the loan and began to rely on commercial loans (see Kurien,1994:95-97 for details). This led to the new economic policy of 1985-91 period.

Policy Changes and Practice Since 1985:

After Mrs.Gandhi's assassination, Rajiv Gandhi took over the reins of power in 1984. He gave a new look to the old policies of Indian economic development. Several policies were initiated for deregulation of controls and creating of an environment suitable for industrialisation. Dasgupta (1990) in his analysis on Indian growth points out, "A review of industrial development revealed that during the Seventh Plan (1985-90) it was the consumer durable sector that recorded the highest growth i.e.- 14 per cent annually" (See Dasgupta, 1990 and Kurien,1994:95).

Industrial licensing system, which was the main weapon in the hands of government to control investment and help check the concentration of resources and production, was liberalised. Further, the Monopoly and Restrictive Trade Practices (MRIP) Act was amended (and later on removed under NEP, 1991). There was an announcement of new three-year export-import policy, through which access to imports was made easier besides reducing procedures for exports that was extended for another three years in 198.

Basic industries such as steel, cement, etc., were opened for limited investments from big houses. It also provided access to foreign firms and Non-Resident Indians (NRIs) to enter Indian industry. By 1987, Rajiv faced opposition from many corners internally and was forced to curtail the pace of liberalisation and hence, to mollify the opposition- the traditional socialistic public welfare programmes such as Nehru Rozagar Yojana, etc., got head start. "Funds amounting to Rs.14,000 crores were spent during seventh Plan on several developmental projects, which had a spin-off effect, i.e.-creating a market for consumer non-durables in rural regions" (Financial Express,1990).

The industrial policy pursued during early1980s, provided private producers and investors with a greater role. Tax concessions to high income groups and to corporations was one of the measures to achieve the objective. Substantial increases in salaries at the higher levels of government and government-related sectors (such as higher education) and an unprecedented expansion of employment in the public sector were other measures. All these together built a vast and flourishing domestic market.

As we were discussing earlier, by late 1980s, 'consumer boom' reached its peak and consumer goods and all sorts of domestic equipment - led the industrial growth of the decade. "Consumer durable goods grew at a phenomenal rate ranging from 8 per cent to 22 per cent per annum during this time... overall industrial growth of 8 per cent per annum was registered" (Kurien, 1994:95).

There was steep rise in budgetary deficits which crossed Rs.10,000 crores mark by 1989 (Times of India, 1990:106). The distinctive feature of the new economic policy was the increasing dependence on foreign technology by the Indian industry for its growth. A deleberate attempt to give boost to consumer industry by the creation of credit facilities for the industry was initiated by Rajiv Gandhi. This increase in internal as well as external borrowings for providing boost to the Indian industry under lieralisation has led India into a vicious cirlce of excessive debt (See appendix for details on this issue; Srinivas, 1996:275-92) Hence, "while there was a surplus in luxury goods it was contrasted by a shortage of essential goods" (Venkateshwaran, 1989:8).

Because of budgetary deficits and high borrowings, the Indian economy was proceeding towards an inevitable disaster during 1984-89. The monopoly capitalists in India knew well that consumer boom would not last long and hence the search for alternatives started. One was to change the character of liberalisation from high import and less export oriented sector to more infrastructure industries. The second was to seek and capture international markets in high technology capital goods. To achieve the second option the Indian industry's production structure had to adapt to the needs of international markets. Hence, the demand to liberalise Foreign Exchange Regulation Act (FERA) and MRIP Act,, etc.

The demand to liberalise FERA came from several quarters, especially from the Indian Merchants' chambers which had asked for deregulation to encourage foreign investment and floating of Indian rupee to make it convertible. Another demand was to do away with the MRIP Act as this was considered an impediment to the business houses[11].

The main thrust of the propaganda was that multinational corporations (MNCs) were playing a positive role by collaborating with Indian companies. Moreover, many bureaucrats felt that India should gradually withdraw its dominant presence in the G-77 and instead join the group of the Newly Industrialised Countries (NICs) for negotiating with G-7 (now G-8) members. It was also held that prosperity in the north is essential for development in the south. However, Manmohan Singh, the then Secretary General of the South Commission, had found it prudent "to caution against total dependence on the north, a stand which is in stark contrast with his (and his successors) present policies and views" (BM, 1989:343-44).

By 1989, India was on the threshold of a debt trap and had begun to borrow foreign exchange on commercial basis, just to service previous debts. Indian economic liberalisation has been based on a very weak financial and technological base besides a restricted domestic market. It was unique in the sense that MNCs and Foreign Direct Investments (FDI) were given no major opportunities to carry out freely, until recently. The developed countries did not stress for such access also, as they knew pretty well that liberalisation with restriction could hardly sustain and eventually India would have to open up its economy[12].

"An advantage India had in the early eighties was a low debt when compared to Gross Domestic Product (GDP) and more importantly a high credit worthiness. India had a low current account (CA) deficit in 1980-81 when compared to GDP i.e.-1.2% (Mehta,1991:8). As observed earlier, India had refrained from withdrawing the last instalment of 1981 IMF loan in 1984. This was mainly because the Indian elite's felt that, citing its credit worthiness, it could borrow from international capital markets, avoiding the IMF conditionalities.

Indian borrowings from capital markets did not rapidly increase during the first years of liberalisation. This was due to the fact that it had just entered the markets and there was not much responsibility of debt repayments (See for details table-3.1).

Besides, India had received two instalments of IMF credit to strengthen its foreign exchange reserves. Until 1988, it was going moderately on commercial borrowings. But, as figures presented in Table.1 show, India was slowly getting into the external debt trap. But, since then it was a spurt in borrowings, which had eventually led to lesser credit ratings in international markets[13].

Similarly, there is not much change in these aid borrowing and remittances in recent times. Datt (1996) also points out the classic case of debt trap in to which India is already in. He says, "the Economic Survey of the Government of India in its efforts to present a better image of the Indian economy has discontinued the information regarding external aid transactions" (Dutt,1996:11).

Table-3.1

External Debt Servicing and Remittances by Foreign Companies Operating in India

(Rs.Crores)

Period	Total Debt Servicing (made Up of Ammortisation and Interest)	Total Remittances (by Foreign Companies)
1970-71	450.0	95.3
1975-76	600.7	106.0
1980-81	803.9	168.3 (excluding interest)
1982-83	849.1	398.9
1982-83	947.5	468.0
1983-84	1032.5	--
1984-85	1176.2	--
1985-86	1366.6	--
1986-87	1600.4	--

Note: Especially after 1983 itself the outflow by foreign companies was more. But, due to non-availability of data it cannot be shown here.
Source: Desai, 1988:489. See also RBI Report on Foreign Investments in Indian industry, 1985.

The ground reality is that during 1994-95 about 96 per cent of the gross receipts in the form of external aid was utilised to repay debt service payments (interest & principal) and net receipts were a mere trickle of the order of four per cent. However, the situation deteriorated in 1995-96 and debt service payments have become 106 per cent of the gross aid received. If the traditional definition of a debt trap has to be kept in view, the country has to seek external assistance to meet debt service obligations. In this case even the aid received would not be sufficient for external payments. Table-3.2 illustrates the same.

Table-3.2

India's External Aid Transactions: Gross and Net

(Rs. Crores)

S.No Items	1994-95		1995-96	
	Total	%	Total	%
1. Gross Receipts	10661	100.0	10992	100.0
2. Debt Service (a+b)	10198	95.7	11666	106.1
(a) Interest	4408	41.4	4833	44.0
(b) Principal	5790	54.3	6833	62.1
3. Net Resource Transfer	+463	4.3	-674	-6.1

Note: As we have indicated in table-3.1, the net transfer of resources from India had increased many fold. For details see appendix.

Source: Dutt, 1996:11.

If we compare table-3.1 and table-3.2, we can clearly state that there is heavy transfer of resources from India to foreign countries. It had increased many fold from mere Rs.450 crores in 1970-71 to Rs.803 crores in 1980-81. Since 1986-87 it had plummeted from Rs.1600 crores to the present Rs.11666 crores in 1995-96. This indicates the pathetic position of Indian economy.

During the period of crisis in the last decade, as the commercial lenders would hesitate to provide loans to India evidently because of its low credit ratings, many business groups in order to preserve their interests through liberalisation had asked the government of India to approach for IMF credit. Here the business community is more interested in preserving its own interests rather than those of the state and try to solve the Balance of Payments (BoP) problem. The fact is that in India the ruling elites are mostly corporate monopolists who, as we have already seen, are inevitably part of World Capitalism and want to go in for more compradore role so as to get their interests preserved. The political parties in India especially the right wing BJP and the Congress are the main stronghold of them. It is evident from the above analysis that the interests of these elites are looked after by these parties in power. As mentioned elsewhere the whole policy of liberalisation in India is to facilitate the interests of these groups whose businesses until now flourished under state capitalist protection.

Implications of SAP for Indian Economy:

The Kuwait crisis in 1990 blew the lid off the disaster of Indian economy which was precipitated since 1984 itself. Besides being hit in terms of export market in West Asia, India had to encounter it was clear that the crisis had been building up for sometime and that the gulf crisis was only a catalyst (Mehta,1990:8 and Kurien,1994:98-103).

There had been many policy changes in Indian economy since then. The then Finance Minister, Manmohan Singh, while devaluing the Indian currency by 20 per cent, said that it is 'fixing a realistic rate of exchange'. This might have been realistic rate of exchange to satisfy the IMF and prevent the flight of NRI capital from India[14]. The next step was to announce the New Trade Policy, Industrial Policy, etc.

The main feature of trade policy was the introduction of exim scripts which was a major instrumenty of decontrol. Under this an exporter would get an exim which was a blank permit to import upto 30 per cent of his net exports and could utilise it for either import production inputs or capital goods, or he can sell it in the open market. Besides this there were several concessions to firms in the Export Protection Zones and other Export Oriented Units (i.e.- 100 per cent EOUS).

The exim scripts were later discontinued for a more liberal system under full convertibility of currency. Simultaneously, the new industrial policy also provided, among other things, delicensing of all categories of industries. With certain exceptions like defence, policies like MRTP were relaxed[15]. FERA was also relaxed upto 51 per cent foreign equity participation in capital intensive industries and in some cases even upto 100 per cent.

Foreign technology agreements where royalties were limited to 5 per cent of domestic sales and 8 per cent of export sales along with lumssum payments of upto Rs.10 million were now automatically approved. Between 1990-95, "foreign investments approved by this route are estimated to be around $ 374 million" (Dutt, 1996:12). Similarly, there is a spurt in technical and financial collaborations. The Government of India has been following a policy of releasing industry from price and distribution controls during the 1980s.

New Industrial Policy (NIP), 1991: An Overview

Over the years, the Indian economy grew at a slower rate that could not bring any visible change in the mass poverty, illiteracy, unemployment, etc. This failure is attributed to the import-substitution strategy and the regulatôry regime built to implement it (state capitalist regime)[16]. The crisis in the late 1980s indicates that a policy change was long overdue. As part of SAP efforts were made in 1991 to stabilise the economy and deregulate industry, trade and finance so as to increase competition in the country. The statement on industrial policy in July 1991, discusses these issues.

The industrial policy statement starting from 1980, which of course was modified from time to time, focussed attention on the need for promoting competition in domestic market, technological upgradation and modernisation. It also encouraged foreign investment in high technology areas. Number of policy and procedural changes were carried out under the leadership of Rajiv Gandhi. These changes were aimed at increasing productivity, reducing costs and improving the quality of goods produced. The accent was on opening the domestic market to increased competition and readying our industry to stand on its own against international competition.

The government envisaged that through technological collaborations and foreign flows there could be effective change in the production of goods and creating employment potential. There was 23 per cent increase in wages during 1980-81, which had expansionary effects on the market. (See PIRG, 1992:68-81 for details; we shall discuss this issue and its employment in chapter-5).

The industrial policy statement of 1991, among other things, emphasised government's resolve on a policy of continuity with change. In pursuit of the same, following changes were brought in:

1. Industrial licensing policy was abolished for all projects except in some short listed areas.

2. Foreign investments were given permission upto 51 per cent without any hassle. Over and above this needs clearance[17],

3. Foreign technology agreements were given automatic approval in high priority industries.

4. Investments in public sector units were reviewed with focus on reorientation. While some of high priority units were to be retained by the government, others and especially those which are loss-making would be referred to the Board for Industrial and Financial Restructuring (BIFR). It is said that a social security mechanism will be created to protect the interests of the workers likely to be affected by such rehabilitation package[18].

5. MRTP Act was first amended and was later abolished, to remove the threshold limits of assets in respect of MRTP companies and dominant undertakings. This eliminates the requirement of prior approval of central government for the establishment of new undertakings, expansion of undertakings, merger, amalgamations and take-over[19] and the appointment of directors under certain circumstances.

As discussed earlier, rate of employment generation declined over the period. One can attribute this to the consolidation of market base in India where private business flourished under state protection. Now that they are capable of tackling market forces and withstand competition form MNCs, the state sector shrunk in size. This also might be to facilitate private sector acquire skilled manpower at a cheaper rate.

Whatsoever the reason might be, state support to unemployed, etc., were to go. Trade unionism is acceptable at local/plant level but not national federations to be entertained. The NIP, 1991 speaks of greater flexibility of labour (they must be mobile/ migrate for long distance) and for their deunionisation. Under the new policy there are provisions for steep reduction of labour force. Instead of chanallising the whole of labour, casualisation of labour, where employment is on hire and fire basis, is evident. Wages are paid in piece rate payments instead of earlier policy of lumpsum payment.

In July 1991, India officially sent a letter of intent for the IMF standby credit in which the government indicated its willingness to implement drastic reforms to reforms to improve the state of economy. After hectic negotiations a standby credit of pounds 2.3 billion was sanctioned. Later, it had been converted into pounds 7 billion enhanced structural adjustment credit. This signifies the completion of first vicious circle of debt trap that India had stepped into. Despite the harsh conditionalities, ruling sections and elite's in general had accepted the structural adjustment programme.

The present position of India where its foreign borrowings/loans are not sufficient for debt servicing vindicates our position vis-à-vis debt trap into which India had entered. There will be considerable differences through which the present structural adjustment programme works with that of 1980-81. During 1980, the BoP crisis was due to a rise in the import bill due to bulk imports of wheat, oil, etc. India's external debt had not reached crisis situation to impose harsh conditionalities. According to one estimate "it is Rs.350000 crores as of 1995-96" (Prasad, 1996:5). Similarly, Dutt points out the precarious situation into which India had entered. He says "external debt in rupee terms rose from Rs.1,30,199 crores in 1990 to Rs.3,11,972 crores in 1995" (Dutt, 1996:11), consequently increasing the debt services ratio to 106 per cent of net receipts.

But, the present state of economy as well as world is different. As is well known, the collapse of the socialist bloc, the start of liberalisation in Russia and implementation of SAP in many Third World Countries had given MNCs enough opportunities for investment. Therefore, India had to offer more concessions to attract foreign capital[20].

However, these increases were restricted only to the workers in organised sectors of the economy. Ironically, a decade in which the growth rate was the highest, the increase in employment was the lowest. During 1972-73 to 1977-78 employment had increased at an average annual rate of 2.82 per cent. It came down to 2.22 per cent during 1977-78 to 1983-84 and further fell to 1.55 per cent during 1983-84 to 87-88. In the private sector, which contributed much to the industrial growth of the decade, employment infact declined in absolute terms. The major offshoot of these policy changes has been that there was an average reduction in employment by 20.5 per cent in the 1980-90 period[21]

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The NEP in India, fashioned as per the provisions of the SAP sponsored by IMF and the World Bank, suggest a marked shift in the position of the state capitalist regime in India, from struggle for independent development to a submissive surrender. It has opened the floodgates of imports of foreign goods, services, technology and capital. It may be concluded that Indian capital could not withstand the combined pressure exerted by the international institutions, viz. - IMF, IBRD, and World Trade Organisation (WTO) and would instead settle for a subservient role vis-à-vis World capital.

Thus, in our analysis in the forgoing sections we presented the policy changes and course of reform in both India and China. In the chapter to come, we shall discuss the impact of these changes on industry in both nations based on an analysis of certain macro-economic parameters; performance of industry during the period under study (1980-95) is analysed.

NOTES

[1] During 1970s, due to the onslaught of cultural revolution China could not make headway over planned expansion of industrial base, added to this there was major struggle after the death of Mao. However, Deng only after he took over charge of CPC in 1978 could initiate policies of "Four Modernisations".

Similarly in India, Indira Gandhi faced serious political as well as economic upheavals. The 1973 oil crisis and war with Pakistan in 1971 had its impact on India's economy. This apart, on the political front, when Mrs. Gandhi faced stiff oppositions to her political supremacy, emergency was declared between 1975-77. Which brought in major social unrest. It is history that the 1978 elections resulted in dethroning of Congress and coalition government of many parties was formed. Subsequently, due to infighting, there occurred mid-term poll in 1980 when Congress won majority and formed the government. It is these two period of 1978 and 1980, for China and India respectively, that we consider the beginning of liberalisation.

[2] In 1978 Deng took over reins power in China and between 1978-80 in India there were two governments (one a opposition led coalition government and the other by congress headed by Mrs.Indira Gandhi).

[3] There were frequent shifts in brief succession, which led to serious economic imbalances, resulting in the introduction of the policy of readjustment and reform by the Chinese leadership.

[4] This explains as to why in early 1980s, people rushed to leave collective agriculture and opted for individual family plots.

[5] The Tiananmen square demonstrations in 1986 and The 1989 and subsequent massacres, and recent suppression of demonstrations for political liberalisation and a free Hong Kong state in early 1997 vindicates this point. Sometimes this same totalitarian state might itself responsible for smooth transition under liberalisation, which keeps Chinese state an option to indicate as to where there shall be controls and where it is opening. This is the advantage which is distinctly missing in case of India.

[6] Only 2 per cent of industrial production is shared by industrial enterprises and they are allowed to function in trade sector for modest services. Individual entrepreneurs are allowed to employ up to 12 workers. But, a typical entrepreneur of the Chinese reforms is a petty trader or restaurant owner.

[7] currency, it is said that some officials Under new reforms, people had started mis-using the foreign. But, to be used only to import new had drawn cheques on the pretext of importing new technology television sets - illegally and sell them in entire south-China through market network with base at Hainan.

[8] The state lost control over the economic transactions as "extra budgetary funds" (EBF) from foreign interests, individuals, local bank branches had made joint stock investments which can be named as 'second budget'. According to one analysis EBF rose from 4 per cent in 1953 to 60 per cent in 1980-81 (now this might be much more in the aftermath of stock market openings.

[9] We presume that (official) liberalisation of Indian economy during 1990s was only a culmination of the policy pursued by it since independence. In fact, the crisis in 1956 had initiated aid donors into Indian economy and export licenses were given to them. Later on, during 1966 when there were serious BoP problems. India had devalued its currency. Even bank nationalisation and 'garibi hatao' slogans of the government during early 1970s were only to bring market forces into economy. Hence, we think that the acceptance of IMF loan during 1981 was the first step towards liberalisation.

[10] These include the agrarian and business lobbies which were hitherto getting high subsides. If the IMF SAP was to be implemented, these sections would get effected vis-a-vis removal of subsides, restructuring of land reforms etc.

[11] It is observed that all the points incorporated in the documents were fulfilled during the course of liberalisation without much fanfare. For details see Indian Merchants' Chamber "Blue Print for Economic Reforms", Bombay, July,1991; see also FICCI and Assocham documents, which also stressed same points in great detail.

[12] Same point can be stressed in the case of China, where in the developed countries thought it prudent to keep away for the time being, when China is opening itself to the global economy. They knew that economic liberalisation also without political liberalisation would not succeed. Hence, there are bound to be pressures on China to have political restructuring. The Tiananmen square incident, Hong Kong students protests, protests in Guangdong, Fujian provinces, protests by farmers in interior China, indicates the forces clamoring political liberalisation.

[13] Standard and Poor's graded India as BBB and Moody's as Baa. For details on this point, see Agarwal, 1992 "Supplement to Indian Economy", p.7.

[14] It is common Knowledge that the rupee was ultimately made convertible probably for the same purpose.

[15] Note that the documents, occasional papers, etc., of FICCI, ASSOCHAM, Indian Merchant's chamber, were the guiding principles behind government's decision.

[16] State capitalism is determined by the class nature of a state and state ownership of means of production. In India, bureaucratic elite leads state capitalism. Here, the ruling classes could articulate their perceptions through the state policies. The Indian State capitalism like some of its counterparts elsewhere in the world, tried to steer India into an 'independent' and respectable position in world affairs. Thus, instead of opening up markets, as western powers advised, tariff and non-tariff barriers were erected to protect Indian market for the development of capitalism with in the country.

[17] Later this itself has been amended so as to make priority clearance.

[18] Details of this social security measure as well as other issues concerning workers shall be discussed in chapter-5.

[19] Mani (1995) presents interesting picture as to the trends in mergers and acquisitions (M&A) for 1988-92. In 1988 there were 15 M&A of which 4 (27%) were horizontal ones. Similarly, in 1989 of 20 M&A 5 (25%) were horizontal; in 1990 of 25 M&A 12 (48%) were horizontal; in 1991 of 33 M&A

17 (52%) were horizontal and in 1992 of the 28 M&A 17 (61%) were horizontal mergers. For details see Mani, 1995:M41.

[20] More so, when countries such as China are not leaving any stone unturned in attracting foreign investments.

[21] It is a disturbing fact that the rate of employment creation over the years is falling continuously thus undermining the major concern and objectives of successive five year plans.

CHAPTER 4

LIBERALISATION, INDUSTRIAL GROWTH AND PERFORMANCE

Contents

In the preceding chapters, we were analysing the policies pursued by both India and China right from the initiation of planned economic development. In doing so, we discussed the policies pursued by both nations prior to liberalisation in Chapter-2 and changes under liberalisation in Chapter-3. In this chapter, we analyse the industrial growth and performance of India and China in the context of the strategies and policies discussed earlier. The declared objectives for liberalisation of both Indian and Chinese economies were to promote higher growth and equity[1].

In this chapter, we would examine whether rapid rates of growth were achieved in practice, and if so, whether they were due to the strategies that were adopted. In Section-I we discuss industrial growth and productivity in India and China. In section-II we would analyse industrial growth and performance in both India and China for the period under study (1980-95) in a comparative perspective. Trends in certain macro-economic indicators are presented in Section-III. Our hypothesis that liberalisation has brought visible changes in industry in both nations particularly opening to foreign investments leads to faster growth shall be examined in detail.

Section-I

INDUSTRIAL GROWTH AND PRODUCTIVITY IN INDIA AND CHINA:

The policy changes, which we discussed in chapter-3, have immense bearing on industry. In this section we see as to how industry fares as a result of reforms initiatives in both nations.

The overall growth rate in India has generally been below the industrial plan targets in successive plans, suggesting internal imbalance and shortfalls in plan achievements. Patibandla and Mallikarjun (1996) says that the basic stimulus to growth, according to market reformers, comes through supply side efficient utilisation of resources. A free market economy is expected to lead to efficient utilisation by competitive operation of markets. Basic reason being cited is that of distortions under previous policy regime, which would be eliminated if there is sufficient impetus to economic growth[2]. The underlying rationale is that "efficient utilisation of resources is expected to generate demand by reducing prices and thereby increasing real incomes, and generating gainful employment. Price reduction is supposed to take place through competitive market outcomes which reduce monopoly profits and X-inefficiency in production which, in turn, will lead to a fall in prices (Patibandla and Mallikarjun, 1996:1119).

Gupta (1996) argues that the real issue is whether the reforms in India are generating employment by reducing the macro-economic distortions of the previous policy regime. But, this is observed to be contrary. To what extent is it true shall be discussed in the next chapter. Thus, if industrial growth has to be sustained, the policy reforms have to address the distributional issues in the fundamental sense.

Bhalla (1992) argues that imbalances were observed in the divergent growth rates for out put of consumer, intermediate and capital goods. There is considerable controversy regarding the causes of industrial stagnation in India. "The industrial licensing system was intended to ensure that the choice of industrial plans, their technology and location would lead to social instead of private profitability. No systematic criteria seem to have been used to measure such profitability, could be achieved through fiscal incentives instead of direct controls and government intervention" (Bhalla, 1992:99-100; See also Kurien (1994) for details on the earlier policy regime).

A sudden jump in India's industrial production has taken place since the mid-1980s. It may be argued that this may in part have been the result of a new liberalisation policy aimed at foster competition, efficiency and technological progress that the Rajiv Gandhi regime introduced, as discussed in chapter-3. It is also mainly the import-oriented consumer durables industry which has expanded rapidly since 1984-85 as a result of the policy of industrial delicensing. This may reflect an industrial production pattern skewed in favour of richer sections of society. It also reflects the rapid growth in the organised sector's incomes in the period[3].

Like India, China has also suffered from instability and imbalances in overall output growth as well as from wide gaps between agricultural and industrial growth rates that are explicit in the analysis to follow in the next section. In contrast to industrial stagnation in India, China recorded impressive rates of industrial growth eversince planned industrial development has been initiated in 1950 (Refer Chapter-2 for details). The rapid industrial growth was clearly policy-induced as has been presented in chapter-3. It is most unlikely that China could have achieved very high industrial growth without a clear policy of primacy of capital accumulation, sacrifice of consumption and emphasis on heavy industry.

In the post-Mao period, a significant re-adjustment between light and heavy industry has taken place. Heavy industry has become much less dominant than during the Mao period[4].

Several factors explains as to why China's industrial productivity is much higher than that of India.

1. High industrial productivity was due to high degree of capital intensity.

2. Control of rural-urban migration has made industrial labour productivity high in China[5].

3. Share of GNP originating in industry in China is over 50 per cent when compared to 20 per cent in India[6].

In India, deceleration of indsutrial growth, in the mid-1960s and subsequently till the mid-1980s may have been partly due to the low levels and slow growth of industrial productivity. Several factors have accounted for low efficiency in factor use: (1) underutilisation of capacity, (2) fragmentation of production units in to uneconomic sizes partly due to a policy of regional dispersal, and (3) rising costs of materials and services provided by the public sector.

In the case of China, the higher total factor productivity in the post-Mao period were due to the policies of liberalisation. However, here is no clear evidence of the causation particularly since reforms[7]. Thus, it becomes rather complex to disentangle the factors that accounted for an accelerated growth in total factor productivity in the post-Mao period in China.

Section-II

INDUSTRIAL GROWTH AND PERFORMANCE IN INDIA AND CHINA:

In this section, a comparative analysis of industrial growth and performance in both nations is presented based on The World Bank, UNIDO and ADB data.

Sectoral Growth Overview:

Liberalisation has substantial role in sectoral development of the economy. It is observed that industry dominates other sectors. However in China, value addition by all the sectors substantially reduced during the period 1980-95 with an exception to services sector, which improved 10 per cent over the 15 years period. Coming to India, except agriculture sector, remaining sectors performed well in their contribution to GDP value addition. However, overall GDP growth rate is more in China than that of India, with GDP growth of 495,959 million dollars in China, while for India it is 151,761 million dollars. In 1995, GDP of China is more than twice of India[8] (Table-4.1).

Table-4.1
India and China: Sectoral Growth Overview

Country	GDP[1]		Agriculture[2]		Industry[2]	
	1980	1995	1980	1995	1980	1995
China	201688	697647	30	21	49	48
India	172321	324082	38	29	26	29

table contd.

Table-1 continued

	Manufacturing[2]		Services[2]	
	1980	1995	1980	1995
China	41	38	21	31
India	18	19	36	41

Note: 1. Dollars millon
2. Value added percentage of GDP

Source: The World Bank, 1997:134 & 135.

According to table-4.1, during 1980-95 the reduction in value addition by agriculture sector is same percentage in India and China with 9 percent. However, the contribution of agriculture sector to GDP India is 8 percent more than China indicating the dependency of India on agriculture sector while China is moving faster towards industrialisation.

If we observe closely, the performance of industrial sector in general and manufacturing in particular has marginally deteriorated in China and while it is increased marginally in the case of India. The proportion of industry with respect to GDP is substantially significant in China and it dominates Indian industrial sector's performance with 19 percent difference in 1995. All the same time the contribution of manufacturing sector is also dominating in China. Its percentage is twice that of India. It is interesting to note that service sector stands in second place with respect to value addition to GDP in India, while agriculture sector takes second place in China. It indicates that the contribution made by service sector has a vital role in India and its percentage is more than that of its counterpart.

Industrial sector's contribution in 1980 was 49 percent in China and 26 percent in India. This sector's performance in China declined by one percent and is at 48 percent in 1995, while in India it has increased by 3 percent and is at 29 percent in 1995. This indicates that productivity in China is more or less stagnant while in India also it has only increased marginally for 1980-95 (Table-4.1).

Variations in GDP:

Industrial development indicators based on UNIDO statistics are presented in table-4.2. According to the table, GDP in China has improved four times between 1980-95, while India's GDP increased more than twice. However, in 1980, China's GDP is 10930 million dollars less than that of India. China has sudden shift in the growth during the period 1990-95 as in 1990 China's GDP is 382748 million dollars and it is 658625 million dollars in 1995, 304687 million dollars and 376218 million dollars respectively for India. This indicates Chinese performance has improved substantially in just five years. But, India could not achieve better results till date.

Coming to per capita GDP there is slow growth during the period of 1980-95 in India. However, it has increased substantially during the 1990-95 period. When comparing this situation, China is lagging behind in 1980-90. Nevertheless, it surpassed India by 11995 with 144 dollars difference in per capita GDP.

Table-4.2

Industrial Development Indicators of India and China (1980-95)

	1980		1985	
	India	China	India	China
1. Variations in GDP				
GDP (mn $)	174018	163088	226008	261693
Per Capita (1980 $)	253	166	294	249
Manufacturing Share (@ Current Factor Prices) (%)	17.7	41.6	17.9	37.9
2. Manufacturing Activity				
Value Added (1990 $ mn)	24608	58705	34472	87104
Gross Output (mn $)	71387	232460	88304	246331
Employment (000s)	6992	24390	6578	39957
3. Profitability (in % of Gross Output)				
Intermediate Input (%)	82	62	82	68
Wages & Salaries (including suppliments) (%)	11	6	10	5
Gross Operating Surplus & Net Taxes (%)	8	32	8	27
4. Structural Indices:				
Structural Change Indicator (5 year period %)	6.47	5.24	7.96	7.85
As a Percentage of 1970-75 Structural change	100	100	123	150
MVA Growth Rate Per Unit of Structural Change	2.51	3.68	2.39	4.04
Degree of Specialisation	19.3	12.6	16.9	10.8

table contd.

Table 4.2 contd.

	1990		1995	
	India	China	India	China
1. Variations in GDP				
GDP (mn $)	304687	3382748	376218	658625
Per Capita (1980 $)	358	337	405	549
Manufacturing Share (@ Current Factor Prices)(%)	18.7	36.2	18.5	37.6
2. Manufacturing Activity				
Value Added (1990 $ mn)	50174	130329	61111	285700
Gross Output (mn $)	140511	349604	165406	676752
Employment(000s)	7299	53165	8412	55994
3. Profitability (in % of Gross Output)				
Intermediate Input (%)	82	74	79	73
Wages & Salaries (including suppliments)(%)	8	5	6	4
Gross Operating Surplus & Net Taxes (%)	10	21	14	23
4. Structural Indices:				
Structural Change Indicator (5 year period %)	9.01	8.61	8.83	9.61
As a Percentage of 1970-75 Structural change	139	164	137	183
MVA Growth Rate Per Unit of Structural Change	4.72	3.15	6.30	5.73
Degree of Specialisation	15.3	10.8	13.7	10.2

Source: UNIDO, 1997:148 & 175.

Share of manufacturing sector at current factor prices in GDP is marginal with respect to India and vital with respect to China. The difference between proportional shares of India and China with respect to manufacturing sector is more or less consistent over the period with approximately 20 per cent. It is observed that there are fluctuations in Chinese manufacturing sector's performance during 1980-95. The manufacturing sector's share in China reduced from 41.6 per cent in 1980 to 37.5 per cent in 1995. This implies that in the liberalisation period, industrial productivity has declined in China. India has slow growth with 0.8 per cent during the last 15 years.

If we take manufacturing activity in terms of value addition (1990 as base year), the following findings are observed for both India and China. India's performance has increased thrice while the performance of China increased four times. That is it has more than doubled that of India's. Variance in the value addition is observed.

In 1980, the difference between China and India vis-à-vis manufacturing is around 34000 million dollars. However, this difference has increased to around 124000 million dollars in 1995. It shows that contribution by the manufacturing sector in China is quite impressive when compared to India.

When performance is measured in terms of gross output, we can conclude that larger disparities are existing in India and China. As India, could not perform well. For instance, in 1980, gross output was 71387 million dollars; it could reach to 165406 million dollars in 1995. In the case of China it is 232460 million dollars in 1980 and has improved to 676752 million dollars in 1995.

Profitability in terms of gross-output in India is stagnant upto 1990 at 82 per cent share of intermediate input and declined to 74 per cent in 1995. The proportion of intermediate input in per cent of gross-output has increased by 11 per cent during the period 1980-95 in case of China. For instance it is 62 per cent in 1980 and has increased to 73 per cent in 1995. In China, percentage of intermediate inputs had been increased upto 1990. But there is marginal decline of one per cent during the period 1990 and 1995. At the same time, percentage of wages and salaries also decreased from 6 per cent in 1980 to 4 per cent in 1995 in China. In Case Of India, it is substantially declined from 11 per cent in 1980 to 6 per cent in 1995. This indicates wages and salaries are more or less stagnant in china and India. However, gross output has increased substantially in India and China. We can interpret that labour exploitation is in existence in both India and China. This can be substantiated with the average wage yield by the workers. There were fluctuations in the average wage in India and China also during 1980-95. It indicates higher labour turnover in both the nations[9].

Relative Position of Industry's Value Addition to GDP:

Based on UNIDO (1997) data, ranking is given in descending order of value addition with respect to specific industry in both India and China for the period 1980-95. Industry-wise performance appraisal subject to importance of their contribution in value addition is presented below. Detailed ranking for each industry is presented in table-4.3. (For absolute figures of their contribution in terms of dollars million, refer Appendix- III).

- **Food Products**: The relative ranking of this industry is improved in India which was 7th in 1980 and has improved to 3rd rank in 1995. In China, there are fluctuations in the ranking positions. However, its position has marginally improved from 8^{th} rank in 1980 to 6^{th} rank in 1995.

- **Textiles**: This industry stands at 1^{st} rank over the last 15 years in India. Indicating substantial contribution to the economy. In China its relative position has declined to 4^{th} rank in 1995 which was actually 1^{st} in 1980.

- **Industrial Chemicals**: This industry showed very good performance by improving to 2^{nd} rank in 1995, which was 8^{th} rank in 1980 in India. While in China its position is shifting between 3^{rd} rank and 5^{th} rank for every five years.
- **Other Chemical Products**: There were fluctuations observed in the performance of this industry in India and China. However, in India the contribution from other chemical products is substantial than in China. This can be seen by its value addition with the ranking fluctuating between 5^{th} and 8^{th}. Whereas, in China the relative ranking in between 8^{th} and 13^{th}.

- **Petroleum Refineries**: This is also same as in the case of other chemical products. However, petroleum refineries are contributing more to the economy in China than in India. While the ranking for this industry in China improved, in case of India it deteriorated between the period under study.

- **Other Non-Metal Mineral Products**: There are major fluctuations in this sub-sector in India because its relative ranking declined to 9^{th} in 1985 and had improved to 10^{th} in 1995. Overall, it remained between these figures. Coming to China its relative position is almost stagnant upto 1985 and deteriorated during the period 1990-95.

Table-4.3

Value Added Industry-wise Ranking in India and China

Industry	1980		1985		1990		1995	
	China	India	China	India	China	India	China	India
Food Products	8	7	10	4	8	4	8	3
Beverages	10	17	15	19	13	19	14	21
Tobacco Products	9	15	8	15	6	15	9	16
Textiles	1	1	2	1	1	1	4	1
Weaning Apparel	16	24	14	23	15	17	10	11
Leather and Fur Products	21	25	23	25	21	22	18	23
Wood and Wood Products	24	21	24	24	25	24	24	25
Furniture and Fixtures	25	27	25	27	26	27	26	27
Paper and Paper Products	14	11	28	14	17	13	19	17
Printing and Publishing	20	12	21	13	20	16	21	14
Industrial Chemicals	3	8	5	7	3	7	5	2
Other Chemical Products	12	5	12	8	10	8	13	5
Petroleum Refineries	7	14	9	12	12	10	12	9
Miscellaneous Petroleum and Coal Products	27	16	27	17	27	21	27	20

table contd.

Table 4.3 contd.

Industry	1980		1985		1990		1995	
	China	India	China	India	China	India	China	India
Rubber Products	13	13	17	11	19	14	22	15
Plastic Products	19	18	19	16	18	18	17	19
Pottery, China and Earthenware	26	26	26	26	24	26	25	26
Glass and Glass Products	22	23	22	22	23	23	23	24
Other Non-Metal MineralProducts	6	10	6	9	7	9	8	10
Iron & Steel	4	2	4	2	5	2	1	4
Non-Ferrous Metals	15	20	13	21	16	11	16	13
Metal Products	5	9	11	10	11	12	11	12
Non-Electrical Machinery	2	3	1	3	2	5	2	7
Electrical Machinery	10	6	3	6	4	6	3	8
Transport Equipment	11	4	7	5	9	3	7	6
Professional and Scientific Equipment	23	19	20	20	22	20	20	22
Other Manufacturing Industries	17	22	16	18	14	25	15	18

Source: UNIDO, 1997:148 & 175.

- **Iron & Steel**: This is one of the major contributing industry in both India and China. However in India, its position is consistent with 2nd rank upto 1990. But, it has declined to 4th rank in 1995. While in China the contribution by this sector is quite fluctuating. Nevertheless, its relative ranking improved to 1st rank in 1995.

- **Metal Products**: This sector is contributing marginally in both India and China. There was marginal decline in India and stagnancy is observed in case of China in this sub-sector during the period under study.

- **Non-Electrical Machinery**: The performance of this industry is quite impressive and its contribution is vital in both India and china as this sector stands in 2nd position in 1995 in China and 7th position in India for the same period, 1995.

- **Electrical Machinery**: This sector has also improved well in China from 10th rank in 1980 to 3rd rank in 1995. In India the performance of this sector has remained stagnant for quite some time at 6th position and declined to 8th position by 1995.

- **Transport Equipment**: The ranking contribution of this sector has fluctuated between 7th and 11th in case of China and between 3rd and 6th in India.

Relation between FDI and GDP Growth:

In theory, when inflows from multinationals are increasing, then its investment in industries ultimately leads to growth in GDP. This shall be observed by a regression analysis in order to establish the linkage between FDI and GDP growth rate. Thus, for the purpose of regression analysis, dependent variable is percentage change in GDP and independent variable is FDI. Time series data for recent years of post-liberalisation period is taken in this regard. The following is the regression result:

Table-4.4

FDI Inflows and GDP Growth in India (%)

Year	FDI	GDP
1993-94	0.53	7.2
1994-95	1.21	7.1
1995-96	2.29	6.8
1996-97	2.20	7.0

Source: Bhalla and Nachane, 1998:2363 and ADB, Various Issues.

$Y\ (GDP_{India}) = f\ (FDI_{India})$

$Y\ (GDP_{India}) = 7.3083 - 0.1819\ (FDI_{India})$

(2.86)

(Figure in Parenthesis is t value)

Independent Variable = FDI (in US $ bn)

Dependent Variable = Percentage change in GDP

Constant = 7.3083

$R^2 = 0.804$

Number of Observations = 4

Degrees of Freedom = 2

X coefficient = -0.1819

Standard Error = 0.06

T Value = 2.86

By observing the regression result, we can state that the influence of FDI on GDP growth is significant with t-value 2.86[10]. However, the impact on GDP of FDI is negative in recent years in India. This indicates underutilisation of FDI. This can be substantiated with FDI approvals and the percentage of utilisation differences and their gap. Theoretically, one should note that FDI growth should have positive impact. Given the conditions (economic, social, cultural, political, etc.) it may lead to negative influence. It can be observed in the case of India.

Table-4.5

FDI Utilised and GDP Growth in China (%)

Year	FDI	GDP
1986	67	8.3
1987	61	11.0
1988	60	10.8
1989	60	4.0
1990	64	5.0
1991	38	5.7

Source: Srinivas, 1996:278 and ADB, Various Issues.

For China, time series data during 1986-91 is taken for the purpose of regression analysis. Dependent variable is percentage change in GDP and independent variable is percentage of FDI utilised. The regression result is given below:

$$Y\ (GDP_{China}) = f\ (FDI_{China})$$

$$Y\ (GDP_{China}) = 3.2703 + \underset{(0.508)}{0.0719}\ (FDI_{China})$$

(Figure in Parenthesis is t value)

Independent Variable = Percentage of FDI utilised

Dependent Variable = Percentage Change in GDP

Constant = 3.27

X coefficient = 0.0719

$R^2 = 0.06$

Number of Observations = 6

Degrees of Freedom = 4

Standard Error = 0.1415

T Value = 0.508

If we observe, the influence of FDI utilisation on GDP growth is positive. However, the intensity of influence is marginal with insignificant t value (0.508). This substantiates the decline in FDI utilisation during this period. For instance, 67 per cent in 1986 has drastically reduced to 38 per cent utilisation in 1991. At the same time, the growth in GDP is also fluctuating. The factors may be due to low productivity, higher level labour turnover[11], obsolete technology, etc., in China.

FDI Inflows and Industry:

As has been mentioned earlier, FDI inflows in turn contribute positively to industrial growth and thereby leads to growth in GDP. Thus, it would be pertinent to observe as to what amount of FDI stock is being held in which sector of industry. Kumar (1998) says that in India, "the government policy until 1990 generally restricted FDI to technology intensive branches of manufacturing industry. Hence, 85 per cent of FDI stock in 1990 was in manufacturing. Plantations and services accounted for 9.5 and 5 per cent share of FDI stock in 1990" (Kumar, 1998:1325).

Sectoral distribution of FDI stock in India is presented in table-4.6. It can be observed from the table that bulk of the inflows in 1990s have been directed to non-manufacturing infrastructure sectors such as energy (29 per cent) and telecommunication services (20 per cent), etc. The share of manufacturing has gone down to 37 per cent.

Among the manufacturing sub-sectors, FDI approvals in 1990s are also more evenly distributed between food and beverages, transport equipment, metals and metal products, electrical and electronics, chemicals and allied products, and miscellaneous manufacturing.

Table-4.6

Sectoral Distribution of the Stock of FDI in India(1980-97)

(Millon Rupees)

	Industry Group	FDI Stock as in March 1980		FDI Stock as in March 1990		Approvals 1991-97	
		Value	%	Value	%	Value	%
I	Plantations and Horticulture	385	4.1	2560	9.5	4901	0.33
II	Mining	78	0.8	80	0.3	15576	1.06
III	Petroleum and Power	368	3.9	30	0.1	423905	28.91
IV	Manufacturing	8116	86.9	22980	84.9	545135	37.18
	Food and Beverages	391	4.2	1620	6.0	75748	5.17
	Textiles	320	3.4	920	3.4	23700	1.62
	Machinery and Machine Tools	710	7.6	3540	13.1	32830	2.24
	Transport Equipment	515	5.5	2820	10.4	71082	4.84
	Metal and Metal Products	1187	12.7	1410	5.2	73225	6.00
	Electrical and Electronics	975	10.4	2950	10.9	79702	5.44
	Chemicals and Allied Product	3018	32.3	7690	28.4	100759	6.88
	Miscilleneous Manufacturing	1000	10.7	2030	7.5	88089	6.01

table contd.

Table 4.6 contd.

	Industry Group	FDI Stock as in March 1980		FDI Stock as in March 1990		Approvals 1991-97	
		Value	%	Value	%	Value	%
V	Services	385	4.1	1400	4.2	459086	31.31
	Telecommunications	0	0	0	0	296271	20.21
	Finance & Banking	na	na	na	na	63012	4.30
	Hotels & Tourism	na	na	na	na	29720	2.03
	Air &Sea Transport	na	na	na	na	19954	1.36
	Consultancy	na	na	na	na	10068	0.69
	Other Services	na	na	na	na	40061	2.73
Total		9332	100.0	27050	100.0	1466218	100.0

Note: Percentages might not add up to hundred because of rounding off errors.

Source: Kumar, 1998:1322.

Unlike a very heavy concentration in relatively technology-intensive sectors viz. Machinery, chemicals, electrical and transports equipment upto 1990. The infrastructure sectors, which have commanded nearly half of total approved investments in the 1990s, had not been open to FDI inflows before and hence, can be attributed to the liberalisation.

Coming to China, huge and sustained growth stimulated a massive capital inflows for successive years and "in 1994-96 China was the second largest recipient of foreign direct investment (FDI) after the US" (Nolan and Xiaoping, 1998:707). Recent foreign capital inflows into China are presented in table-4.7.

Table-4.7

Foreign Capital Inflows into China

(US dollars billion and Percentages)

	1990	1994	1995	1996
1. Foreign Direct Investments (FDI)				
UNCTAD Estimates	3.4	33.8	35.8	42.3
IMF Estimates	33.8	35.8	40.2	na
Official Estimates	33.8	37.5	41.7	na
2. FDI as Per cent of Fixed Capital Formation	na	24.5	25.7	na
3. Foreign Portfolio Investment	0.5	3.9	0.7	2.4
4. External Commercial Borrowing	0.3	0.5	0.5	0.6

Source: Bhalla and Nachane, 1998:2370.

Break-up of FDI (*industry wise*) is not available for the whole of China[12]. However, according to Bahl (1996) in Tianjin ETDZ (*Economic and Technological Development Zone*) alone, "22.3 per cent of total FDI projects were involved in machine industry, 21.4 per cent in the light industry, 17.3 per cent in electronics and 8.6 per cent in food processing industries... (*and*) in Ningbo (*ETDZ*), 82 per cent of the FFEs (*Foreign Funded Enterprises*) were engaged in the manufacturing sector, and only 18 per cent in the service sector. Most significantly, FDI in the manufacturing sector was to the tune of US dollars 1.686 billion (*86 per cent of total FDI in the zone*)... in Tianjin, in terms of tertiary sector the FDI projects were mostly concentrated in telecom/ transport and real estate sectors[13], while most of the domestic enterprises were involved in commerce and the financial sector" (Bahl, 1996:101) (emphasis mine). See table 4.8 and 4.9 for details.

Table-4.8
FDI Break-Up of Enterprises in Ningbo ETDZ

	Number of Projects (units)	Total Investment US $ mn	FDI US $ mn	FDI Actual inflow US $ mn
FEEs: Sectoral Break-up	225	2330	1950	217.5
1. Manufacturing Sector	208	--	1680	--
2. Service Sector	47	--	270	--

Source: Bahl, 1996:122.

According to Bhalla and Nachane (1998), "FDI inflows[14] into China remained impressive and the level attained in 1997 was the same as in 1996. However, in the first half of 1998, actual FDI fell by 1.3 per cent although contract foreign investment grew by 5.5 per cent… investment liberalisation measures in China include special concessions, liberalised leasing of land to foreign enterprises in coastal cities, foreign participation in property and port development, power generation and retailing. Because of guidelines issued in 1995, such sectors as transportation and communications, insurance and other service industries have also been opened up. Foreign-funded law and consultancy agencies are now being allowed to operate" (Bhalla and Nachane, 1998:2373).

Table-4.9
Sectoral Break-up of FDI projects in Tianjin ETDZ:1992

Sector	Number of Projects (Units)	Percentage of Total Number of Projects
Machine Industry	72	22.3
Light Industry	69	21.3
Electronics	56	17.3
Food Processing	28	8.6
Fine Chemical Industry	28	8.6
Real Estate	33	10.2
Ware House, Transport, Advertising, Computer Software, Consultancy Services	36	11.1

Source: Bahl, 1996:124.

According to Nolan and Xiaoping (1998), "in the reform period the Chinese leadership realised that deeper integration with the world economy was essential for modernisation. However, they were acutely aware of possibility that hasty, unplanned integration could lead to large problems" (Nolan and Xiaoping, 1998:711). Hence, a strategic integration by supporting indigenous big business while simultaneously taking advantage of Multinational entry for getting in new technology and capital has been followed.

Growth of Industrial Production:

In India, if we observe the performance of industrial sector, it can be found that there is upward shift in the index of industrial production (IPP). This came about mainly because of the revised growth rate of the manufacturing and mining sectors. The manufacturing sector actually grew by 6.6 per cent and not by 3.6 per cent. The mining sector registered a growth rate of 5.6 per cent against 4.9 per cent. Electricity generation remained stationary at 6.8 per cent.

According to Nagaiyya (1998), performance of industrial sector was moderate during 1990s. He says that the "growth rate of industry moved up to a maximum of 12.7 per cent in 1995-96 from 8.4 per cent in 1994-95 and later declined to 5.6 per cent in 1996-97 and 6.6 per cent in 1997-98 as per the revised index series of 1993-94. It was as low as 4.2 per cent in 1997-98 as per previous estimates based on 1980-81 index. Growth rate of manufacturing touched 13.8 per cent during 1995-96 and declined to 6.7 per cent and 6.6 per cent in the subsequent two years as per the revised series (6.6 per cent based on the revised index compared to 3.6 per cent based on 1980-81 index)… With the shifting of the IIP base, it also turns out that the growth of industrial sector was moderate at 6.6 per cent in 1997-98, compared to 5.6 per cent in 1996-97 and 12.7 per cent in 1995-96. For 1996-97, the revised estimate placed the growth rate at 5.6 per cent compared to 7.1 per cent mentioned earlier. Significantly the high record growth registered in 1995-96 at 12.1 per cent stands revised to a higher figure of 12.7 per cent where as the 1994-95 growth figure stands reduced to 8.4 per cent against the earlier figure of 9.4 per cent. Average growth rate of the industrial sector during 1993-96 was 9.5 per cent" (Nagaiya, 1998:24). Details are given in table-4.8. For details of revised index of industrial production and annual growth rate of industries, refer appendix-VI.

As indicated above, the contribution of various segments to the growth of the industrial sector (general index) reveals that the contribution of manufacturing segment has been steadily going up in the recent years. There is decline in the contributions of mining, quarrying and electricity. Manufacturing has contributed as high a level as 98.3 per cent in 1996-97, with electricity contributing 7.0 per cent, and mining and quarrying -3.6 per cent. In 1997-98, contribution to growth of manufacturing was 81.2 per cent, of electricity 9.9 per cent and of mining 8.0 per cent. Deceleration in industrial growth during 1996-97 and 1997-98 was partly due to the slackening of demand for different products as well as keen competition from imports for some products. In 1997-98, sharp decline in the capital goods sector was noticed.

In China, according to SSB (1989), "the total industrial output of China in 1988 (including that from village industries) was 1,822.5 billion yuan… with a 13.4 per cent annual growth rate. Heavy industry has been growing by 5.4 per cent annually and light industry by 12.1 per cent. The proportion between light industry and heavy industry has also decreased" (SSB, 1989:19). Indicating that, there is not much difference between both of them. "The total output value of industry showed a yearly increase of 18 per cent, net value of industrial output, 19.6 per cent…the state's proportion of total industrial output value dropped to 56.8 per cent from 77.6 per cent while the out put value of collective industry increased 500 per cent along with the collectives' proportional increase to 33.7 per cent from 22.4 per cent by 1988… Individual industry in cities and townships has yielded an output value of 128.6 billion yuan, amounting to 6.8 per cent. The out put value of enterprises with foreign investment and of the integrated industries of varied means of ownership's accounted for 2.7 per cent" (Ibid: 21-22).

Table-4.10

Trends in India's Index of Industrial Production

(Base:1980-81=100)

		1991-92		1992-93		1993-94	
Sector	Weight	Index	Contribution to Growth	Index	Contribution to Growth	Index	Contribution to Growth
General Index (Crude)	100.00	213.9 (0.6)	100.00	218.9 (2.3)	100.00	232.0 (6.0)	100.00
Mining & Quarrying	11.46	222.5 (0.6)	16.23	223.7 (0.5)	2.94	231.5 (3.5)	6.72
Manufacturing	77.11	206.2 (-0.8)	-145.67	210.7 (2.2)	72.60	223.5 (6.1)	78.89
Electricity	11.43	257.0 (8.5)	229.44	269.9 (5.0)	24.46	290.0 (7.4)	14.39

		1995-96		1996-97		1997-98	
Sector	Weight	Index	Contribution to Growth	Index	Contribution to Growth	Index	Contribution to Growth
General Index (Crude)	100.00	253.7 (9.4)	100.00	284.5 (12.1)	100.00	304.7 (7.1)	100.00
Mining & Quarrying	11.46	248.8 (7.5)	9.17	267.3 (7.4)	6.88	269.2 (0.7)	1.25
Manufacturing	77.11	245.4 (9.8)	77.91	278.8 (13.6)	83.65	302.7 (8.6)	91.23
Electricity	11.43	314.6 (8.5)	12.96	340.1 (8.1)	9.48	353.4 (3.9)	7.52

Notes: (i) Figures in Brackets indicate percentage variation over the previous year. (ii) Relative contribution of a sector, say S during a given time frame, is measured by the ratio of incremental change in the index of S to incremental change in the overall index, adjusted for that sector's weight in the overall index.

Source: Nagaiah, 1998:32.

This apart the emergence of town and village enterprises has increased the output value of these industries by 700 per cent over that of the 1978 benchmark, which is equal to 20 per cent of the total industrial increased out put value by 1989. The index and composition of total out put value of industry in China are presented in table-4.11.

Table-4.11
Index of Total Output Value of Industry in China

Year	Total Output Value of Industry	State-Owned Industry	Collective Owned Industry	Private Industry in Urban and Rural areas	Other
1980	109.3	105.6	119.2		
1981	104.3	102.5	109.0	237.5	131.6
1982	107.8	107.1	109.5	178.9	127.7
1983	111.2	109.4	115.5	220.6	133.9
1984	116.3	108.9	134.8	197.5	156.8
1985	121.4	112.9	132.7	189.6	139.5
1986	111.7	106.2	118.0	167.6	134.2
1987	117.7	111.3	123.2	156.6	166.4
1988	120.8	112.6	128.2	147.3	161.5

Note: Figures are at Comparable Prices
Preceding Year = 100
Source: SSB, 1989:128.

Influence of Industrial Growth on GDP Growth:

When there is growth in industry then automatically GDP increases. They are directly proportional to each other. This linear relationship is examined through time series data for the period 1986-98 for both India and China based on ADB data.

For the purpose of regression analysis, dependent variable is percentage change in GDP and independent variable is percentage change in industry. The results are:

Table-4.12

India and China: Percentage Change in Industry and GDP

Year	India		China	
	% Change Industry*	% Change in GDP	% Change Industry*	% Change in GDP
1986	8.4	4.6	11.7	8.3
1987	6.5	4.4	17.7	11.0
1988	8.1	10.4	20.8	10.8
1989	6.8	5.2	8.5	4.0
1990	6.0	4.5	7.6	5.0
1991	5.7	4.2	8.6	5.7
1992	2.9	4.3	20.8	13.2
1993	3.5	4.3	20.4	13.4
1994	9.4	7.2	17.4	11.8
1995	11.6	7.1	13.6	10.2
1996	8.7	6.8	12.3	9.7
1997	11.5	7.0	11.1	9.0
1998	11.5	7.0	9.2	8.0

Note: *Percentage change of growth rate of industry to GDP in India and China.

Source: ADB, Various Issues.

Regression Output for India:

Y (%Change in Industry/India) =2.806 + 0.4027 (GDP_{India})

(2.648)

(Figure in Parenthesis is t value)

Constant = 2.806767

Standard Error of Y Est = 1.508777

R^2 = 0.389301

Number of Observations = 13

Degrees of Freedom = 11

X coefficient (s) = 0.402703

Standard Error of Coefficient = 0.152075

T Value = 2.648049

Regression Output for China:

Y (%Change in Industry/China) = 1.73 + 0.5431 (GDP_{China})
(7.2118)
(Figure in Parenthesis is t value)

Constant = 1.730961
Standard Error of Y Est = 1.300990
R^2 = 0.825427
Number of Observations = 13
Degrees of Freedom 11
X Coefficient (s) = 0.543113
Standard Error of Coefficient = 0.075308
T Value = 7.211858

From the above regression analysis it may be noted that the sharp increase in the share of industry in GDP is significant in both India and China. However, comparatively, in China it is more significant. For instance, t value for India's data is 2.64 and for China, it is 7.21. The same can be substantiated with R^2 value for India of 0.389, while for China it is 0.825.

This indicates industrial sector growth contributing substantially for the growth of GDP in China. However, in India the resources and output received from industry are not contributing significantly for the growth of GDP. This indicates wastage of resources, underutilisation of resources and more percentage of semi-processed (intermediary) goods being produced instead of final goods production in India. In China intermediary goods percentage is less than that of final goods, hence substantial contribution of industry to GDP growth rate.

Section-III

TREND OF OTHER MACRO-ECONOMIC INDICATORS

In table-4.13, performance of certain macro-economic indicators in India in recent years is presented. As shown in the table, foreign exchange reserves position has been quite comfortable in the recent years though it has been fluctuating from time to time, with the foreign currency assets rising to US dollars 22.4 billion by 1997. It "has reached to US dollars 26.4 billion by 1998 with minimal forward obligation. They are equivalent of about 25 months of debt service payments and six months of payments for imports and debt service taken together Gross fiscal deficit as per cent of GDP slided down from 7.5 per cent in 1993-94 to 5.0 per cent in 1996-97 and moved up again to 6.1 per cent in 1997-98" (Nagaiyya, 1998:28).

Exports as per cent of GDP ranged from 9.5 per cent to 19.6 per cent in the recent four years. It was 8 per cent and 8.5 per cent during 1991-92 and 1992-93 respectively. Imports as per cent of GDP ranged around 10 per cent during the three years 1992-95 and were slightly above 12 per cent during 1995-96 and 1996-97. It was 8.7 per cent in 1991-92.

The current account deficit as a proportion of GDP had remained low. It fluctuated between 1.0 - 1.8 per cent during the period 1995-98. During this period, foreign exchange reserves continued to rise[15]. The annual rate of inflation fluctuated between 3.4 per cent and 6.7 per cent throughout the 1990s. Maintenance of reasonable degree of price stability will achieve twin objectives of domestic stability and avoiding disruptive adjustments to the exchange rate. Efforts to contain the fiscal deficit both in the short and medium terms must receive adequate attention[16].

Table-4.13
India: Select Macro-Economic Indicators

Indicator	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97
1. Growth of GDP at Factor Cost @ 1980-81 Prices (%)	0.8	5.3	6.2	7.8	7.2	7.5
Growth of Industrial Output: (Based on Index 1980-81=100) (%)						
Industry	0.6	2.3	6.0	8.4*	12.7*	5.6*
Manufacturing	(-)0.8	2.2	6.1	8.5*	13.8*	6.7*
SSI	3.1	5.6	7.1	10.1	11.4	11.3
Other Indicators:						
Gross Fiscal Deficit As % of GDP	5.9	5.7	7.5	6.1	5.5	5.0
Exports as % of GDP	8.0	8.5	9.5	9.5	10.0	10.3
Imports as % of GDP	8.7	10.1	10.0	10.4	12.2	12.1
Foreign Exchange Reserves (billion US $)	5.6	6.4	15.1	20.8	17.0	22.4

Note: * Growth rates for industry and manufacturing from 1994-95 to 1996-97 are based on the revised index 1993-94 as 100.
Source: Nagaiyya, 1998:30.

The sharp slowdown in GDP, industrial, export and import growth following three years of high growth in each case, during the recent years indicates that the economy needs some more time to adjust to the ongoing process of liberalisation. Lower off-take of the bank credit is another major concern. Export growth decelerated sharply in 1996-97 and 1997-98[17]. This is accompanied by marked deceleration in the industrial growth.

Major macro-economic parameters of the Chinese economy are presented in table-4.14 for the years 1988-94. The data in the table indicate that a growth rate of GDP of around 10 per cent has been sustained for about two decades. Saving and investment rates have been significantly high at around

40 per cent of GDP. However, money supply has also increased at a high rate of more than 20 per cent per annum leading to high inflation rates (in double digit).

Table-4.14

China: Select Macro Economic Indicators: 1988-94
(billion US dollars)

Indicator	1988	1991	1994
1. Gross Domestic Product DP	303.87	377.55	518.34
2. Growth Rate of GDP (%)	11.2	8.0	11.8
3. Foreign Direct Investment	3.2	4.4	33.7
4. Exports	47.5	71.8	121.0
5. Imports	55.3	63.8	115.7
6. Current Account Balance GDP (%)	-3.8	13.27	--
7. Fiscal Deficit/ GDP (%)	-3.09	3.29	--
8. Money Supply (M1)	147.42	15.40	243.27
9. GDP Deflator (%)	13.2	6.0	27.8
10. CPI Deflator (%)	18.8	3.4	24.1

Source: Agarwal, 1999:10.

Growth rates of exports and imports have been impressive. Foreign trade has increased significantly and balance of trade on current account has turned positive. These positive aspects of the Chinese economy have brought in higher international confidence on the performance of Chinese economy. Hence, as Agarwal (1999) rightly pointsout, "although external debt has crossed 100 billion US dollar, the debt service ratio as a per cent of exports has remained around 10 per cent which is quite tolerable" (Agarwal, 1999:10).

However, during mid-1990s, the growth rate of Chinese economy has been about 10 per cent per annum. By resorting to a tight monetary policy, the Chinese government had reduced the inflation rate to single digit figure.

In the following analysis, we observed that both Indian and Chinese economies had performed well during the transition period of liberalisation. In the coming chapter, we shall discuss as to how this impact of liberalisation on industry, transforms the industrial relations in both these nations. Where we shall discuss as to what are the changes visible in the relation between employers and employees. We shall also try to analyse as to what role the state is playing on the industrial relations front. We shall discuss as to what are the consequences of liberalisation on industrial relations in both India and China.

NOTES

[1] Although we know that there is no deviance in the declared objectives for liberalisation in both nations, it is with regard to practice that deviance is observed. Earlier egalitarian policies and socialist goals are now being relegated to back seat while increasing per capita growth, industrial out-put, etc., are increasingly becoming important.

[2] This reasoning might be quite ignorant that reforms generating static allocative efficency is not sufficient for economic growth as it is a dynamic process requiring different conditions in the economy other than the above.

[3] It is a different thing that in India the new liberalisation measures will reinforce rather than reduce the existing income gaps between the haves and have-nots.

[4] This could be mainly because of the shift in the ideology from emphasis on the Maoist relations of production to the Deng's development of forces of production for achieveing growth and development. This shift is manifested in the outline of Deng's policy at the Thirteenth Plenum in 1978 under the banner of "Four Modernisations". Subsequently, China began to underplay heavy industry and in its place encouraged light industries under the banner Town and Village Enterprises (TVEs). This has contributed to the success of reforms in the Post-Mao period. The gap between light and heavy industries in sectoral contribution to GDP has eversince narrowed.

[5] Here rural to urban migration in China was affectively controlled even under the Mao period. This kept agricultural labour productivitylow especially if rural industry is not growing rapidly.

[6] We must understand that China is an exceptional developing country, in which the share of industry to GNP is over 50 per cent. However, it is less than half of China's in case of India. Lack of tertiary activities, which were considered non-productive in the socialist national accounting system, contributed to a relatively very high share of industrial GNP in China. On the contrary, in India and other developing countries, the shares of GNP originating in services and terriary activities are sizeable and are rapidly on constant rise.

[7] Presumbly, as we would analyse in chapter 5, the existence of large scale opposition by conservatives/moderates to reformers intentions to liberalise the economy at a fast pace, the reforms in the industrial sector, especially those relating to labour market reforms are being carried down slowly. However, as Nolan (1998), Field (1995), etal., argue that reforms in other areas of industry such as streamlining of PSUs, privatisation of enterprises, etc., are fastmoving.

[8] However, data presented by Agarwal (1999) shows that the GDP growth rate of China is more than thrice than that of India. According to him, GDP growth in China during 1980-89 in China is 10.2 percent while in India it is 5.5 percent. During 1990-94 same is 12.9 percent in China and 4.1 percent in India. It also shows other economic comparisons. It is presented in Appendix.

[9] Details regarding labour participation and productivity are discussed in the coming chapter on Industrial Relations.

[10] Same for China is insignificant. However, it must be noted that there is a contradiction observed during this analysis with regard to FDI inflows and its impact on growth in both India and China. It is observed that, while FDI inflows into China were over 38 billion dollars, its impact on GDP growth rate is marginal. But, in the case of India, though the inflow of FDI is small in comparison to China, it is highly valued and its contribution to growth is significant.

[11] As mentioned above, details regarding labour productivity are presented in the coming chapter.

[12] Due to non-availability of data industry-wise break-up for the whole of China, could not be presented. However, we could see the trend as to how the FDI is moving in the two ETDZs as has been presented in the text.

[13] The most striking feature was in terms of real estate business in which out of the total number 68 real estate enterprises in the zone, 46 belonged to FEEs and only 19 to domestic enterprises. For details see Gupta (1996) pp.75-127.

[13] Please note that bulk of FDI inflows into China originate within Asia, this contrasts with India, where industrial countries are main source of FDI.

[15] The efficient management of the external sector in India has been guided by certain factors such as maintaining modest level of current account deficit and a calibrated composition of capital flows including a low level of short-term debt, etc. Short-term external debt as a percentage of total external debt was 5.5 per cent in 1995-96, 7.2 per cent in 1996-97 and was around 6.3 per cent in 1997-98.

Please note that it was during this period that there were Pokhran-II nuclear explosions conducted by India, which had effected the Indian economy.

It must be noted here that the crisis during the late 1980s was the outcome of the mismanagement of short-term borrowing from commercial sources. However, by mid-1990s India has made commendable job of establishing best economic regime which would see that there shall not be any major economic crisis in the country *a la* South-east Asia.

[16] It is not going to increase more than 2 per cent of GDP during 1998-99. The funding of that level of deficit should not pose difficulty, inspite of the fact that there are certain elements of capital account which would come under strain.

[17] This is partly due to the fall out of Pokhran-II nuclear explosions. The economic sanctions imposed by USA, Japan, Australia, etc. had definite bearing on the Indian economy.

CHAPTER 5

LIBERALISATION AND EMERGING INDUSTRIAL RELATIONS

Contents

Industrial policy changes within the respective frameworks discussed elsewhere in this work pursued by India and China ever since liberalisation have profound effect on industrial relations. It would be pertinent to analyse the effects of these changes in theory and practice vis-à-vis industry in both nations on the industrial classes. Any change brought about in industry would for sure to effect the whole gamut of industrial relations. It is these changes in industrial relations as part of changes brought about under liberalisation which we would discuss in the present chapter, to examine/verify our hypothesis that liberalisation is bringing far reaching changes in the industrial relations front.

In Chapter-3 we presented the policy changes brought about in both India and China. Industrial growth and performance under liberalisation is analysed in Chapter-4. In such backdrop, in the present chapter, we would analyse the changing industrial relations in both nations as a result of newly announced industrial policies and withdrawal of state from regulating economy.

Of late, we know that rights of industrial labour are changing at the global level. Similarly, in both India as well as China status of workers has undergone varying degrees of changes over the years. The introduction of New Industrial Policy (NIP) in 1991 in India and changed perception of the leadership especially Jiang Zemin, Zhu Rongji, et al., on the working class and state enterprises restructuring in post-Deng China, has brought pressure for reduction in the recruitment of labour force, privatisation and/or closing down of Public Sector Units (PSUs), largescale unemployment, etc. Though liberalisation is not a new phenomenon[1]. But, drastic changes in policies brought realignment of labour force at large in both nations after reinforcement in China and official pronouncement of the new policies in India.

In Section-I, we would analyse the emerging industrial relations in China. In Section-II, we analyse the emerging industrial relations in India. In Section-III, we present comparative analysis of certain changes in both India and China that would effect industrial relations.

Section-I

CHANGES IN INDUSTRIAL RELATIONS IN CHINA:

Inspite of the fact that China had initiated reforms from 1978, there is no significant process of reforms in the employment front. Basic reason for this status quo on labour might be due to the fact that in China there are numerous groups within the Communist Party which make it difficult to make reforms on the employment front. Labour reforms in China began only in mid-1980s after many debates. There were temporary regulations on the use of labour contracts in state-run enterprises. Since then, newly employed workers in China were offered jobs on a fixed term contract. Three temporary regulations, which were announced at that time, formally gave powers to dismiss workers (including permanent workers) and had established social security and old age pensions. According to Smith (1992), Hore (1989) and Chassudowsky (1986), since 1983 contract employment has been expanding at a rapid pace.

According to Lee (1997) "the proportion of contract workers to total workers in state enterprises increased from 0.6 per cent in 1983 to 21.9 per cent in 1993" (Lee, 1997:109). However, according to Cheng (1998), "these labour contracts are disguised forms of permanent employment and that there is not much change in labour system in China".

Stages of Debate on Labour Reforms:

Disputes over the nature of reforms from 1978-1995 can be separated into three stages. In the **first stage** (1978-84) the reforms were largely in agriculture, where little debate occurred. The leadership carefully avoided debates on whether reforms are socialist or capitalist. During this period, the government loosened restrictions on economic activities in urban areas. Private ownership was allowed. However, reforms were not taken up in state-owned economy.

In the **second stage** (1984-1992) the ideological and organisational coherence of central party was limited. The disputes over the nature of reforms, of weather reforms are socialist or capitalist, were an important factor blocking urban reforms. Labour reforms since 1984 have been subjected to ideological debate, which made opening of labour market an ideological problem. During this period opening up of economy was accepted, but regarding opening up of labour market there was wide range of disagreement. There were wide ranging views starting from people who doesn't want any change in labour system to those who wanted radical labour reforms. The later group touted the alleged virtues of an unfettered labour market and the economic benefits of unemployment. Within the Chinese communist party, reformist group brought about the political impetus for the labour contract policy. At about same time, Chinese government pursued more 'radical' line by supporting "universalisation of the contract system".

Even in the **third stage** (since 1992-till date), the theoretical and policy debate was ostly hidden. The transitional event, which suppressed the dispute over the nature of reform, is that of Deng's statement regarding the nature of reform. According to Weil (1996) Deng said, "don't question whether reform is capitalist or socialist. Just do it as long as it contributes to the development of production forces"[2] (Weil, 1996:115).

Issues of Debate:

The major issue of debate over employment reform reflects on whether or not to introduce labour contract system under socialism? If one argues on theoritical grounds, the introduction of labour contract system would directly gives rise to another issue as to whether it is necessary or not to develop a labour force market. It also brings in to light other issues such as whether labour is a commodity? As also the question of rising unemployment as a result of introduction of labour reforms.

We must understand that in China, the views of conservatives, moderates as well as reformers on such labour issues mainly stem from their quest for addressing the relationship between the political ideology of socialism and economic development. The conservatives hold ideology high over the reality of economic development. Moderates try to balance both. Hence, inspite of the fact that they are for rapid economic development, they do not question the ideological tenets of socialist system and state ownership as representing ownership by the whole people. In doing so the moderates lean towards conservatives rather than reformers as they are not advocating drastic changes to the existing employment system. The reformers give priority to economic development over socialist ideology, although they have never claimed to change the socialist system. However, they have been advocating the reform of the system for the benefit of economic development, including redefining of the ownership system.

Is Labour Force a Commodity?

In the conventional sense of the term commodity is a tradable product that has use value with which people get some benefit from consuming or owning it. It must be the result of human beings' purposeful work so that it has some measurable value.

Moderates also share this conservative viewpoint. They view workers as basic to means of production even under socialist system (public ownership). Workers are still the masters of the means of production. They also point out that the market is a place for exchanging commodities and is connected with exchange relations: there exist buyers or sellers as well as evidence pointing to the exchange of commodities. In such a case labour can be viewed as a commodity. However, moderates try to say that a labour market is necessary but that labour in the market under the socialist system is not a commodity. This is a sort of conceptual compromise[3].

The reformers argue that the labour market necessarily involves changing labour into an actual commodity. Reformers assert that a labour market is the best way to allocate resources and that it is easy to verify this in a historically comparative view. If this is so, it is necessary to rebuild the preconditions for a labour market in a socialist China. Reformers such as Dong (1986), Han (1986), etc., argue that under the labour contract system, this is a very typical relationship of commodity exchange and that labour is a real commodity. As Dong writes:

"Under the condition of the contract labour system[4], labour is a commodity. This is because under this system the labour of staff and workers tends toward social consumption through exchange. The state-run enterprises should choose the staff and workers who can provide the needed labour, and the staff and labourers should choose the state-run enterprises to which they are willing to provide their labour, and both sides should also reach an agreement on the remuneration for the transfer and use of labour as well as other conditions. As this kind of economic relationship, which is reflected in a relationship of will, is secured by `a pattern of agreement', the exchange cannot be conducted in the absence of the consent of one party" (cited in Lee, 1997:121).

'Labour Force Market in Socialist Society'?

Conservatives view labour market outside of the state sector whose proportion has been constantly increasing. This they think suggests an ideological break with socialism. Moderates consider that rational transfer of labour under socialism by refusing to admit the existence of the labour market. However, some moderates such as Wu (1986) think that there exists a labour force market in private enterprises and foreign-owned enterprises. As Wu argues:

"Under the conditions of a commodity economy, the development of private business will inevitably involove the emergence of private enterprises with more or less hired labour. In those cases of hired labour in private enterprises (as well as enterprises with foreign capital), labour force is in fact a commodity, and a labour force market has come into being here. However, between economies of different ownership, labour force will flow, and a small number of workers will leave public ownership; be hired by private enterprises, small business owners, or enterpirses with foreign capital; and flow into the labour force market. These conditions result in the coexistence of non-market and market forms in the flow of labour force in China; (Ibid. :122).

On the other hand, reformers, such as Gao (1993) et al., argue that `the labour force market' had already existed in China, but no concept had been developed to describe its supply and demand properly. As Gao opines: "The labour force market is an important component of the means of production market as well as of the market system as a whole. The labour force plays an important role in the means of production. If the labour force is stopped from entering the market, the market system will not become a unified and open market system. Only by allowing the labour force to enter the market and by appraising the quality and value of workers in an accurate way can enterprises and workers select each other on the basis of their own free will, thereby promoting the correct disposition of labour force resources as well as all social resources by which there can be a speeding up of the establishment of the socialist market economy system" (Ibid.:123).

Introduction of Labour Contract System:

Debates over other issues of labour reforms derive mainly from the introduction of the labour contract system in China. Reformers and conservatives share the idea that the labour contract system recognises the labour force as a type of commodity. However, the conservatives hold that the `iron rice bowl' and the practice of everybody eating from the `same big pot' is superior to the capitalist employment relationships, while the reformers insist that 'iron rice bowl' has a negative influence on economic development can not be regarded as embodying the superiority of the socialist system. Whatever be their arguments, both conservatives as well as reformers argue that their point of view is advantageous to the workers' interests. Conservatives argue that labour contract system is advantageous only to enterprises, not workers; reformers argue that it protects both state enterprises and workers alike.

Both conservatives and reformers avoid the issue of public ownership of the means of production when they debate the nature of the labour contract system. Conservatives argue that although the public ownership system does not change, the labour contract system is a capitalist wage labour system. However, reformers argue that because the labour contract system would not change the public ownership of the means of production, the labour contract system cannot be a capitalist employment relation[5].

Unemployment:

The development of a labour market means the existence of open unemployment. Since the 1980s, unemployment has become an issue of debate. The social and economic backgrounds for the emergence of unemployment as an issue are as follows: "The number of those unemployed in cities and towns increased, causing the unemployment rate to rise. This rate stayed at 2 per cent for five years, beginning in 1984. This rate rose to 2.6 per cent in 1989, and to 2.3 per cent in 1992. It was officially predicted that starting with 1992, the unemployment rate would continue to rise" (Ibid.:126). The baby boom of the early 1970s, plus the efforts of the government to restructure enterprises, was considered partially responsible factors for that rise in the unemployment rate. The introduction of labour contract system may also give rise to the issue of unemployment; it may make open unemployment inevitable.

The conservative idea is that unemployment should be an economic and social phenomenon specific to capitalism and that unemployment should not exist in a socialist society. They consider full employment as demonstrating superiority of socialism vis-a-vis capitalism. The conservatives point out that in case of unavoidability the concept of `waiting for jobs' is used in place of unemployment[6].

Reformers argue that as an economic and social phenomenon, unemployment is inevitable in the socialist commodity economy. Let us present the views of Liu (1986) in short. To carry out economic activities, no matter in which social system, labourers must be combined with the means of labour and an appropriate and harmonious proportional relationship in this regard must be maintained. Because of population growth, some labourers will inevitably be `left unused'. This is an economic law workable under any mode of production. In other words, this law also works in a society under socialism. China has a profound lesson in this regard... In the 1970s, large numbers of labourers found it difficult to find a job. Second, to vigorously develop a socialist commodity economy, it is necessary to smash the egalitarian system under which everybody eats `from the same big pot' and to promote competition. Inevitably, some enterprises will be victorious and some will be defeated in competition. This will certainly cause some unemployment. Third, although socialism has thoroughly negated the system of exploitation, labour remains means for people to make a living; the ideas of various exploiting classes still have an influence on people; some labourers still possess the mentality of loving ease and hating work. Therefore, it is necessary to apply various sanctions against the lazy boys and loafers who refuse to mend their ways despite repeated admonition, including firing them. Fourth, "the development of new technology will inevitably cause a tremendous change in society's industrial patterns. Some labourers handicapped by the obsolete knowledge they possess will find it very difficult to adapt themselves to this change. This will also inevitably lead to the emergence of structural unemployment" (Ibid.:127-28).

To avoid the conservatives' criticism of unemployment as a capitalist revival, reformers emphasise that the relations of prodcution reflected by unemployment in the socialist commodity economy are different from those reflectedc by unemployment under capitalism. In this connection Liu (1986) admits that "the possiblity and objectives of unemployment exist under socialism and more importantly, fully understand the causes for unemployment under two different social systems. Under capitalism unemployment is mainly caused by the system of exploitation and it serves the system, and its existence and devleopment causes the intensification of exploitation of workers by capitalists. A little reasonable unemployment is an effective mechanism for spurring the enterprises on to raise their economic results and cut their costs and encourages staff members and workers to improve the quality and efficiency of their work" (Ibid.).

Zhou (1988) points out that traditional views regard unemployment as merely a product of capitalism. He says that "such views are one-sided. Actually, there are many reasons for unemployment, including those relating to the economic system, productive forces, production composition, economic policy, and the unemployed person. Therefore, we cannot identify unemployment with any system, even in a capitalist society. In a socialist society, the level of productive forces, production composition, macroscopic economic policy, and even the labourer himself may lead to unemployment" (Ibid.:130).

Modernisation of Technology and its Impact on Labour:

In China, even during the Mao period the impact of science and technology were stressed where in the 'mass science' movement, the development of local technology systems at the commune level were stressed. In the post-Mao period, especially during the first phase of economic reforms, China introduced an open-door policy under which imports of foreign investments and technology were encouraged[7]. The import of technology had its impact on the Maoist policy of self-reliance. But, this had benefited only certain regions like Guangdong, Fujian, Jiangsu, etc., which were already advanced.

Bhalla (1992) says that the import of technology and joint ventures mainly favoured large-scale state-owned industries with their control of resources in providing technological access and required inputs. However, in 1980s such select diffusion of technological access changed as a result of the introduction of 'market socialism'. This he says had led to gradual privatisation implying competition which in turn led to growth in secrecy on the part of enterprises about technology and know-how (Bhalla, 1992:163). This apart, Bhalla also says that, "the market-mechanism does not really function in China. The state-sector producers cannot offer goods at higher prices and pass on the costs to consumers. The small rural industrial enterprises produced goods (often of lower quality) which can even be sold at higher prices. This is a common paradox of socialist economies" (Ibid.:166).

In this context, the impact modernisation and the introduction of new technology on labour in China is heavy. Though, because of implementation of new technology, there is a considerable increase in labour productivity, it is offset by the high costs of importing the machines. With a result, profit remains unchanged. There is no immediate threat of job retrenchment. Inspite of workers apprehensive about the consequences of new technology, they do not offer any serious opposition. This might be because these computer numerically controlled (CNC) machines have not yet caused retrenchment. The workers in China must know that new technology for sure effects them. They seem to be content as long as employment and wages are not disturbed. However, new technology also reduces the worker's control over the labour process and the new industrial conflicts centre not so much on wages as around the control over the labour process. Labour would be displaced from their work and gets alienated as part of increased use of new technology. Technology increases efficiency, better quality of products, etc. However, nature of industrial organisation and the emerging role of workers under modernisation are to be theoretically evaluated. However, because of non-availability of data we could not present the same.

Impact of Enterprise Reform on Management and Workers:

As part of liberalisation, many changes have come in the nature and working of industries in China. Hereunder, we shall analyse the same vis-à-vis its implication for workers.

The effects of reform programmes on the Chinese labour are visibly seen in the case of Special Economic Zones (SEZs). In the pre-reform period, the local labour office allocated employees[8], jobs were guaranteed for life and were hereditary. Wages were fixed by the administration. These wages were generally uniform throughout the country with marginal difference between the highest and the lowest wage. Bonus, equivalent of four months' wages, was paid by the state for better performance to almost all workers identically. This system is called 'iron bowl' because it guaranteed in principle minimum essential requirements of workers.

The new system, which was adopted in 1986, laid down three new rules for Special Economic Zones (SEZs): (i) life employment be replaced by a five-year renewable contract; (ii) jobs be no longer passed down from father to children and (iii) bad workers be retrenched from employment. This is supplemented by social security regime to counter balance the new freedoms as has been discussed in section-III. Thus, reform in enterprises, had initiated the contract employment as against permanent employment for all new recruitments including those in state owned enterprises. The enterprises had started providing incentive wages to foster competition[9].

"The proportion of contract workers to total workers in state enterprises increased from 0.6 per cent in 1983 to 21.9 per cent in 1993" (Lee, 1997:109). However, according to Cheng (1998), "these labour contracts are disguised forms of permanent employment and there is not much change in labour system in China". Thus, the Chinese government allowed the reintroduction of piece work and contract work system, which was abandoned for decades. This process had culminated in the "break the iron bowl" campaign in 1992.

The positive aspects of the reforms employment system are: It gave urban workers greater opportunities to find work outside the state sector that gave only limited opportunities. The more dramatic reform has been the encouragement of individual and collective labour, in to the non-state sector especially in the underdeveloped service sector, as a way of absorbing new entrants into the labour force to put in the words of Harding:

"The number of total labour force privately employed remained low (that is 3.6 per cent in 1986). But, the non-state sector employed more than its share of young workers entering the labour force in the early 1980s: more than 13 per cent of the new urban workers employed for the first time in 1983, for example, found work in privately owned and operated establishments, and another 27 per cent were employed by collective enterprises- enterrprises owned collectively by their workers, that belong to neither the state nor the private sector. Only 60 per cent of the new entrants into the labour force were hired by state enterprises" (Harding, 1987:118).

According to the studies by scholars like Han (1986), "The labour contract system and the recruitment system practiced in various localities... are in reality a valuable step toward admitting that labour under socialist conditions is a type of commodity. The fact suggests that labour under socialist conditions as a type of commodity is an objective reality independent of man's will" (Han, 1986:12-14).

As a result of reforms there also exists a dual labour Policy in China. It gives flexibility to general workers to take up contract jobs, while degree holding executives and People from the military services continue to benefit from life employment. The contract job system prevails largely in the SEZs. People who are employed in state sector or in workers' collectives, are trying to change their job to a private enterprise, or are becoming entrepreneurs. Enterprises are permitted to establish their own norms of recruitment to select employees from amongst applicants.

Liberalisation and Conditions of Work for Labour:

As we discussed earlier, China had changed its policy whereby young workers can now become employees of state enterprises. In course of time, the state also provides employment on contract basis as against the earlier policy of employment for life[10]. This employment is with specific terms including period of work and a detailed set of responsibilities. Supervisors can dismiss workers who do not perform their duties satisfactorily, or who violate the disciplinary regulations of the enterprises[11]. Workers so removed, whether for lack of performance, for disciplinary action, or because of the sickness of the enterprise, will be eligible for un-employment benefits upto two years. The salary system also stands changed. The enterprises total wage bill would be related to its economic performance. Thus, wages and payment of bonus to workers is now linked to productivity and overall performance of the enterprise[12].

Enterprises in the SEZs in order to have cheaper employment engaged peasant workers and child labour, which led to industrial accidents and factory fires. According to Swamy (1995) pathetic working conditions has led to mass protests. "Deteriorating conditions of work resulted in over 170 strikes and demonstrations by workers in 15 cities in 1992 and 1993"[13] (Swamy, 1995:9). The process of economic reform integrated the industrial labour market to the peasantry. Rural-urban migration is also necessitated.

"More than 100 million[14] peasants migrated from rural areas to the SEZs in south China, where factories were set up mostly by capital from Hong Kong and Taiwan. These peasant workers were generally docile, manageable and willing to work hard. Profit-seeking enterprises employed them as casual labourers and contract workers, paid meagre wages and offered no job security, no health care, no pension and no social security.

Contract workers increased from 0.6 per cent in 1983 to 15 per cent in 1991 and the proportion of piece wages in the total wages of the state-owned enterprises also went up from 0.9 per cent in 1978 to 11 per cent in 1992" (Ibid.). This increasingly significant but transient cheap labour force affected the labour market in two distinct ways. One, peasant workers became vulnerable to unemployment and abuse. Secondly, they undermined the strength and bargaining power of workers as a class[15].

In the changed situation, the workers in China are facing the ills of reform programmes. Earlier the state or the collective not only used to pay wages but, also pay for housing, subsidies for food, clothing, education, medi-care, transportation, etc. It also used to provide insurance, welfare provision, social security, etc. According to Smith (1993) "all these subsidies add upto more than half of the workers' cost of reproduction- the equivalent of wages under capitalism" (Smith, 1992:75).

However, in the post-reform era, notwithstanding higher payment of wages, the contract system provides little to the workers' vis-à-vis social security. Moreover, housing, health care, etc., are also being privatised. Now, if a person goes to hospital for treatment of an ailment, it costs roughly two thirds of his annual wages[16]. In contrast to this during Mao period, workers were looked after by the state itself. The policy of cradle to grave, where each individual is taken due care by the government. The present changes doesn't give the workers enough to meet their livelihood, let alone providing social security and health care for themselves.

Similarly, most of the enterprises in SEZs, as also others in countryside, in the present-day China, are purely profit seeking. These industries are not employing higher number of workers, resulting in high incidence of unemployment. In some cases, rural unskilled workers are employed as against the skilled urban workers to have comparative wage advantage.

Apart from the problems highlighted above, workers in China are also encountering another major problem. Owing to the competition from high quality and private advantaged industries from the SEZs, which also attract high inflow of foreign investments and also benefits from the government's dual taxation policy, more and more medium and small units in the internal China are forced to close down their units and stop production. This stopping of production is also resulting in worker retrenchment and unemployment.

Section-II

CHANGES IN INDUSTRIAL RELATIONS IN INDIA:

In India, the New Economic Policy (NEP) ushers in liberalisation of industry, trade and finance in various degrees. As has been discussed earlier in Chapter-3 and Chapter-4, the twin components of liberalisation in India were to welcome the MNCs with open arms and to promote privatisation of the public sector[17]. Our analysis in

Chapter-4 suggests that these moves be synchronised to bring in new technology and investments so as to increase productivity (See section-III for details). These measures are supposed to lead towards profitability of industrial sector.

Although there were not many changes brought about in agriculture and labour policies[18], changes in other spheres are sure to have impact on them. Apart from the organised industrial and service sectors, which cover only around 9 per cent of the workforce now liberalisation programme is being extended into parts of the vast but hitherto uncovered territory that constitutes the informal sector of the economy. Even in the former organised industrial and service sectors, there are unorganised workers such as casual labourers, contractual labourers, etc. Thus, under liberalisation, certain basic issues concerning labour such as social security, employment, Voluntary Retirement Scheme (VRS), etc., as pointed out before acquire importance.

It is a fact that trends in labour relations since 1980s are more confusing than ever. These trends not only differ from sector to sector (public/private), but also within sectors, within industry, within the same organisation between original employees and contractual labour. We know that there are major changes in the role of all the three parties (employer, employeee and the government) vis-à-vis the industrial relations. To put them in brief:

- There is a consistent disengagement[19] on the part of government over labour issues.

- There are rapid changes in the perception of management. Visible reassertion of management initiatives in industrial relations.

- Most varied and uncertain changes can be witnessed amongst labour.

Since independence, the state in India was implicitly trusted to look after the welfare of the community at large. Soon it became the biggest employer of labour thus becoming a second party instead of an impartial third party to industrial relations. The legal framework of the regulatory system was defined by many acts. They are mainly the following:

1. The Trade Union Act (1926)
2. The Industrial Employment (Standing Orders) Act (1946)
3. The Industrial Disputes Act (1947).

The regulatory framework included collective bargaining, which involved substantive and procedural aspects of labour-management relationship, whose objective is to develop a genuine collective bargaining enabling workers to resolve industrial conflicts. However, employers in India feel that the labour in India adopted restrictive practices in the organised sector which interfere in management's right to manage. They feel that the labour laws stagnated employment prospects in private sector mainly because of preventing relocation of production units.

There is evidence that the move from tripartism (employer, employee and the government as parties of industrial relations) to more industry friendly attitude of the government is to reduce the rigidities in labour market and to make it more amenable to the New International Division of Labour. The Industrial Dispute (Amendment) Bill, 1988 has suggested for removal or making necessary changes for many sections in the ID Act, including Chapter V-B, which deals with permission for lay-off, retrenchment and closure of all undertakings, making mandatory notice of 14-21 days for strikes/ lockouts in public utilities, etc. Similar is the case of Trade Union Act 1966, where reforms were suggested (Noronha, 1996:L15).

Inspite of changes initiated by the government under NIP there is not much influx of FDI and MNCs into the country. If in the future, there is any increase in competition the employers will be forced to reduce their production costs especially the labour costs. This is because they get non-labour inputs at a cheaper cost than before. Over a time, there shall be closures and amalgamation of companies, rarely conforming to the existing laws. The same is true with regard to the factory lay-offs and the retrenchment of workers. Greater flexibility in employment and changes in terms and condition of appointment would be detrimental to the workers. The unions and workers in such a case must resort for justice to conciliation and adjudication apparatus, which is non other than the state machinery, on a greater extent that before.

Modernisation of Technology and its Impact on Labour:

It is widely known, that rapid technological changes in the modern world is fraught with different paradoxes: in terms of greater opportunities and new avenues to be achieved, as also in terms of threat to the existing system which has to adjust constantly to the changes resulting often in greater job loss for employees. Both of the above statements are real. However, the induction of new technologies in select areas cannot be delayed as it is a contemporary economic compulsion.

Among the various kinds of new technologies, probably none has affected the lives of people as fundamentally and pervasively as that originating from the invention of the semiconductor chip and its subsequent implantation as the heart of the computer. The intensity of the impact of the micro-electronic revolution are matched by a variety of strategies evolved by many people throughout the world to exploit the potential of that revolution and meet the threats posed by it to the established patterns of production and behaviour and tragically to the very possibility of survival for people displaced by its impact. Ever since industrial revolution, there has been an invasion of technological developments resulting in newer horizons and economic regimes: of course, some of these developments have bypassed India. To put in the words of Bagchi:

"In India, we are still struggling to bring the entire nation under electricity circuit, whereas industrially developed nations have left behind the electronic revolution representing the second generation and are witnessing the third revolution represented by micro-processor, information technology (information processing), etc. For India, without imbibing the ethos and discipline of the first revolution, jumping into the fray for the new 'third' revolution has wide ramifications in terms of both equity and growth. Technological level in any society is set by the will-power and ability of its members to absorb, add to, and apply the existing stock of world's knowledge of science and industrial techniques. We know that there is an increasing impact of the micro-electronic revolution on work organisations, production and employment. In analysing the same, we shall try to take more balanced view, rather than being either supporting or opposing it as our concern is on how to cope with new technologies, instead of regarding them as deliverers of fantasises or purveyors of doom" (Bagchi, 1995:7).

The point here is that the issue to be discussed is not whether new technology will slacken the growth of employment - As such an adverse trend is obvious; but it must be how to contain the fall-out. Tiwari (1990) stresses on four imparatives: (1) output has to grow faster than the combined rate of growth of productivity and labour force; (2) the market has to continuously expand[20]; (3) Skill upgradation should be an integral part of the adaptation of new technology and (4) there is an urgent need for radical restructuring of work environment, structure of work, redefining of the roles of supervisors, workers, etc., and reforms in labour laws[21]. There is a need for flexibility in work organisations as opposed to the rigidly stratified traditional ones. Here below we present some examples of adverse effects of adapting new technoliges for modernisation, which has been done in a big way under liberalisation. Tiwari (1990) says that "it is apparent that induction of new technologies in select areas cannot be delayed—a contemporary economic compulsion. However, the "sunrise" technologies have implications beyond the pale of productivity; more importantly for employment and ideology of work" (Tiwari, 1990:41).

Coming to the telecom industry in India, we get a classic case as to how MNCs would thwart efforts of promoting research in developing countries. In India, the efforts of the native Telecommunications Research Centre and C-DoT have been swept aside in favour of foreign collaborations. The organisational form that would grant the developers the necessary autonomy and strong motivation is never experimented with. Whenever any obstacle is encountered, the authorities go in for foreign technical collaboration, which throws indigenous efforts into a state of disarray. Local expertise though available at much lower costs is not invited, thus raising primary question whether these collaborations are necessary for technological upgradation or for kickbacks for the powers in the administration. Whatever be the reasons for opting new technology into this sector, lower level employment generation would for sure is effected. Scores of telecom operators, technicians/ linemen, etc, now would be replaced by computerised machines, thereby creating net jobloss at those levels.

If we observe the electronics industry, this sector has expanded albeit without making much employment generation. This is due to decline in in-house R & D. This industry is thus merely involved in assembling imported components whereas it could have produced these components. Liberalisation policy has encouraged most firms to resort to foreign collaborations to substitute and not complement their local technology-generating efforts. On the other hand, firms with higher local R&D component have had higher employment generation capacity. If we observe the response of workers' unions to new technological changes, in India, they have been unable to develop new strategies to protect the workers' interests. They instead blindly opposed new technology without suggesting alternatives for protecting employment and production.

One should also consider the positive effects of this technology such as increased efficiency, better quality of products, etc. Moreover, it is necessary to consider whether it is new technology or the nature of industrial organisation which deunionise workers.

Thus, emerging shifts reflecting upon the future of industrial relations in China and India is revealing if we discuss modernisation of technology, productivity and employment. The positive fact of such shift is that of fading distinction between 'blue' and 'white' collar jobs, and in due course, but the class structure needs to be redefined which has serious implications for trade union movement. Application of computer and information technologies have often led to deskilling, unemployment and resistance to change, as well as to radical improvements in productivity and competitiveness. These effects do not depend on the technology alone. The consequences of technical change are influenced at least as much by the objectives that the management seeks to achieve in inducing change.

Mehta and Mohanty (1993) opine that in the manufacturing sector, "liberalisation has resulted in an influx of imported technology, external capital and foreign collaboration, all of which result in negative impact on the demand for labour. The adoption of technology, largely inappropriate, has been in favour of capital and has not augmented the demand for labour" (Mehta and Mohanty, 1993:21).

Introduction of new technology has brought in a host of new problems concerning employment, particularly in a labour-surplus economy such as India says Davala (1994). "In the first place, it makes a host of traditional skills redundant. Employers in order to avoid going through the painful process of retraining and redeployment prefer to phase out the workers with old skills and recruit new ones. The new jobs are more likely to be in the managerial and supervisory category or at the bottom end, i.e., unskilled casual/contract workers_ new technology enables the managements to have greater control over labour process. For instance, an automated process plant can be run by just officer and supervisors with the assistance of casual workers. So, even if the unionised category of workers adopt restrictive practices or go on strike the production will not be affected" (Davala, 1994:407).

Impact of Liberalisation on Industrial Relations:

The impact of policy reforms on employment has declined over the years. According to Dutt (1994), "while the GDP growth rate increased from 3.5 per cent to 5.3 per cent, employment had fallen from 2.82 per cent to 1.55 per cent between 1983-84 and 1987-88. Whereas the number of unemployed rose sharply from 11 million in 1990-91 to 17 million in 1991-92 and 21 million in 1993-94, the growth of employment in the organised sector reveals that during 1981-85 employment grew at the rate of 2.7 per cent with the private sector growth rate being negative. The growth rate of the organised sector was 1.4 per cent during 1985-91 which lagged behind the labour force which was of the order of 2.2 per cent. It is obvious that the organised sector failed to provide employment inspite of being given concessions and exemptions. Moreover, employment exchanges reveal a decline in placements. The 1971 placement rate of 10 per cent of registrations declined to 6.3 per cent in 1985 and to 4 per cent in 1991" (Dutt, 1994:407-12).

Mundle (1994) points out that the visible underemployment was declining under the structural adjustment programme. "It would continue to be about one half or one million persons per annum during 1992-93 and 1993-94 while open unemployment under present conditions would be around 4 million which under less favourable conditions would be 8 to 10 million, raising in the total unemployment to about 20 to 25 million by 1993-94, the number of people of which constitute 5 per cent to 7 per cent of the total labour force" (Mundle, 1994:43-63. See also PIRG, 1996:80 and Dutt, 1999:15-20 for details on labour force and Employment).

Deshpande and Deshpande (1996) found out that the fears of the adverse impact of reforms on employment in the organised sector are widely shared... Employment in the manufacturing industries belonging to the ASI's (Annual Survey of Industries) factory sector is likely to have declined by about 90,000 from 67,19,000 in 1990-91 to 66,29,000 in 1994-95. If the present trends in wages and productivity were to continue after the reforms, employment would have declined at 0.34 per cent between 1990-91 and 1994-95" (Deshpande and Deshpande, 1996:551).

As discussed earlier, rate of employment generation in organised industry in India declined over a period of time. One can attribute this to the consolidation of market base in India where private business flourished under state protection. Now that they are capable of tackling market forces and withstand competition from MNCs, the state sector shrunk in size. This also might be to felicitate private sector acquire skilled manpower at a cheaper rate. Whatsoever the reason might be, since the advent of NIP 1991 earlier emphasis of welfare state policies, state support to unemployed, etc., were to go. Trade unionism is acceptable to the management only at local/plant level but not national federations. The present policy speaks of greater flexibility of labour (they must be mobile/migrate for long distance) and for their deunionisation. Under the new policy there are provisions for steep reduction of labour force. Instead of chanellising the whole of labour force, casualisation of labour (where employment is on hire and fire basis) is evident. Wages are paid in piece rate payments instead of earlier policy of lumpsum payment.

As we were discussing in earlier chapters, the industrial sector, which was hitherto under the control of the government and was sheltered from external competition under state capitalism has now been opened for external competition. This would result in the MNCs and their local affiliates as well as the domestic industry vying for the limited market access in India. In this context, the changed situation has serious implications for industrial relations. Details as to how MNCs would effect industrial relations shall be discussed later.

As we know production and industrial relations systems are closely linked. To maintain overall effectiveness, one would respond to the changes in the other. Firms need to respond to both consumers as well as to the workers needs to increase their competitiveness. Increasing competition affects the nature and operational aspects of production system and the policies relating to industrial relations needs redesigning.

According to Sengenberger (1992), the firm has two options to remain competitive. The first is the labour cost management. When the firm becomes cost-conscious, it first attacks the labour cost element, whether it is sizeable or not. Containing, even reducing the labour cost is suggested to remain competitive; it is popular, as it suits capitalist ideology, though difficult. The firm may adopt any of the following measures to cut down labour costs

- Temporary or permanent reduction in an or all items of compensation package, extending operational hours or adopting flexi-time, introducing non-standard employment forms (part-time, contract labour, agency services, etc.) relocation of plants in union free areas, etc.

- The second option is to increase the innovative capacity of the firm, concentrate on quality. Shift to higher value added products. This would require re-styling the organisation: altering the perception of organisation (Taylorism or otherwise) recasting personnel and industrial policies. (Sengenberger, 1992:139-54).

However, this idea of Sengenberger (1992) is disputed by Venkataratnam and Verma (1997). They argue that first option where the emphasis on wage cost (which is primary component of labour cost) is more is unadvisable for several reasons. The increased demand for the product will eventually increase the wages, which nullifies it. Low wages and non-optimum use of labour would affect productivity. Wages are not flexible and only real wages could be weakened by increase in prices. As regards the second option, the industrial polices must strive to improve training firm's employees, involvement of workers in management, attractive reward policy and flexible work organisation.

Whatsoever forms shall the policy of liberalisation take we know that the resultant effects of it are job loss, wage freeze, union bashing, erosion of workers' rights, health and safety of workers. The total picture that emerges in India is one of increased vulnerability of workers. In such a situation, the industry may sight health & safety or environmental pollution and degradation to get closure. Technological changes, amalgamation of one industry with the other (through unit to unit sale/ joint venture) and participation of MNC or its local affiliate in such merger and acquisition is on the anvil. The working class in India is sure to face tough time in the years to come with possibility of retrenchment of labour force and subsequent unemployment.

Liberalisation, State, Trade Unions and Workers:

The principal actors in the industrial relations system are (a) Trade Unions, (b) Employers Associations and (c) the Government of India i.e the Indian state.

With respect to the trade unions, we can say that, they are too fragmented. The trade union movement has developed in hap-hazard manner with about 16 government recognised national and regional federations of trade unions split over ideological and other factional considerations, each putting up exaggerated claims about their alleged membership strength. Every aspect for these unions is politicised, including union representation. This trend is more manifested in their fight against liberalisation.

The employers' Association too have limited coverage and problems of disunity. There are three employers' associations in India, viz. All India Employers Organisation (AIOE) founded by FICCI in New Delhi, Employers' Federation of India (EFI) founded by ASSOCHAM in Mumbai and the Standing Conference of Public Enterprises (SCOPE) founded by the Central Public Sector Undertakings (CPSUs) in New Delhi. These three have loosely federated into an organisation called the Council of Indian Employers (CIE). There is another organisation which also caters to the small and medium enterprises named All India Manufacturers' Organisation (AIMO).

The state intervention in industrial relations in India is more direct and pervasive than in most industrialised countries. The role of the state goes well beyond procedural and substantive laws to regulate industrial relations as discussed earlier. The state is the largest employer besides being the regulator and enforcer in India. The state here is having discretion to intervene not only when a dispute arises but also when a government/ minister anticipates, whether just or otherwise, that there could be potential dispute. The government intervention in labour matters increased the dependence of the private sector also on it, while in the public sector the government actually dominated industrial relations granting little autonomy for enterprise management. The workers in India actually look for the state's intervention and resolution of disputes in their favour. However, Political intervention and interference leads to low accountability as it is evident in the case of India.

In India, although it being a liberal democratic multi-party state, liberalisation was initiated by the Congress party without gathering much public opinion in favour of liberalisation and its consequences. However in China, where reform initiatives were taken up after due deliberations within and outside the government and the CPC, the reform programmes started. In India, almost all-political parties irrespective of bourgeois or left are more or less were for liberalisation. The Indian left which had accepted the same reluctantly as it does not have any alternative model[22] and had to accept the case for liberalisation of Indian economy. However, one consolation here being that the reform initiatives hitherto did not affect the workers as majorities of the trade unions having affiliations to these parties are opposing any move that effects the workers badly. The reason is obvious of avoiding political repercussions for the party in power. The workers are strongly attached to the radical left and liberal bourgeois parties and have lost independence. All the trade unions (irrespective of their ideologies) as discussed above, had supported or at best showed naïve protests to the liberalisation programme. The reason being no party or front was against liberalisation. Every party had tried to accept it, albeit with little corrections. Besides this the Indian industrial lobby also wanted to have liberalisation, as we have already discussed in chapter-3, so as to get limited access to international markets. As noted earlier in chapter-3 the Indian business elite accepted sub-servient role to world capitalism so as to get this limited access.

In India, the role of state is felt through various legislations pertaining to industrial relations which applies to the organised sector. There is conspicuous neglect of unorganised sector. The paradox is that union-present, minor segment of organised sector is getting maximum attention while large unorganised sector is struggling for their regularisation of wages. There are no effective controls, and organised unions, in the unorganised sector. The role of the state in India in containing industrial conflict, strengthening unionism, collective bargaining. State has failed to promote industrial democracy.

Trade unions have to actively participate in the revival of sick units because closure of industries would affect the workers most. Wherever it is feasible they must fight for workers' takeover. In a nutshell worker self-management schemes are undoubtly the most effective means of workers' control in industry, provided they are run along democratic lines based on the principle of co-operation.

We can say that the introduction of NIP as part of liberalisation programme definitely effecting the workers. In the presiding discussion, we have tried to analyse the same. Introduction of NIP at a stage when the State is withdrawing itself from regulating markets have serious implications for the well being of the workers. We know that the entry of MNCs would not only harm the national businesses but also the workers at large. This is because of the fact that these corporations have highly sophisticated machinery and tools, which require fewer work force. Though new technology is to be adopted in order to acquire higher efficiency, it would be pertinent to cautiously accept them in those areas where its use is indespensable. Areas such as telecommunications, iron & steel etc., if they adopt such new technology would only lead the workers displaced from their work.

Coming to the social security, we must note that it is not limited to health, maternity benefits, accident insurance, pensions, etc. The greatest security comes from the people's ability to look after themselves. This can only be achieved by improving skills and generally enhancing capabilities of the workers. Finally, trade unions in the organised sector have also to think about workers in the unorganised sector who are in much greater need of security. In the final analysis, unless there is sustained trade union effort, interests of workers cannot be secured under the NIP.

Section-III

COMPARATIVE ANALYSIS OF GROWTH AND INDUSTRIAL RELATIONS:

In the following section, we present changes that would effect the workers viz. labour force structure, labour productivity, etc., in a comparative perspective.

Labour Force Structure:

If we take into consideration the sectoral distribution of labour force and growth for the period of liberalisation (1980-97), it is revealed that India has higher growth than China in industry particularly in the manufacturing sector and in the service sector. This is evident by the fact that the growth of labour force in India is more by 5 percentage points than in China, which had only increased marginally by 1.8 per cent. This shows that China has stagnated performance[23] in comparison with India over the years (Table-5.1).

Labour force under agriculture sector declined substantially during the period 1980-97 with 9.4 percentage points reduced in India while it is 3.3 percentage points reduction in China. It can be stated that labour force in India is migrating to industry and service sectors[24]. The percentage of labour force in industry and service sector in India is more than that of China (sees table-5.1 for details).

In 1997 it is 18.1 per cent in industrial sector in India and 15.8 per cent in China. While coming to service sector it is 21.8 per cent and 13.3 per cent respectively. However, this is only quantitative indicator and qualitative aspects should be considered while assessing the performance of labour force. Factors like productivity, value added per worker, profitability, etc., shall be discussed hereunder.

Table-5.1
Distribution of Total Labour Force by Sector

	Agriculture		Industry		Manufacturing		Services	
	1980	1997	1980	1997	1980	1997	1980	1997
India	69.5	60.1	13.1	18.1	10.7	14.9	17.4	21.8
China	74.2	70.9	14.0	15.8	10.3	11.8	11.8	13.8

Source: ILO (1998) world Employment Report, Geneva: ILO as cited in Labour and Development, 1997-98:165-75.

Total labour force in India as of 1997 is 419 million while in China it is 744 million. Work participation rate in China is 16.1 per cent more than that of India. This apart, gender disparity among labour force is more in India than in China. Observing the variance between participation rates between men and women can reveal this. Variance in India is 28.7 per cent while, in China it is negligible, that is 8 per cent (talbe-5.2). There is reduction in women labour participation rate in India (1.6 per cent decline) but there is growth concerning it in China (6.8 per cent growth).

Coming to men work participation rate China has improved considerably (3.1 per cent growth) than India (1.8 per cent growth). As per the World Bank report 1998, child labour in India reduced from 21 per cent in 1980 to 14 per cent in 1996. But remarkable decrease in child labour force can be observed in China from 30 per cent in 1980 to 11 per cent in 1996.

Table-5.2

Structure and Evolution of the Labour Force (1980-97)

	Labour Force		Labour Force Participation Rates							
	Total (000's)	Annual growth rate	Total		Men		Women		Children 10-14 (% of age group	
	1997	1980-97	1980	1997	1980	1997	1980	1997	1980	1996
India	419562	2.0	43.6	43.7	55.8	57.6	30.5	28.9	21	14
China	744095	1.8	54.9	59.8	60.6	63.7	48.9	55.7	30	11

Source: ILO (1998) world Employment Report, Geneva: ILO as cited in Labour and Development, 1997-98:165-75 and The World Bank, 1998: 50-51 for Children 10-14.

Labour Productivity:

Gross output per worker in India nearly doubled over the 15 years period (see table-5.3 for details). In other words, it has increased from 10210 dollars in 1980 to 19664 dollars in 1995 and it is observed that every year there is consistent growth in gross output per worker in India. Major shift in growth in productivity can be observed between the periods 1985 and 1990, but during 1990 and 1995 there was marginal growth.

In comparison to India, Chinese growth with respect to gross output per worker is less. And there are fluctuations in the growth. For instance, gross out put per worker in 1980 is 9531 dollars, but it has declined substantially by nearly 30 per cent in 1985. However, China could improve its gross output twice in the subsequent ten years, from 6017 dollars in 1985 to 12444 dollars in 1995.

Table-5.3

Labour Productivity in India and China (1980-95)

	1980		1985		1990		1995	
	India	China	India	China	India	China	India	China
1. Gross output Per worker ($)	10210	9531	13423	6017	19250	6574	19664	12444
2. Value Added per worker ($)	1872	3632	2360	1946	3438	1697	4096	2258
3. Average Wage (including Supplim-ments) ($)	1083	548	1298	286	1592	319	1264	504
4. Wages and Salaries (including Suppliments) as % of Profitability	11	6	10	5	8	5	6	4

Source: UNIDO, 1997: 148 & 175.

Taking into consideration of value added per worker, India's improvement is better than that of China. In India, the value addition per worker has improved twice. That is from 1872 dollars in 1980 to 4096 dollars in 1995. Comparatively in China, per worker value addition has declined by around 50 per cent during 1980 to 1990. However, from 1990 to 1995, Chinese performance is remarkable as its value addition per worker is doubled.

Average wage (including supplements) is less in China than in India because of China's population and worker participation rates are more[25]. There is improvement in average wage until 1990 in India. However, it has declined in 1995. With regard to China there was decline in 1985 and improvement during the period 1990-95.

Coming to wages and salaries in percentage of gross output is considered for industrial development. This proportion is substantially reduced during 1980-95 in India as well as in China. However, China's decline is lesser than that of India. In India, wages and salaries proportion was 11 per cent during 1980, it declined to 6 per cent in

1995. In China, same in 1980 was 6 per cent and it came down to 4 per cent in 1995. This indicates there was substantial growth of gross output in India than in China. It was observed a stagnation in wages and salaries as percentage of gross output in China during 1985 and 1990.

Prices and Wage Protection:

As we have already discussed in Chapter-2 and Chapter-3, the Chinese reform process started in early 1980s. Of which it was the rural reforms that preceded the urban one, the urban reforms formally started in 1985[26]. As a result the purchase prices of eighteen farm products increased by an average of 22.1 per cent, "more specifically the price increases included 20 per cent for grain, 25 per cent for fats and oils, 15 per cent for cotton, 26 per cent for pigs and 20-50 per cent for 14 other products. And due to the great success of HRS (Household Responsibility System) in the poorest areas, the system was supported by the government and adopted in the nation in a sweeping fashion. By the end of 1980, 14.4 per cent of all houlsholds adopted the system; by the end of 1981, 45.1 per cent; by the end of 1982, 80.4 per cent; and by 1984, about 99 per cent" (Yang and Zhou, 1999:129).

Since 1985, the adoption of wage bonuses and managerial responsibility system have made significant gains in outputs by workers and managers resulting in comparatively higher earnings in the urban areas. Before we discuss about the growth rate of wages, it would be pertinent to see the prices indices which are presented in table-5.4.

The table-5.4 illustrates, inflation became more prevalent in China between 1986 and 1992, when annual prices rose to 8.7 per cent from 3.3 per cent in 1978-85 and the average inflation rates in the later period were roughly equal across rural (8.6 per cent) and urban (9.9 per cent) regions.

Table-5.4
Average Prices Indices in China
(Base last year=100)

	National Retail Price	Urban Consumer Prices	Rural Consumer Prices
1978-85	103.3	103.9	--
1986-92	108.7	109.0	108.6

Source: Yang and Zhou, 1999:124.

The effect of reforms on wages in China is highly significant. This can be observed by the fact that there are inter-regional wage differentiation and the relationship between average and real wages based on consumer price index is wide. According to Sabin (1999) "employment growth between 1980 and 1992 was quite rapid... ranging from a low of 49 per cent in education to a high of 98 per cent in services (including the private economy)[27]... inter regional wage variation does tend to decline following increased resource efficiency, and wage rates do appear sensitive to inter-area differences in labour market conditions[28]. However, given pre-reform China's extreme centralisation, it is perhaps more likely that the broader scope for inter-area variation of all sorts would produce wider wage gaps, at least initially... In addition, the recent decline in state sector dominance of urban employment which had imposed a high degree of inter-area wage uniformity in earlier years, might promote increased wage variation across urban regions" (Sabin, 1999:135-37).

The dramatic increase in the marginal impact of employment in a skilled sector points to declining skill-related wage egalitarianism during 1980s. "Figures on non-wage benefits (excluding housing subsidies) in the state sector indicate that the less skilled sectors have in recent years paid out higher average benefits per worker, thereby blunting the wage differential. However, the gap in benefits per worker shrank from 54 per cent in 1988 to 22 per cent in 1992, pointing to relative gains for workers[29] in the more skilled sectors" (Ibid: 150).

Average wage ratios for workers in China are presented in table-5.5. If we observe the table, within the skilled workers there is consistent fall in the ratio of wages in both state/collective as also in state/joint enterprises. This indicates that there appears to be some wage convergence between all ownership types since 1980s. In contrast, a recent rise in the wage gap in the less skilled sectors between both urban collectives and state enterprises and between state enterprises and jointly-owned and foreign firms indicate a possible increase in labour market segmentation[30].

Table-5.5

Average wage ratios for workers in China

Year	Skilled		Unskilled	
	State/Colle-tive	State/Joint	State/Colle-tive	State/Joint
1980	1.36	1.28	--	--
1985	1.35	1.20	--	--
1989	1.25	0.75	1.27	0.83
1992	1.24	0.77	1.28	0.78

Source: Sabin, 1999:150.

The analysis of Sabin (1999) points to a decline in inter-regional wage variation during early reform period followed by rising wage gaps in the later years. This unusual pattern appears directly related to the combination of China's pre-reform wage structure and trends in wage growth during the reform period. In the south-east coastal regions[31], wage differentials first narrowed as incomes in these areas caught upto those elsewhere and then began to widen.

In India, wages in the organised sector are composed of three main elements: basic wage, dearness allowance and payment of bonus. There are established rules for payment of dearness allowance and bonus to the workers. Bonus payments are statutory and are governed by the Payment of Bonus Act, 1965. Thus, minimum bonus of an employee is 8.33 per cent of the annual wage (that is basic plus D.A). If the basic exceeds specified amount, then bonus is calculated as though wages are equal to the specified amount. The structure of basic wages and patterns of annual increments generally are determined by the Wage Boards and Pay Commissions. They are periodically changed, once in around 3-4 years. Though collective bargaining exists, government intervention plays important role. Similar is the importance of hike in wages in public enterprises in proportion to hike in private enterprises.

Here below, we examine the rate of change of wages and prices in the organised sector. Same is presented in table-5.6. If we observe table-5.6, the rate of change of prices in India is somewhat less than the rate of change of wages of employees. Implying that, after liberalisation, the wages of employees have gone up, a positive indication, because of liberalisation of the Indian economy. However, as is evident from the table, ever since liberalisation started, there is a steady decline in real wages. Whatever changes in the wage structure have taken place, they are enough only to maintain the current consumer price index. Hence, we would like to add that the increase of wages might be because of pay revisions done during 1990s.

Table-5.6

Index Numbers for Industrial Workers in India

Year	Wages (1963-65=100)	% Change	Consumer Prices (1982 = 100)	% Change
1990	1051	--	186	--
1991	1190.1	13.2	212	13.4
1992	1343.0	12.8	232	10.4
1993	1480.9	10.3	252	6.3

Source: Indian Labour Journal, 1997:436 and 367-68.

Coming to the unorganised sector workers, who constitute nearly 93 per cent of the work force in India, they work and live in to most precarious conditions. Often they work at back breaking labour such as construction work, agricultural labour, etc., which does not fetch them wages adequate for two square meals. Another important point to be noted is that majority of them are women workers who earn less than their male counterparts.

In India, the state governments for different schedules of employment fix the minimum wage. They are fixed according to the minimum Wages Act. They differ across the Indian states. In 1996, minimum daily wages for agricultural labour varied between Rs.21/- and Rs.52/-. If minimum wages were ensured, it would be beneficial to the workers. Unfortunately, the same is not taken seriously.

Agricultural labour, except in some peak months, generally get ½ to 2/3 of the minimum wage. Home based workers get less than ½ their wages. Inspite of the existence of statutory minimum wages, workers are not paid accordingly, as workers are often unorganised and are weak and vulnerable to demand their basic wages[32].

As we have discussed in chapter-4, the UNIDO statistics show that the percentage of wages and salaries decreased from 6 per cent in 1980 to 4 per cent in 1995 in China. In Case of India, it has substantially declined from 11 per cent in 1980 to 6 per cent in 1995. This indicates wages and salaries are more or less stagnant in china and India. However, gross output per worker has increased substantially in India and China. This indicates that labour exploitation is in existence in both India and China as is presented in earlier sections. This can be substantiated with the average wage yield by the workers. There were fluctuations in the average wage in India and China also during 1980-95. It indicates higher labour turnover in both the nations[33] (See chapter-4 table-4.2 for details on profitability, salaries and wages).

Social Safety-Net:

The structural transformation of the economy of China makes it difficult for it to continue enterprise-based provision of social services. The government feels that this would become an obstacle for, labour mobility and competitiveness of state owned enterprises. Thus, in China, present conditions are such that "both enterprises and labourers now must adopt to competing in a market-oriented economy and their ability to do so will depend in part on successful reform of China's social security system. In the process of reform the government has made clear the need to shift responsibility for providing social services and benefits from enterprises to a combination of the government, enterprises, community and individuals" (west, 1999:153).

Features of New Pension System in China:

The third plenary of the 14^{th} communist party central committee in 1994, specified an overall framework for the establishment of an old age security system[34]. "It called for a multi-pillared system combining a social basic pillar with supplemental enterprise-sponsored pensions and individual savings for old age. At present, emphasis continues to be placed on designing the social basic pillar, which is to provide a minimum standard of living for retirees and be financed by the enterprise, employee and government through a combination of pooled funds and individual accounts. This pooling of funds is similar to the case of India where the government, employee as well as the employer contribute to pension fund. The other two pillars have just began and are expected to develop slowly[35]" (Ibid: 161).

The social basic pillar has two components: a defined contribution plan with an individual account established for each worker, and a defined benefit plan known as the social pension, based on a social pooling account. The relative emphasis on the two components varies according to locality. "When a worker is eligible for retirement, the accumulated principal and interest in individual account is divided by 120 and paid monthly to the retiree. When the accumulation in the individual account is completely exhausted (10 years after retirement), payments are to be made from the social pool fund at the same level. On the contrary to this situation, in India, the contribution from government, employer and employee is taken to determine the pension of a retiree. This pension system in China, many be termed as discriminative as it works against the interests of workers. In case of the death of retiree, the social pool contribution does not reach the family. This is because there is no system in China for family/spousal pension as work participation rates are high, as we have see earlier. However, this might come for confrontation in the years to come[36]. The benefit formula for the social pension varies across localities, with social pension benefits based either on the earnings of the worker, the average earnings for worker in a location, or a combination of the two. Vesting rights to the social pension usually accrue after 10 to 15 years... because details of the new scheme vary across pools so do the income replacement rates ranging from 65 per cent in Jiangsu and Hainan to 102 per cent in Harbin. The average nation wide was 78 per cent in 1995" (The World Bank, 1996:10).

It may be noted that China had laid foundation for an excellent system for old age security based on multi-pillar strategy. However, present attention is towards the social/ public pillar. However, pension reforms are incomplete as there is an urgent need to formulate regulations and supervision of the pension funds. There needs assurance alike for both contributors as well as beneficiaries of both growth as well as safety. We may point out that a reformed pension system has an important role to play in increasing labour efficiency through labour mobility and thus ensuring enterprise efficiency. Hence, a broad-based and financially sound social security system is critical for the development of labour markets in China.

Features of National Renewal Fund in India:

In India, complying with the provisions of the New Industrial Policy (NIP) 1991, the government ahs established a National Renewal Fund (henceforth NRF) in 1992[37]. The scope of NRF was comprehensive and detailed. It was to operate as a non-statutory fund for a period of 10 years. during this period, it is subjected to the Comptroller and Auditor General (CAG) audit. Financing for this NRF would come from government, multilateral aid agencies, insurance companies and industrial units. This fund is to be exclusively used for the benefit of employees welfare and is restricted to the large-scale industries notified under the Industrial Disputes Act, 1951.

Objectives:

1. To provide assistance for the retraining and redeployment of workers;
2. To provide funds for compensation to displaced workers; and
3. To fund employment generation schemes.

The NRF consists of two components, first the National Renewal Grant Fund (NRGF)and second the Employment Generation Fund (EGF). The former is to provide the following:

(a) Worker counselling, retraining, redeployment and placement services for workers affected by modernisation, restructuring, revival of undertakings, upgradation and revival, rationalisation or closure of sick units.

(b) Worker compensation packages in both the public and private sector. If the units are closed on any examination by the Board for Industrial and Financial Restructuring (BIFR), the funds will be used to pay the workers' legal dues and those arising from VRs. If the VRS is operating in a Public Sector Enterprises (PSEs) funds will be given even if it has not been refered to the BIFR; and

(c) The funds will also be given as interest subsidy to financial institutions to help them provide soft loans for funding rationalisation of weak units.

Under the second component of Employment Generation Fund (EGF), following assistance is to be provided:

(a) For approved employment generation schemes in the forma and informal sectors and

(b) To specific restricted areas affected by the industrial distress arising out of the reform process.

Another initiative has come from the National Bank for Agriculture and Rural Development (NABARD) and the Small Industries Development Bank of India (SIDBI) who have agreed to refinance loans of commercial banks to rehabilitate employees of National Textile Corporation, a PSE, if they accept voluntary retirement. Workers willing to buy old, second hand looms would be required to contribute 25-30 per cent of the cost and the rest will be paid out of a loan on easy terms.

The working of the NRF shows that the safety net for workers is too unsafe for the displaced workers to rely upon. We would like to caution that, unless there are regulatory and safety arrangements in place, liberalisation and the opening of floodgate of closures and retrenchments without functioning safety mechanisms would defeat the very purpose of restructuring - a key principle of the NIP.

As we have seen in the above discussion, the amount of social security being offered to the workers in both India and China is inadequate. The policy needs comprehensive outlook as well as pragmatic approach so as to benefit millions of labour force who would be directly effected as a result of liberalisation. In China the reform in SOEs is yet to take-off (although the recent pronouncements by Zhou Ronghji, Primier over privatising and/ closure of over 1,00,000 of them). If initiated the effect of it on retrenchment and resultant unemployment is not being given serious look by the leadership, which needs serious reconsideration. Similarly in India, the NRF component does not serve the interests of the effected parties. The state in India needs to reconsider to provide higher role as well as finances to the NRF for providing a meaningful solution to the effected workers.

Impact of MNCs and Capital Mobility on Employment and Industrial Relations:

Developing countries such as India and China, with large-scale unemployment and relatively well-educated populations have benefit from the establishment of Multinational Corporations (MNCs) affiliates. These affiliates use low-cost labour for the manufacture of parts for electronics and other high-technology products to be sold in established markets in developed countries of the world. Many countries including India and China, have benefited from such investments, as a consequence of which economic level of their people as a whole have risen. However, if we observe closely, employment by the MNC subsidiaries in the Third World remains relatively low.

There are additional benefits other than increase in employment. New skills are taught that may be useful for local entrepreneurs and the wages paid by the MNC affiliates are normally higher than those prevailing in the country. Additional employment sources may be created through the increased use of local suppliers and ancillary services.

These are precisely the points, which are praised by some and are criticised by many. The critics such as Feld (1980) claim that "the MNC affiliates often import technologies that are mostly capital-intensive with minimum labour requirements and thus disregard the pervasive unemployment (roughly around 30 per cent of total labour force) and under employment that plague the country. Moreover, higher wages paid by MNC affiliates may lead to demands by employees of local firms for similar increases. This may create severe competition, especially for technical personnel, and cause difficulties for local companies. At the same time, higher wages may fuel inflationary pressures, and might also reduce the competitiveness of the local business (which have low operational efficiency)" (Feld, 1980:102).

Finally, organised labour plays a role in these situations. While the increased wages paid MNC affiliates provide incentives for existing labour organisation to level up wages generally, the emerging disparities in wages may induce governmental leaders to oppose such endeavours. Moreover, the national business houses, which are already at a comparative disadvantage in India because of the higher efficiency of MNCs may pressure the government to halt efforts at levelling up wages. It is relevant to mention here that in China also the big business houses have got a grip over the economy and there is an increasing trend in mergers and acquisitions of companies in China (Nolan and

Xiaoping, 1998). The government also fears that, if the wages are stressed too far, MNC entry might stop. This shall result in decrease in inflow of foreign capital as well as technology which is crucial for modern development. This apart, the political leadership in our country fears that if the unions are successful in their aims, they will create new positions of power competing with it.

Coming to the function of industrial relations (IR), MNCs deal within a largely internationally decentralised form. Even when, they actually believe in and sometimes advocate enforcing, 'close managerial supervision' over its subsidiaries. They enforce tight technical and financial control over subsidiaries. However, allow purely local influences to determine the nature and form of their labour relations, even when foreign managers are retained in crucial positions.

The multinational is merely a corporate expression of the fact that the productive forces of capital are international. However, the employee relations of such firms remain nationally fragmented. International firms deny their workers access to international resources (information, decision-making, etc.), standards (personnel practices, disclosure codes, safety, etc.) and conditions (shift payments, working hours, etc.). They do so in order to increase the flexibility of the firm and increase the power of corporate management.

There are massive disparities in the treatment of multinational labour forces because MNC employers are fundamentally opposed to bargaining arrangements which would make it possible for unions to eliminate inequalities in standards and conditions by standardising the essential terms and conditions of employment between plants internationally. This is essentially to serve the purpose of the management, by way of allowing different levels of bargaining as well as strategic choices, which involve various issues on which they could take decisions unilaterally from headquarters.

The mobility of capital means that firms, which were previously limited to national markets and resources, can now raise money anywhere in the world, and site production wherever they think best. IN India and China this had generated incentives for states/provinces to lighten the tax and regulatory burden being faced by firms within their borders (See for details Nolan and Xiaoping, 1998 for China and Shyamsunder, 1998 for India). Such policies of "competitive detaxation" and "Competitive deregulation" combined with tight control of wage and non-wage labour costs become increasingly plausible options for firms which can relocate their production at their will.

ILO Report (1997) says that "investment decisions are becoming increasingly sensitive to such factors as wage rates and regulatory and tax policies. However, these are still only elements in the much more complex equation of allocating investment capital, most of which is long-term and highly sensitive to other factors such as the overall productive capacity of the workforce and the economic potential of the region involved" (ILO, 1997 in IJLE, 1998: 391).

Liberalisation has some positive consequences for growth and employment as has been discussed in chapter-4 and chapter-5. However, it also has potentially destabilising results for distribution of wealth and on the processes of collective bargaining. "In fact the openness of economies and the benefits that result therefrom are even easier to maintain when the social partners are capable of assuring wage earners a reasonable measure of security in the face of change... Capital mobility destabilises the sheltered structure of wages that national industrial relations systems produced when market competition was largely a national matter" (Ibid.).

Implications for labour include wages, once taken out of competition are now back in the competitive sphere. This would not be a problem for highly skilled labour, but low skilled labour are the vulnerable ones who are readily available to enterprises at low wages, once they have a certain degree of locational freedom[38].

Capital mobility rewards qualified skilled workers, as mobile capital seeks them out and bids up their wages, contrary is true for the unskilled labour who used to be protected from wage competitive. With marke forces bidding down the wages for the less skilled workers, trade competition and capital mobility can thus have the effect of dividing workers at the national level. Trade unions would face greater resistance when they try to boost the wages of less skilled workers[39]. This apart union organisation would become sensitive as a result of capital mobility as firms become more sensitive to labour costs. Venkataratnam (1997) says that the attempt to lure investment capital can also produce important behavioural changes in the exercise of freedom of association or in the industrial relations climate (Venkataratnam, 1997: 34-39).

In the preceeding analysis we have discussed as to what is the impact of the changes brought about under liberalisation on industrial relations. In the coming chapter we shall present inferences drawn on the study.

NOTES

[1] This refers to our basic understanding that liberalisation in India is not the offshoot of the Balance of Payments (BoP) crisis in 1990. On the contrary, it is more or less continuation of the policies initiated by Indira Gandhi and Rajiv Gandhi. Thus, even before 1980s itself, we had the advent of new technological collaborations between MNCs and Indian firms, which nodoubt had their impact for workers in India. In China, we know tha the Deng's "Four Modernisations" is in a way relocating the role of technology and capital which Mao himself understood by early 1970s. This we can see with his compromise with America and establishment of diplomatic relations between the two in 1972. All this couldnot have happened, had Mao not thought of bringing new technology into China. Sino-Soviet détente played a crucial role in it.

[2] His famous quote being "no matter whether the cat is black or while- as long as it catches mice". See chapter-3 for details on ideological compromise of Deng.

[3] A labour market is constructive to economic development in socialism, while the argument that laobur is not a commodity, is consistent with the traditional marxism on which the socialist system is built.

[4] This term seems to be more accurate than the term labour contract system.

[5] Here, if we closely observe the arguments of reformers raises doubts as to whether reforms would in any way benefit workers? This is so because what ever is being carried under the pretext of socialism is nothing but restoration of capitalist employment relations. Such change would harm the interests of workers rather than do some good to them.

[6] Here, we must note that before 1990s, so as to avoid ideological debates, the phrase 'waiting for a job' (daiye) was used in place of the word 'unemployment' (shiye). However, since 1990, the word unemployment is accepted and used academically, officially as well as in public.

[7] We know that the ten-year plan to develop science and technology under "Four Modernisations" and the ambitious development targets which the reformers were striving to achieve could not be acieved without the import of advanced technology and know-how.

[8] We must understand that there was no gender inequality in China and employees of equal number from both sexes were allocated jobs by the labour office.

[9] A feature which would have negative effects/bearing on the unity of workers.

[10] Primier Zhou Rongji pronounced recently in 1998 that more than 1,00,000 State Owned Enterprises (SOEs) would be either closed down or would be handed over to private entrepreneurs.

[11] This again we must note would negatively implicates the workers, as whoeer is against either the management or the union would be implicated in false allegations and may be removed. The irony for Chinese workers is that, there is no alternative trade union which would take up the issue, as we have in a bourgeois liberal system. The trade union is also technically part of the government and hence, any move by government is to be supported by workers.

[12] The impact of enterprise reform on the employment of women was immediate. Enterprises imposed heavy cuts on costs of health cae, maternity leave, nurseries, etc., and dismissed women declaring them as weaker sex. For more details see Harding (1987), Smith (1992) and Hore (1991).

[13] These figures might be more in recent years as the conditions for work is increasingly deteriorating and there is higher amount of people migrating from rural to urban areas who form cheap labour competing with the existing ones.

[14] Rogen (1998) puts the figure of rural-urban migrants in China at 200 million.

[15] This vindicates our earlier discussion that rise in contract jobs is not only deteriorating employment conditions but is also bringing wages down.

[16] This has been emphasised by Swamy (1995), Smith (1993) et al. According to trem, in China health care is more costly proposition and because of high costs, many people are avoiding a visit to hospital. This sure is going to effect all those concerned. On the flip side, in China due to longstanding male chauvinism, females are going to be effected as their health care would be neglected mainly for economic reasons.

[17] We must note that the move to withdraw MRTP, FERA, etc., as has been discussed in the Chapter-3 is only to facilitate such changes. Similar is the campaign that PSUs are redundant and non-profitable. If we observe most of the PSUs privatised are only those which are profit making ones or has the potential to control market.

[18] In the Budget of 1999-2000, there was a move by the Finance Minister to reduce subsidies to various sectors as also to permit retrenchment of workers. However, this was withdrawn, as these policies were to effect the electoral politics in India. We can say that there shall be changes sooner or later to effect both labour as well as agriculture sectors as a whole.

[19] This is largely an offshoot of deregulation and decontrol of the economy as part of liberalisation. These structural changes and continuous budgetary deficits seem to have weakened the role of the state and portend to a diminished role of the state in social integration.

[20] This obviously means that competitiveness of the product in the international market must be maintained.

[21] In the present context there is urgency for clause by clause examination of the Indian labour laws in the context of new technology's functional characteristics. For example, Acts, Sections and Clauses providing for the conditions of work, change of work hours, shifting venue of business, hours of work, etc. needs review. Most importantly, the Industrial Disputes Act, Factories Act, etc., procedure for grievance settlement, and legal provisions in various acts dealing with pesonal injuries, health hazards, etc., needs complete restructuring as they are age old and may impede smooth transition from conventional to new technology.

[22] So the There is no Alternative (TINA) factor compelled the Indian left to stick to the bandwagon of liberalisation. They also might have felt that liberalisation would also bring contradictions to its peak and that would be of advantage for them politically.

[23] This vindicates the stand of Malenbaum (1982) that China's overall growth prospects and especially that of labour is limited. However, for India there are enough opportunities to improve.

[24] This migration indicates rural to urban demographic transition comparatively more in India than in China. People displaced by agriculture are being accommodated by industry and services. However, this migration does have side effects such as disguised unemployment, under wages, etc.

[25] If we observe, as pointed out elsewhere, China's work force is 320 million more than that of India's. Hence, we must understand that there are these low average wage figures.

[26] Limited urban reforms had already started prior to 1984. For instance, the state owned enterprises (SOEs) experimented with various financial systems, including profit contracting and a schedule of four taxes to replace the old profit retention scheme. A comprehensive reform package, that included reducing the role of government agencies, reforming the planning system, the adoption of a double-tier price system, the separation of government from enterprise functions and the responsibility system to urban enterprises was not formally introduced until 1984.

[27] Including the private economy, the more skilled sectors added nearly 5 million workers to reach almost 14 million. The less skilled sectors began from a combined base of 16 million in 1980 and ended the period with a total workforce of some 30 million. For details see Sabin, 1999:134-50.

[28] In the case of China, it is tempting to hypothesise that increased market orientation should reduce wage differentiation.

[29] This indicates that there is stronger role for market factors in wage determination. It also provides evidence of rising significance of region specific factors.

[30] While these changes are not dramatic and wage differentiation shall be in constant flux for some more time, they do suggest that reforms in China have served to reinforce pre-existing labour segmentation along ownership lines. Only change, which can be cited, is that contrasting with the past, the unskilled workforce in urban collectives is becoming increasingly dominated by rural migrants, thereby adding a major interpersonal dimension to such segmentation.

[31] These are the areas where economic development and wage growth was swiftest, where wages had been administratively set at low-middle levels in the 1970s.

[32] Even the governments do not try to help them in this regard. Thus, low wages are a resultant of the low employment opportunities especially in the rain-fed/ rural areas of India.

[33] If we observe labour participation rates, labour productivity etc. as discussed in this section of on Industrial Relations, it is observed that there is stagnation in wages and salaries as percentage of gross output per worker in China while the is substantial growth in the case of India.

[34] This was done after a decade of trial pension reforms throughout the country. For details see The World Bank (1996) **China Pension System**, Report No.15721-Cha, Washington D.C.

[35] It is said that, by mid-1995, only 12,000 enterprises nation-wide were offering supplemental insurance plans that covered three million employees. At the same time, 7,00,000 workers had established individual retirement savings accounts, with accumulated funds reaching 50 million yuan. In some cases, foreign-funded and private enterprises and self-employed individuals have purchased commercial pension insurance policies, primarily from the Peoples' Insurance Company of China, which dominates the commercial insurance market. Commercial pension insurance, however, accounts for a small fraction of total benefits, with disbursements averaging 1.5 billion yuan in the yearly 1990s as compared to nearly 72.5 billion yuan in pension payments made through the government sponsored pension system in 1994. For details see West (1999).

[36] Mainly due to the fact that more and more females are withrawing from employment and are remaining indoors.

[37] Although, there is also the New Pension Scheme, 1995 in case of India for comparison with China, we are deleberately avoiding it as the NRF is statutory and it was meant for the effected industries and workers as part of restructuring process. Hence, we are not discussing other policies such as NPS.

[38] This is evident in China, where migrant workers are hired for piece-rate wages in sweat shops just outside the SEZs like Shenzen, Fujian, Guongdong, etc., and in India factories are hiring female workers to reduce labour costs and also are giving work to ancillary units for contract; Eg BPL, Philips, etc.

[39] This is evident in case of India where the Bombay Textile mills strike had flopped having serious implications for trade union movement under liberalisation. Had it succeeded, he resistance to liberalisation by trade unions would have been more consistant.

CHAPTER 6

INFERENCES AND TENTATIVE CONCLUSIONS

In the forgoing chapters we presented an analysis in a comparative perspective the policies pursued by both India and China before liberalisation; changes in the policies pursued under liberalisation; impact of these policy changes on industrial growth and performance and their implications for workers vis-à-vis the state and employers. Based on the same, we shall now try to understand the political economy of the nature and direction of these changes as part of liberalisation. We also present a brief note on the inferences drawn from the study and some tentative projections.

As we have discussed in chapter-2, earlier efforts of in India and China during 1950-80 to achieve growth and moderanisation, recorded persisting expansion in both the nations for all the sectors of economy viz. agriculture, industry and services. A significant rate of overall achievement during 1950-80 period is visible in China when compared to India, especially in the industrial total product output based on available data and expert knowledge.

Coming to the main development priorities in industrial growth during 1950-80 period, neither the extensive industrialisation in China nor its moderate counterpart in India, could provide linkage to the large agricultural-rural sector. We must acknowledge that China, when compared to India, has accomplished more difficult task in agriculture. China could reorient and reorganise agriculture due to extensive land reforms, where as India failed miserably. Similar is the case of average intensity of input use such as fertilisers, HYV seeds, etc.

India's relatively low industrial profile in total economy may be less than what it could accommodate both in terms of domestic or foreign demand-especially in key modern industries and in public enterprises. As is seen in the chapter, the industrial capacity was underutilised: quality and costs of production aggravated the problem of use of good technology to produce goods for consumption both at home or abroad. It is manifest in many ways, especially in the difficulties in the earlier policy regime for the expansion of exports as also in the policy of import-substitution. Although, import-substitution policy was intended to make Indian industry self-reliant, it had many limitations, of which inadequate R & D and lack of technical knowledge and capital were main reasons. The industrial position of China also seemed to confront with the same problems on a relatively large scale during the earlier period. Inspite of pronouncements of socialist goals by achieving growth and equity, the expansion of modern industry in both the countries has been much more limited than had been visualised by planners in either country.

As a result, in the late 1970s, the post-Mao leadership advocated 'reforms' and 'readjustment' in order to bring in effective use of industrial capacity. In India, also there were efforts during the same period to make changes in industrial policy so that there could be rapid achievement of growth in the industrial sector. Our study points out that, the frequent shifts in policy priorities in both nations had adverse effect on the economy as a whole, more so on the industrial sector. Notwithstanding the effects of these policy changes, it is clear that during the three decade period, both India and China experienced rapid changes in policy formulation and its practice. These shifts in policies of both nations is more evident from late 1970s and early 1980s, which we had termed as the starting phase of the policy of liberalisation proper.

In the analysis the policy changes in both India as well as China in chapter-3, the study shows, there is clear distinction of phases of liberalisation process in post- Mao China, which are missing in the case of India.

In India, although the study points out that there is a clear shift from the Nehru-Mehlanobis model of socialism to that of capitalist development. It was actually state capitalism working in the framework of democratic socialism, because in reality it promoted capitalist relations of production. Under liberalisation, it is more or less reinforcing the existing production relations with more legitimacy. Similarly, as our analysis shows, the primacy given to heavy industry is now shifted towards consumer goods and light industrial sectors, that has less gestation period. This resulted in rapid growth in these sectors during the 1980s as we have discussed in chapter-3.

However, we must note that during this period the policy has been to increase the incomes of the people so that their purchasing power increases thus increasing their savings and investments in turn. The middle classes, who became consumers proper, were in early 1980s protesting against the obsolete technology that the Indian industries use to produce goods which they consume. Hence, liberalisation of the earlier import-substitution regime towards market-oriented growth models. Consequently, there was rapid increase in foreign investment inflows alongside increased collaborative joint ventures with the MNCs.

Even before independence, the colonial state in India promoted capitalism class, which is not the case with China. In China, the shift from Maoist stress on the socialist relations of production to that of Deng's "market socialism" is not only through going, but has changed the process of development as well as the role of the state in economic affairs. As we had discussed in chapter-3, the Maoist emphasis on "politics in command" is no longer valid and it was smartly replaced by the "economy in command" slogan of Deng.

Deng's market socialism does not question the state ownership and does not envisage change of ownership and control in favour of workers. We feel that, this is the worst that can happen to industry and thereby affect workers. In case of state's failure to maintain the state enterprises, as is the situation in China now, the industrial enterprises would be closed totally or would be transferring the ownership of it to a private entrepreneur, rather than transferring/ reforming the laws in favour of workers.

As has been done in the case of China's agriculture, after de-collectivisation and de-communisation, the peasants have been allocated land, though with limited ownership and control. This has resulted in peasants managing their own farms and thereby prospered. If necessary similar changes are made and workers were given control of the enterprises, as it was the case with agriculture in China and the Indian industries, there exists possibility for workers to manage their own enterprises and work for promoting socialist production relations. In India, industries such as Kamani Metals, Kanoria Jute Mills, etc., have been taken over by workers themselves and are being managed by them. Although, such initiatives in India are scanty, they show that there exists a middle path in between complete closure resulting in retrenchment of workforce, unemployment etc., and/or privatisation of the enterprises.

In our analysis presented in chapter-4, we observed that both Indian and Chinese economies have performed well during the period of transition under liberalisation. Both economies have recorded high macro-economic growth rates as has been presented in the chapter. Nevertheless, the economic growth of China is better and stronger than that of India. However, India is also emerging as a potential economy by gaining strength under liberalisation more so, after the official pronouncement of the policy in 1991 as discussed in this chapter.

Our hypothesis has been that liberalisation of economies of India and China has brought in high rates of growth in industry. This apart, opening up of industry to foreign investments has resulted in faster industrial growth and transfer of technology. Refer Appendix-III. See also table-4.2 and 4.3 for detailed growth performance of both Indian and Chinese industries for the period 1980-95.

The performance of Indian industry for the period under study (1980-95) has been better in terms of bringing qualitative and quantitative changes in its productivity and output growth. Equally noticeable fact is the catching up of Chinese industry and the impressive gains it made during this period. It is observed that China's GDP has quadrupled during 1980-95 period, while it had only doubled in the case of India. This indicates that the performance of China with regard to industry is quite impressive compared to that of India's. however, this does not make us say that performance in India is not that bad as is perceived by scholars. Because, industrial development started in India even during the colonial period, this is not the case with China. During this 1980-95 period, China opened its hitherto closed economy for the first time under liberalisation and hence rapid growth in comparison to India.

Our study shows that there is higher degree of influence of FDI on GDP growth with significant t-value of 2.86 in case of India. While the influence of FDI utilisation on GDP growth is positive in China, the intensity of influence of foreign investments there is marginal, with insignificant t-value of 0.508. This indicates that in China utilisation of foreign investments has been declining over a period. While even in the case of India, similar feature is observed. This is against the general impression that industrial growth in China is highly influenced by FDI. In fact, FDI inflows were high in China, however they have been concentrated in service sector rather than industry proper. Whatsoever foreign inflows into industries sector are coming, they are coming into the MNC sponsored projects for which the MNC affiliates in another country are investing. This we must note is detrimental to the local industry in China, as it will be exposed to the MNC with capital and technology. Similar inference can be drawn for India as well.

Bulk of investments coming into India also are concentrated in the non-manufacturing infrastructure sector such as power, telecommunications, etc; Service sector also has good FDI inflows into it. However, within the manufacturing sector, FDI utilisation is steadily maintained.

One reason for such high degree of inflow of investments and technology into China is that the leadership has facilitated China's integration with world economy. While India is still taking its first steps towards such integration albeit having long presence of linkages with the metropolitan capital. The post-Mao Chinese leadership does not have any negative perceptions about integration of China's economy with the global one. As long as this integration brings in new technology and capital into China, and it promotes growth and development. Presumably, only if such development and growth does not take place and if there persists high inflation and unemployment, the Chinese leadership might face stiff opposition to the reform process. In India, such concrete vision regarding globalisation is conspicuously missing in the opinion of political parties and the state. There is no clear policy framework and the leadership including those from the left parties does not have any specific agenda to counter the move. Even if they are protesting it is naïve and is hardly with any direction.

As indicated in our study, the contribution of manufacturing sector to the general index of industrial production in India has been growing steadily over rest of the sector. Similar trend in the contribution of manufacturing sector is also observed in the case of China. We know that growth in industry is directly proportional to growth in GDP. When we regressed and analysed the results they were positive. Comparatively, it is found that the influence of industrial growth on GDP in China has been more than thrice the influence of the same in India. Thus, the policies pursued by both nations during 1980s- till date has definite bearing and an inherent bias towards industrialisation.

The state in India, as we discussed elsewhere, is now poised to reinforce capitalist production relations. Similarly, in China also such a tendency is visible. The leadership's direction and emphasis on development of the forces of production through technological upgradation and modernisation rather than that of the relations of production, class struggle and socialist egalitarianism shows that "market socialism" of Dengian type, has led China towards restoration of capitalist production relations. The shift we can say is an irrevocable one. It is a different thing that the leadership in China believes to be travelling along socialist path.

We had argued elsewhere (Srinivas, 1997:173-190) that the Chinese leadership under Deng has completed the formality of joining the capitalist camp. The emphases on growth and development, achieving high production targets, etc., are only moves in such direction. Here there is no consideration for human values. In all such endeavours, the casualty are the poorer sections of the society.

We must understand that the high achievement of Chinese industry as well as economy has been the result of it performing well for quite some time. This is not the case with India. However, as our analysis in chapter-5 shows, that Chinese level of labour productivity, gross output per worker, etc., has reached saturation point. However, the Indian industry as well as its economy has just begun its march towards achieving higher efficiency which has long run benefits to it. The labour productivity levels are high in China, mainly because of population and high labour participation ratios, when compared to India. In India, the labour participation rate is low. This is more so, in the case of female labour that too in rural India. However, as the Indian economy is now on its development path there is every possibility of India achieving higher levels of productivity and growth. It may be mentioned that Malenbaum's (1982) opinion rightly corroborates with our argument.

The policies pursued by both nations had definite bearing on the industry, which had resulted in rapidly transforming the relations between the state and the industrial classes that is employees and the employers, as we have analysed in chapter-5.

As we have observed elsewhere, in China changes in policies are to be presented in an appropriate ideological format. As rightly observed by White (1988), "drastic policy changes must be accompanied by ideological changes that might bring charges of `revisionism' from those opposed to change" (White, 1988:189). In China, until recently, the terms `labour market', `labour as a commodity', and `unemployment' were not officially permitted, despite the fact that a labour market existed outside the state sector and that actual unemployment existed. The views socialist conservative views do not usually mean total opposition to reform initiatives, rather they are carefully presented and are sensitive towards policy implementation or the dillution of policy, such as the acceptance of a partial application of the labour contract system. The views of socialist conservatives also suggest that the productivity goals of the reformers can be achieved in other ways, such as strengthening labour discipline, instituting more effective wage schemes and job responsibility systems, improving training facilities, acquiring advanced technology, and establishing better relations between management and labour, etc. This view of conservatives we also appreciate, albeit with definite adoption of new technologies in a scale that does not disrupt the labour force structure in both India as well as in China.

Liberalisation often leads to rapid inflow of technology and capital and also creates favourable atmosphere for domestic investment opportunities, which would replace the existing production forces and alters the existing relations of production. This technology invasion replaces labour, best example being computers. This tendency would displace scores of people who were hitherto employees and creates unemployment problem. If we observe, job redundancy in China is increasing due to adoption of modern technology. Several thousands of workers were laid-off. Identifying them for reemployment and training them for work/ re-employable skills are major problems of policy. Here, another problem is that who will accept responsibility whether local government, enterprises or central government for providing re-employment skills is not made hitherto accountable. Before reforms, the managers and workers of enterprises were cordial with each other. All isssues relating to wages; work guarantee; working conditions, etc., were determined by both managers and workers together. But, reforms had given leverage to the managers to control the workers because of the changes made in the laws governing workers, as has been discussed in chapter-5.

In China, the programme of liberalisation had produced numerous investment opportunities for both domestic and foreign (often expatriate Chinese) entrepreneurs. This had brought in enormous investments into Chinese economy as we have already discussed. Most of the investments are concentrated in the southern and eastern parts of China (i.e.- to the South-East Asian region). The interior parts of China still are capital and technology starved. Hence, employment levels have not increased; neither there is good agricultural production. There is not much development in these regions making them still dependent on the central government and on relatively advanced regions/provinces for their existence. This is another problem which the Chinese state under the new leadership is facing.

The growth in the advanced regions may be attributed to the dual taxation policy of Chinese government and by giving special concessions to Special Economic Zones (SEZs), Export Processing Zones (EPZs), etc. This policy of economic liberalisation had lead to increasing private ownership, who are profit driven and are least bothered about workers.

In India also, the programme of liberalisation had produced investment opportunities for both domestic and foreign entrepreneurs. However, if we observe, unlike the expatriate Chinese investing in native China, Non-Resident Indians (NRIs) are least concerned as regards investing in India.

We must note that this is because of the fact that the policies pursued by the Chinese government, as regards Chinese expatriates is more conducive in nature. They are welcomed with open arms. They are given single window clearance for whatsoever industry/ business they would like to make. This is to facilitate inflow of foreign capital as well as technology. All this is done in China where the government is under authoritarian communist party.

If we contrast this with that of the Indian government's attitude to its prospective investors from NRIs, they have to run from pillar to post to get clearances from many departments (multi-window framework). Lethargic bureaucracy, where there is still ramnants of licence-permit raj, inspite of tall claims of liberalisation of the entire system. This is one of the main causes as to why expatriate Chinese are attracted to its native country and not the NRIs. We must not mistake that the Chinese are more patriotic than Indians are. NRIs are equally patriotic and cherish to be part of the development process for the benefit of their country and fellow brethren. However, systemic bottlenecks become big hurdles. The foreign investors are also skeptical about the continuation of Indian reforms.

All this scepticism is when the Indian state has accepted the supremacy of global capital and is trying its best to play a sub-ordinate role to it. We infer that the disinvestment of Public Sector Units (PSUs) and increasing private enterprises by way of joint collaborations were only to facilitate amalgamation of the existing companies in India. For example, the Tata Oil Mills Co. (TOMCO) is merged with Hindusthan Lever Ltd (HLL) a subsidiary of Unilever, London. Glaxo is taken-over by H.M.Mainz of Italy; Brooke Bond is taken over by Lipton (Another subsidiary of HLL), etc. Such mergers and acquisitions are becoming quite frequent phenomenon under liberalisation. The government in its recent budget pronouncements (1999-2000) has given assurance to industrialists that it shall make necessary amendments to laws facilitating such merger and acquisitions.

Even with regard to concentration of foreign investments under liberalisation, we know that, Maharashtra, West Bengal, Delhi, Tamil Nadu, Gujarat and Andhra Pradesh were dominating the rest. Whatever investments we received until date were channelled to these states. This obviously shows that political stability is an important factor for attracting investments. The inequalities between these states and rest of the country are progressively widening.

As we have discussed elsewhere, with the working of the new policies of both the governments in India and China, the existing industrial relations transformed into a web of new type of relationships. Privatisation of enterprises created demand for profit and viability of the projects. Hence, reduction in workforce and pressure on the limited/few workers who were left behind to take up responsibility for overall work. Migration of rural workers also to urban areas leads to competitive displacement of workers and helps reduce wages. These trends are dangerous as employers would extract more work from the worker (demanding more skills than usual) at the same time shall pay less. Competitiveness amongst workers for few jobs available makes them vulnerable and to be used by employers by paying less wages that too on contract and Piece-rate rather than permanent employment.

In this context, employee-employer relations need redefinition and hence the whole gamut of labour laws in India deserves serious review. The changes made sofar under the Industrial Disputes (Amendment) Act, 1988 as mentioned in chapter-5 are inadequate and are against the workers. Similar is the case with other acts such as Wage Act, Bonus Act, etc., which may have to be changed in the context of liberalisation. It is pertinent to know whether under the existing framework of the labour laws the full potential of the technology for productivity can smoothly be carried through and in time. Trade unions should cope with these challenges both at the macro- and at micro-level, and must evolve appropriate strategies to minimise the negative impact of liberalisation on labour. The workers must know that blindly opposing new technology shall lead them nowhere. If they fail to adopt they are bound to be overtaken by it.

Liberalisation process has led to resurgence of employers' rights as presented in chapter-5 which trade unions, as representatives of workers, must try to minimise its effects on their fellow brethren. In such backdrop, trade unions must try to concentrate in organising the unorganised so that they form large part of workforce and becomes backbone for the trade union movement. Similarly, trade unions cannot remain silent spectators to the take-over of the Indian industry by the MNCs. They must realise that by holding on to extreme positions and populist rhetoric they cannot reverse the ongoing process. Moreover, they would lose what little influence they could have on the ongoing developments. Since they have not been able to stop the entry of the multinational companies, they must at least develop appropriate strategies to cope with them. In the first place, it is suggested that all the national trade unions may have to come together for this purpose.

The trade unions must understand that merely opposing NIP would lead them nowhere. Here lip-service to fellow employees, organising nation-wide bandhs (closures of shops and establishments) and rallies would do little impact on the state. The negligible impact of the national trade union federations in challenging the government's anti-labour policy clearly indicates that the conventional means of protest (bandhs, rallies, strikes, etc.) are ineffective. Hence, these unions must try to review their strategies and to act more creatively to counterpart or circumvent the adverse effects of the present policies of SAP on production and employment.

They as part of such review can consider different alternatives, as socialist conservatives in China have suggested. Alternatively, trade unions can press for transfer of ownership of industries by forming workers' co-operatives, which are allowed under NIP in India. Unions must learn from the experiences of other workers co-operatives that were running successfully, and must force the state in formulating concrete proposals for formation of workers' co-operatives in order to save production and employment in atleast some of the industries. Unfortunately, in China the debates on liberalisation has not taken the direction of proposing laws providing among other things, workers' ownership. In India, the pro-worker laws including workers' ownership in the form of workers' co-operatives, though in limited sense, not only has figured in the debates on liberalisation but are included as part of the provisions of NIP and BIFR. It is a different point that funds made available under this policy were only marginal and had hardly done any good to the majority of the workers.

There is a contradiction between labour and capital under liberalisation in both the countries. Liberalisation means more and more casualisation of labour, as they in the present context cannot function as a cohesive organised pressure group. Whereas, liberalisation for capital would mean more organised form of penetration into the market. This is evident in the inability of state in both India and China to control consumerism, catering to the needs of upper classes.

Following points can be inferred from our discussion in chapter-5: That protection for labour, which was hitherto present in Indian and Chinese economies, is gradually being removed. The withdrawl of state from regulation of the economies makes it easy for further privatisation and liberalisation. The perceptions of employers and international institutions who are asserting their rights vis-à-vis workers would prove to be detrimental to workers. The role of trade unions diminishes as labour organisations are dismantled under the new framework, there by undermining the collective strength of the workers in India. Workers are underpaid and casulaisation of work and contract employment is evident.

In conclusion, we can say that in China, the restructuring of the industrial system offers challenges to the industrial classes. It is facing numerous imbalances and contradictions. The Chinese state viewed growth of productivity in state-owned enterpries as central aim of reform process. However, job redundancies large-scale retrenchment of workforce and resultant unemployment and thereby inflation is not visualised by it, as we have seen in chapter-5. In India also, impact of liberalisation on employment is immense. The deterioration in the conditions of work and rise in unemployment will have serious repercussions on society.

Coming to employment relations, personal policy formulation, collective bargaining, labour legislation and labour administration at the enterprise level needs serious review in the context of liberalisation in both India and China. Changes in industrialisation strategies require changes in labour management policies to obtain the requisite balance between technology and labour. In the present context, the interaction between the state and MNCs in India and China will be the key politico-economic development. It remains to be seen as to how the state in both these countries behaves in its relationship with the MNCs. Many factors such as technology and capital flows, concession for the firms, facilitating market-conducive atmosphere, reorganising national industrial classes, etc., determines the nature and course of liberalisation on the industrial front.

Policy formulation is required to avoid erosion of labour standards and to make Indian and Chinese industries competitive and at the same time pro-labour. The working class in India and China looks for state's intervention to formulate pro-labour laws commensurate with the pro-capital policy of liberalisation.

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APPENDIX

Appendix-I

Economic Comparisons of India and China, 1995

	Real GDP Growth(%)	Fiscal Balance GDP (%)	Current Ac. Balance/GDP	External Debt/GDP	Debt Service Ratio	Savings Rate
India	6.3	-5.9	-1.6	28.9	26.4	25.2
China	10.2	-8.4	0.9	18.3	8.5	42.6

Source: Agarwal, 1999:11.

Appendix-II

Projections of Real Wage Index (1995-2020)

(1995=1)

	1995	2000	2005	2010	2015	2020	1995-2020*
India	1.00	1.23	1.52	1.86	2.27	2.87	4.3
China	1.00	1.39	1.78	2.33	3.05	4.15	5.9

Note: * Change in real wage (average per cent per annum).

Source: OECD & ADB, 1998:III.

Appendix-III

India and China: Comparative Performance of Manufacturing Value Added (1980-95)

(Millions of Dollars)

Industry	1980		1985		1990		1995	
	China	India	China	India	China	India	China	India
Food Products	3764	899	3433	1436	4789	2212	12849	3127
Beverages	1587	99	1696	135	2414	246	5090	314
Tobacco Products	3545	196	3999	230	6220	489	8017	656
Textiles	13409	2642	8587	2315	10299	3264	16441	3877
Weaning Apparel	1866	62	1716	87	2109	316	6586	1042
Leather and Fur Products	911	48	747	52	944	123	3116	158
Wood and Wood Products	751	74	591	73	502	104	1533	217
Furniture and Fixtures	653	8	514	7	455	8	877	8
Paper and Paper Products	1929	296	1532	233	1949	574	2918	601

Contd.

Appendix- III contd.

Industry	1980		1985		1990		1995	
	China	India	China	India	China	India	China	India
Printing and Publishing	1042	256	960	280	1036	340	1916	674
Industrial Chemicals	7125	778	5584	1200	8459	1833	13387	3649
Other Chemical Products	2924	1062	2292	1146	3372	1647	5331	2698
Petroleum Refineries	4223	203	3676	344	2714	1072	6121	1576
Miscellaneous Petroleum and Coal Products	154	151	183	152	208	146	332	355
Rubber Products	2175	234	1593	363	1603	566	1837	657
Plastic Products	1256	93	1317	166	1736	297	3415	454
Pottery, China and Earthenware	439	47	431	27	504	53	1277	57
Glass and Glass Products	838	67	822	101	705	111	1785	142

Contd.

Appendix-III contd...

Industry	1980		1985		1990		1995	
	China	India	China	India	China	India	China	India
Other Non-Metal Mineral Products	4425	399	4340	775	4524	1122	11450	1225
Iron & Steel	6538	1489	5810	1790	6571	2551	19880	3017
Non-Ferrous Metals	1868	81	1730	115	2050	654	4058	726
Metal Products	4861	421	2582	425	2946	614	6544	850
Non-Electrical Machinery	13418	1130	10941	1506	10116	2011	17779	2416
Electrical Machinery	3216	1061	6458	1201	7445	2009	16422	2375
Transport Equipment	3013	1088	4134	1231	3918	2374	11639	2664
Professional and Scientific Equipment	810	92	1021	118	843	165	1990	256
Other Manufacturing Industries	1838	72	1691	146	2125	92	4363	470

Source: UNIDO, 1997:148 & 175.

Appendix-IV

Projections of Major Economic Indicators for India and China (1992-2020)

(Average Annual Percentage Change)

Indicator	1992-95		1995-2000		2000-05		2005-10		2010-15		2015-20		1995-2020	
	India	China	India	China	India	China	India	China	India	China	India	China	India	China
1. Growth Rate of Real GDP	4.5	11.8	6.5	9.3	7.2	8.2	7.2	8.2	6.6	7.2	6.6	7.2	6.8	8.0
2. Population Growth Rate	1.8	1.1	1.6	0.9	1.5	0.7	1.3	0.6	1.0	0.6	1.0	0.6	1.3	0.7
3. Growth Rate of Labour Supply	2.2	1.3	2.2	1.1	2.1	1.4	1.8	1.0	1.5	0.5	1.3	0.0	1.8	0.8
4. Growth Rate of Labour Productivity	2.3	10.4	4.2	8.1	5.0	6.7	5.3	7.2	5.0	6.6	5.3	7.2	4.9	7.2

Source: OECD & ADB, 1998:93-115

APPENDIX – II

Major Economic Indicators of India & China (1986–98)

		1986		1987		1988		1987		1990		1991		1992	
		India	China	India	China	India	China	India	China	India	China	India	China	India	China
Gross Domestic product	% change	4.6	8.3	4.4	11.0	10.4	10.8	5.2	4.0	4.5	5.0	4.2	5.7	4.3	13.[illegible]
Agriculture	% change	-2.6	3.4	-1.0	5.8	15.4	3.9	2.5	3.1	2.2	6.9	2.0	3.8	5.1	4.[illegible]
Industry	% change	8.4	11.7	6.5	17.7	8.1	20.8	6.8	8.5	6.0	7.6	5.7	8.6	2.7	20.[illegible]
Services	% change	5.6	13.4	5.1	10.0	8.1	8.5	6.3	5.0	5.3	6.5	4.8	7.0	4.8	9.[illegible]
Gross National Product	% change														
Gross Domestic Investment	% of GNP	23.4	38.9	22.1	37.2	23.9	38.4	24.1	37.5	23.5	37.9	23.3	36.3	22.0	38.[illegible]
Gross National Saving	% of GNP	21.6	33.4	20.2	35.9	21.1	36.3	21.7	35.9	21.0	39.2	21.0	36.6	18.3	40.[illegible]
Inflation Rate	% change in CPI	8.1	6.0	9.1	8.8	9.1	18.5	6.6	17.8	10.0	2.1	9.0	9.0	9.6	5.3
Money Supply (M)	% change													15.7	31.[illegible]
Merchandise Exports	$ billion	10.4	25.8	12.7	34.7	14.2	41.1	16.8	43.2	19.3	51.0	21.9	54.6	18.9	69.1
	% change	10.1	2.6	21.4	34.9	12.0	18.2	18.7	5.3	15.0	18.0	13.0	7.0	3.2	18.[illegible]
Merchandise Imports	$ billion	17.7	34.9	19.8	36.4	23.8	46.4	25.1	48.8	28.6	43.5	31.2	50.9	20.8	64.[illegible]
	% change	2.6	-5.7	11.7	4.3	20.3	27.4	5.3	5.3	14.0	-11.0	9.0	17.0	10.3	25.[illegible]
Current Account Balance	$ billion	-4.6	-7.0	-4.9	0.3	-7.0	-3.8	-7.3	-4.3	-8.9	8.4	-1.0	4.6	-2.6	6.4
	% of GNP	-2.0	-2.6	-1.9	0.1	-2.9	-0.9	-2.7	-1.0	-3.2	2.2	-3.1	1.2	-1.1	1.4
External Debt outstanding	$ billion	21.9	13.7	55.3	35.4	57.3	42.4	62.5	44.9	69.8	48.0	76.0	55.5	90.1	69.[illegible]
Debt service ratio	% of exports	41.3	21.9	30.3	9.5	28.9	8.6	26.3	9.8	26.4	9.2	24.1	8.6	29.4	10.[illegible]

Appendix - V contd..

		1993		1994		1995		1996		1997		1998	
		India	China	India	China	India	China	India	China	India	China	India	China
Gross Domestic Product	% change	4.3	13.4	7.2	11.8	7.1	10.2	6.8	9.7	7.0	9.0	7.0	8.0
Agriculture	% change	2.9	4.0	4.6	4.0	-0.1	4.5	3.7	5.1	2.5	4.5	2.4	4.5
Industry	% change	3.5	20.4	9.4	17.4	11.6	13.6	8.7	12.3	11.5	11.1	11.5	9.2
Services	% change	5.9	9.3	7.5	8.2	8.8	8.0	7.4	8.2	6.6	8.0	6.3	8.0
Gross National Product	% change			7.3	11.6	7.2	10.2	4.6	9.6	6.8	9.0	6.7	8.0
Gross Domestic Investment	% of GNP	20.4	42.1	24.4	40.0	26.7	41.2	28.8	39.6	29.5	39.8	29.7	39.7
Gross National Saving	% of GNP	18.7	40.0	25.4	41.5	28.5	39.0	27.1	39.3	27.7	38.6	27.7	38.8
Inflation Rate	% change in CPI	9.6	13.0	8.1	21.7	12.2	14.8	8.7	6.1	8.4	6.0	8.6	8.0
Money Supply (M	% change	15.7	24.0	22.2	35.1	13.2	29.5	16.3	26.8	16.5	24.0	14.4	24.0
Merchandise Exports	$ billion	18.9	75.7	26.9	102.6	32.5	128.1	36.7	130.0	43.7	143.0	52.6	160.2
	% change	3.2	8.8	18.4	35.6	20.9	24.9	13.0	1.5	19.2	10.0	20.2	12.0
Merchandise Imports	$ billion	20.8	86.3	31.8	95.3	41.4	110.1	44.3	115.7	52.5	133.0	61.4	151.6
	% change	10.3	34.1	27.0	10.4	30.0	15.5	8.1	5.1	17.3	15.0	17.0	14.0
Current Account balance	$ billion	-2.6	-11.6	-3.2	6.9	-5.9	1.6	-5.8	2.1	-6.9	0.6	-9.1	0.2
	% of GNP	-1.1	-2.1	-1.1	1.3	-1.8	0.2	-1.7	0.3	-1.8	0.1	-2.1	0.0
External Debt outstanding	$ billion	90.1	83.8	99.0	100.5	92.2	118.1	96.5	128.0	103.6	133.4	116.1	137.4
Debt Service Ratio	% of Exports	29.4	10.7	27.5	8.7	25.7	9.7	21.1	10.1	28.1	7.8	22.5	9.3

[illegible]

Appendix- VI

Trends in Index of Industrial Production - Revised Index Series (Base 1993-94= 100)

Sector	Weight in the Reised Series	1994-95		1995-96		1996-97		1997-98	
		1	2	1	2	1	2	1	2
General Index (Crude)	100.0	108.4 (8.4)	100.0	122.3 (12.7)	100.0	129.0 (5.6)	100.0	137.5 (6.6)	100.0
Mining & Quarrying	10.473	107.6 (7.6)	9.48	117.9 (9.5)	7.76	115.6 (-1.9)	-3.60	122.1 (5.6)	8.01
Manufacturing	79.358	108.5 (8.5)	80.30	123.5 (13.8)	85.64	131.8 (6.7)	98.31	140.5 (6.6)	81.23
Electricity	10.169	108.5 (8.5)	10.29	117.3 (8.1)	6.44	121.9 (3.9)	6.98	130.2 (6.9)	9.93

Note: 1. Index

2. Contribution to Growth

Figures in Brackets indicate percentage variation over the previous year.

Soruce: Nagaiyya, 1998: 33.

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FOREIGN DIRECT INVESTMENT AND FOREIGN DEBT: EXPERIENCE OF INDIA AND CHINA

INTRODUCTION

Since the end of the Second World War, there has been increased realisation on the part of most nations about the need for programmes of economic development to improve the conditions of their people and to have better living standards. Both India and China started off with this concept more or less at a similar point of time (in the 1950s).

In spite of the fact that China is a communist country with a closed economic system, where the right of ownership of means of production was with the state, and India is a democracy with a mixed economy as its model, where private ownership/entrepreneurship is possible, both India and China had opted for planned economic development, a Russian model for achieving the objectives of economic development and social justice. The notable feature, which existed in China and India, is that of the State sector. This sector which has heavy and capital intensive industries had made these economies allocate more resources than the market economies. The notable difference between the two is that in China being a command economy prices are relatively less important than in India, where prices play an important role not only in individual consumption decisions but also on investment decisions.

Economic reforms in China were initiated during late 1978, when Deng took over power after the demise of Mao. Since then, the «4-modernisations» of China namely in Defence, Science and Technology, Agriculture and Industry, were successful. The Chinese resentment for misallocation of funds during Mao's regime and also the inherent bias against foreign technology and capital by him were basic reasons for Chinese liberalisation (1). In India economic reforms began in a small way as early as the late 1960s, with the devaluation of its currency, and had

(1) Infact, during the early 1970s, Mao himself made up his mind for the important role played by foreign technology and capital. This we can see with his compromise of America and establishment of diplomatic relations between the two in 1972. All this could not have happened, had Mao not thought of bringing in new techonology into China. Sino-soviet detente played a crucial role in it.

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brought visible changes during the 1980s when it opted for massive technological collaboration to develop domestic industry.

But, real thrust for reforms came in 1991. The Balance of Payments (BoP) crisis during the early 1990s was only a catalyst that had unleashed the hitherto closed economy of India to the outside world. Unlike China, India faced problems on both the domestic and external fronts, due to shortage of capital resources and less exports. Thus, the widening terms of trade (ToT) and pressures (both inside and outside) had made India liberalise its economy, so as to get foreign investments. Thus, we can say that, while China had liberalised its economy from strength, India had done it because of inherent weakness in its system which resulted in failure to bring proper development and achieve growth. But, in China reforms needed total restructuring and education of its economy (de-collectivisation of rural land, breaking of co-operatives, etc.). In India we had experienced entrepreneurs capable of carrying out the ground work for the success of reforms.

Thus, the structural shift of India and China, from centralised command economies to market-oriented reforms and from import substitution to export led growth strategies, was broadly to achieve rapid progress and development. In order to mobilise resources to supplement domestic capital resources both countries need foreign capital resources, either in the form of Foreign Direct Investment (FDI), Foreign Collaborations (with or without technical know-how), Foreign Aid (both tied or untied), Grants from Foreign Countries et al., to balance the terms of trade (ToT) of Exports and Imports in favour of the host country and run their economies.

The main objective of this paper is, (a) to see the flow of FDI into India and China, (b) to analyse the magnitude of foreign debt of both these nations and (c) to analyse the impact of foreign debt on the FDI flows.

Legal and Institutional Arrangements for FDI in China and India

Before we analyse the trends of FDI flows in India and China, we must acquaint ourselves with the legal and institutional frameworks which exist in both these nations.

Investment Policy in China

In the People's Republic of China (PRC), the institutional set up for giving approvals for FDI are not cumbersome, as most of the cases are decided case by case method. The main agency for granting approvals is the Ministry of Foreign Economic Relations and Trade (MOFERT). The provincial authorities too are given powers to approve projects with a value up to $30 million. Above this, the approval has to be obtained from MOFERT. For wholly foreign owned enterprises, the administrative committee in the export processing zones (EPZ) are given powers to approve projects.

China does not have any printed clear guidelines for foreign investors and as such, one has to apply and wait for the decision. The only visible laws which govern investment to some extent are (i) Law of Joint Ventures of 1979 (as amended in 1990), (ii) Co-Operative Joint Venture Law of 1988 and (iii) Income Tax Law of PRC relating to firms with foreign investment and foreign enterprises.

There is no automatic approval system, unlike in India, prevalent in China and all applications are decided on case by case basis. The import of capital goods are allowed duty free for most enterprises, tax exemptions are available for all enterprises and FDI in Joint Ventures with State Owned Enterprises is encouraged in China.

Investment Policy in India

In the case of India, Foreign Investment Policy can be summed up in the following parts. (1) Foreign Investment approvals up to 51 per cent of equity in a specified list of 34 priority industries was made automatic, subject only to a registration procedure with the Reserve Bank of India (RBI). (2) Investment above 51 per cent equity was also permitted on the basis of case by case approvals given by specially constituted Foreign Investment Promotion Board (FIPB) charged with expeditions processing of government approvals. (3) India signed the Multi-lateral Investment Guarantee Agency (MIGA) convention and became a member of MIGA along with other developing countries interested in promoting foreign investments. (4) There is an Empowered Committee on foreign investments which clears projects up to Rs. 300 crores investments.

(5) There is yet another committee known as Cabinet Committee which clears projects where investment is more than Rs. 300 crores. (6) In order to serve as a secretariat for all the above except the first one (ie- RBI), there is another agency called Secretariat for Industrial Approval (SIA) under Ministry of Industry which has residual powers to clear projects under certain circumstances. (7) The procedure for Indian Companies to invest abroad and develop global linkage in this way was also streamlined and made easier. (8) The Foreign Exchange Regulation Act (FERA) was amended and in some cases lifted totally (ie- for 100%

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EOUs) to remove a number of constraints earlier applicable to firms with foreign equity operating in India and also to make it easier for Indian business to operate abroad.

FDI in India and China

The pattern of economic activity in China after 1978 reveals a shift away from the pre-1978 period. The whole gamut of new policies, which were initiated by Deng, had resulted in high returns for the Chinese. There was a shift from a rural labour led economy to that of explosive growth of rural industry. Foreign trade and per capita incomes rose rapidly. In 1989, China's growth rate was at 10 per cent, with a sharp increase in China's foreign trade participation ratio. Coming to the analysis of FDI, we find that «the Chinese changed their policy in regard to foreign investment to relieve the foreign exchange constraints upon the growth of their foreign trade. In 1979 through the end of 1985, China has utilised $21.987 billion in foreign capital, $15.727 billion from foreign loans and $6.060 billion from direct foreign investment». (Dernberger, 1988:102). The tremendous rise in the amount contracted and utilised along with percentage of utilisation is presented in table no. 1.

TABLE No. 1 — *FDI in China*

US $10,000

Year	No. of Contracts	FDI Contracted	FDI Utilised	Percentage
1983	638	191 690	91 596	48
1984	2 166	287 494	141 885	49
1985	3 073	633 321	195 872	31
1986	1 498	333 037	224 373	67
1987	2 233	431 912	264 661	61
1988	5 945	619 072	373 966	60
1989	5 779	629 409	377 345	60
1990	7 273	698 632	375 487	64
1991	12 978	1 242 173	466 661	38
1992	–	–	–	–
1993	83 000	11 080 000	2 750 000	25

Source: State Statistical Bureau, *Statistical Year Book*, (various issues).

During the first four years of the reform programme ie- between 1979-82 the amount of capital actually utilised from foreign investments averaged US $440 million. It subsequently rose afterwards, up to 1989, when the Tiananmen square incident had a definite bearing on the FDI flows into China. However, since 1992 FDI had substantially increased. In these two years alone almost 130 000 new contracts were signed and US $40 billion were actually utilised. In the first three months of 1994, overseas investors pledged US $19.6 billion in 11 834 projects. (China Daily, 1994).

« Currently the most important form of FDI in China has been Equity Joint Ventures (EJVs) claiming almost 50 per cent of total inflows of around $23 billion till 1990-91. By the end of 1989 there were 11449 EJVs in China. Contractual Joint Ventures (CJVs) have attracted $6 billion or nearly 25 per cent of total inflows. By the end of 1989 there were 6250 CJVs, about half of the number of EJVs. However, until the mid-1980s the CJVs were a more popular investment vehicle than EJVs ». This was due to flexibility in that venture where the parties can freely negotiate the manner and proportion regarding profit or output distribution.

However, « since mid-1980s, EJVs accounted for an increasing portion of FDI in China. This reflects the Chinese preference for the transfer of technology and management skills through EJVs while assuring significant levels of government control ». This preference has been adequately expressed in various measures including tax incentives in 1980s. The most recent form of FDI in China being Wholly Foreign Owned Enterprise (WFOE). « By the end of 1989 their number was just 1410. However, their growth has been highest among the three major forms of foreign ventures over the period 1986-91. Between 1987 and 1988 the amount of actual investment in WFOE increased tenfold. One of the reasons for this change is the lack of funds for investment from the Chinese side. Joint Exploration in the mining sector mainly oil has been an important source of financing and developing that sector. It attracted $3.4 billion till 1991. Besides this is the area in which utilisation of FDI has been as high as 97.14% ». (Lee, n.d.: 109-12)

In India, the goal of import substitution and internal mobilisation of capital resources which were part of the Nehru-Mehalanobis model of economic development has been changed since 1980. Foreign capital was welcomed into hitherto closed areas and its inflow multiplied manifold. Outstanding FDI in India's commercial and industrial sector increased at a very slow pace from Rs. 387 crores in 1955 to Rs. 973 crores in 1975 falling marginally to Rs. 933 crores in 1980. The series of adjustments in Industrial Policy in the eighties and opening the doors wider to FDI undoubtedly helped some scaling up of the inflow of foreign private capital from the insignificant Rs. 10 crores per annum in the seventies to an

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annual average of Rs. 100 crores in the first half of the eighties and about Rs. 200 crores per annum in the second half.

It seems that FDI has proved to be an even more powerful channel for the transfer of knowledge and export capability, and India should not lag behind other Asian countries in reaping the benefits of FDI, especially for the development of infrastructure and exports. As a result of open door policy relating to FDI, foreign interest in the Indian economy got stimulated. FDI flows have taken a substantial leap from Rs. 3514 million in 1991 to Rs. 5939 million by March, 1994. «Among the Indian states, Maharastra seems to be the most preferred state for foreign investors. This is borne out by the fact that during 1993-94 the Maharastra government approved 202 projects involving an investment of Rs. 190.39 crores. Delhi stands second with 140 projects involving foreign investment of Rs. 122.87 crores. Third and fourth places in this regard are occupied by Tamil Nadu and Gujarat respectively». (The Economic Times, 1994)

Having discussed the magnitude and composition of FDI flows in India during previous years, it is appropriate to have a comparative picture of FDI flows during recent decades. In table no. 2 the requisite data is given.

TABLE No. 2 — *FDI Flows to India During 70s, 80s and 90s*

(Rs. in crores)

S. No.	Decade	FDI Projects	FDI Approved	% to FDI Projects
1	1971-80	399	60.0	15.0
2	1981-90	1 839	1 274.0	69.3
3	1991-94 (June)	2 205	15 736.1	7.1 (Times)

Source: SIA, (1994) *News Letter*, July.

The data in table no. 2 reveals that FDI flows and collaborations have significantly increased during 1991-94 as compared with the earlier two decades of the eighties and seventies. This sharp increase of more than 12 times higher FDI during 1991-94 compared to 1980s could be because of a new economic policy (1991), which encouraged FDI by providing various incentives and concessions.

We know that the Government of India has established a number of organisations for clearing the proposals relating to foreign investment in India. They are RBI, FIPB and SIA, which we analysed under the legal framework.

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Portfolio Investment

The Government of India has adopted many policy measures not only to attract FDI but also portfolio investment from foreign investors. • Some important measures include: the extension of rate of tax of 30 per cent in respect of short-term capital gains to the foreign institutional investors (FIIs), and the permission granted to foreign brokers to do business in India on behalf of FIIs. These measures started yielding results and the equity investment proposals worth $3.6 billion (Rs. 11,000 crores) were cleared from July 1991 to October 1993 and about 80 percent of these approvals are in the priority sector •. (GoI, 1993-94). Financial year wise details of portfolio as well as direct investments since liberalisation (1991) are given in table no. 3.

TABLE NO. 3 — *Foreign Investments Inflow in India*

($ million)

	1991-92	1992-93	1993-94*
1. *Direct Investment*	148.0	343.5	425.3
(a) RBI automatic route	0 2	42.6	50.0
(b) SIA/FIPB route	85.4	239.9	215.7
(c) NRI's (40% and 100%)	62.4	61.0	159.3
2. *Portfolio Investment*	–	241.5	1 360.0
(a) FIIs	–	1.0	1 002.0
(b) Euro Equities	–	240.5	358.0
Total (1 + 2)	148.0	585.0	17 853

* April-December (provisional)
Source: Government of India (1993-94) *Economic survey.*

It is observed from table no.3 that inflows of FDI have increased in India since the 1991-92 fiscal year. A special feature of FDI in India has been that it came in the form of portfolio investment. FIIs have played a dominant role. Such inflows may satisfy the capital needs but, at the time of depressed market conditions in India or favourable conditions elsewhere in the global market, may divert the flows to such destinations. The basic objective behind inviting such inflows has been to seek the fruitful co-operation of foreign technology areas. The goal seems unattained. In the years 1991-92 to 1993-94 a sum of US $916.9 million has come to India in the form of FDI (refer table no. 3, type A). By May 1994 US $300 million had been invested. Analysis of the flow of foreign investment in India points to a very important fact, that more than 70 per cent of the projects approved have less than 50 per cent equity and the remaining projects have above 50 per cent equity participation. From India's point of view, such pattern may be favorable as it gives better control over the FDI. But this will have a negative effect on the flow of foreign investment into it.

In spite of superiority of FDI over borrowing, India mobilised more external resources through official development assistance (ODA) which comes in the form of loans and grants made on concessionnal financial terms by bilateral and multilateral sources. During the period 1982-87 the annual average of ODA for India was $2049 million while the same was only $954.5 million for China. The trends of ODA during the period 1982-92 are given in table no. 4. In the year 1991 per capita ODA in the case of India was $3.2, while for the same period it was $1.7 in the case of China. Total ODA as percentage of GNP for the same year for India and China were 1.1 and 0.4 respectively. (World Bank, 1994: Table 19). During 1992, though the absolute amount of ODA in the case of China was larger than India, yet as percentage of GNP it was 0.8 and 0.7 for India and China respectively.

TABLE No. 4 — *Official Development Assistance (Receipts)*

(US $ million)

Year	India	China
1982-87*	2049	954
1988	2097	1989
1989	1895	2153
1990	1524	2081
1991	2747	1954
1992	2354	2945

* Annual Average

Source: World Bank, (1994) *World Development Report*, Human Development Report (UNDP).

India also relied heavily on non-concessional loans by multilateral institutions excluding IMF (2). In terms of net lending (disbursement

(2) We must understand that India had first accepted the IMF policy of Structural Adjustment in 1981 and had subsequently withdrawn from taking the

minus provincial repayments) it was only next to Indonesia in the Asia Pacific region since 1986». (Ray, 1994:2830). In the case of several other countries in the region, net lendings were negative due to larger repayments, while in the case of India the amount of net lendings went on increasing year after year. Comparative data of net lending for India and China are given in table n. 5.

TABLE No. 5 — *Net Lending on Non-Concessional Terms by Multi lateral Institutions*

($ milion)

Country	Years				
	1980-85*	1986	1987	1988	1989
India	244.6	479.3	898.1	1 545.3	1 183.8
China	74.5	322.7	207.1	515.0	593.2

* Annual Average

Source: World Bank, *World Debt Tables 1990-91.*

Thus, in India, during 1980s the financial needs on the external front have been met largely through external assistance (mainly from commercial banks) borrowing and non-resident deposits. «During the period 1985-86 to 1989-90, external assistance, commercial borrowings and NRI deposits met 28.8 per cent, 24.0 per cent and 22.5 per cent respectively of the total financial needs and non debt creating flows played a minimal role». (Rangarajan, 1993:59).

Magnitude of External Debt of India and China

From our analysis of FDI in India and China we can conclude that mere policy measures, though necessary, are not sufficient conditions to attract FDI into a country. But FDI is attracted by the environment created by sound management of domestic and external sectors of an economy. In both these areas China scored over India. Chinese savings were around 35-40 per cent during the last two decades to finance

fourth instalment of the loan in 1984. This withdrawal was because of the pressures of the ruling elite, who citing India's good balance of payment(BoP) position and credit worthiness had borrowed extensively from commercial banks and other institutions, which in a way contributed to the crisis of 1990.

infrastructure and other requirements of economic development. This was made possible due to a restrictive political system which discouraged high consumerism. In India, savings are around 20-25 per cent during the same period. Much of costs for the infrastructure building were met by external loans.

China had a better Balance of Payment (BoP) situation. • It enjoyed a surplus on current account of the order of 3.2, 3.7 and 2.4 per cent of GDP in the years 1990, 1991 and 1992 respectively •. (ADB, 1993:273). It was made possible due to larger growth in exports ([3]). • The average annual growth rates of exports during the period 1970-80 and 1980-92 were 8.7 and 11.9 per cent respectively while the same for India during the same periods were 4.3 and 5.9 per cent respectively •. (World Bank, 1994: Table. 13).

The external sector of the Indian economy could not be managed well due to high-debt service ratios as a result of mounting external debts. High debt service ratios, decline of external remittances from NRIs, fluctuating export growth and high imports all resulted in severe BoP crisis which made liberalisation on a massive scale, like what China did, only a distant dream ([4]).

The extent of external debts and debt service ratios in the two countries have been shown in table no. 6. As we can see from the table

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([3]) While Chinese exports have grown to 60 billion US dollars, India's is languishing at $ 18 billion. China is integrating with the world economy at a faster rate, its average effective tariffs are in the range of 15-20 per cent while India's are nearer to 60 per cent. As a result of its concentrated effort at export promotion, China's foreign exchange reserves stand at 45 billion US dollars, compared to India's 6 billion. To stimulate economic growth, China is changing even its much cherished labour policies. The new policies are replacing the old Job - for - Life system by contract jobs. The latter system is considered essential for the success of the reforms. The new policy has been justified on the grounds that the permanent employment system which provides 'iron rice bowls' and 'iron chairs' or secure jobs for cadres, is now considered a major obstacle for economic reform.

India, on the other hand, persisted with its policies without revising them in the height of emerging circumstances and opportunities as ennumerated by the second plan directive. The slow growth-based political equilibrium could rest undisturbed only as long as the rivals claims could be met through the resolutions of conflicts by the state rather than the market. There is no reason why India, which provides the largest market after China in the developing world, should not be able to attract a substantial volume of foreign investment in support of India's industrialisation. Government announced a new policy designed to attact investments in large volumes by simplifying rules and procedures and making the terms offered to foreign investors more in tune with current practice all over the world.

([4]) India liberalised its economy from weakness, ie- under pressure from global capitalism during 1990, unlike China which had opened its economy from strength.

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a large part of export earning, up to 30 percent in recent years, went for servicing debts, creating a vicious circle of more borrowing and high debt servicing, which resulted in an adverse BoP problem thus, compelling the government to adopt restrictive policies for repatriation of FDI profits and liberalisation of imports.

TABLE No. 6 — *Magnitude of External Debt and Debt-Service Ratios for India and China*

Year	Total External debt		Debt-Service as % of Exports	
	India	China	India	China
1980	11 9	1.5	9 3	4.4
1985	15.0	7.8	12.7	7.8
1986	14.0	6.3	17 9	7.8
1987	23.5	11.2	29.4	9.5
1988	19.3	11.6	30.3	9.7
1989	24.0	10.8	27.6	11.4
1990	25.0	14.4	28.3	11.6
1991	29.3	16.4	30.6	12.0
1992	25.9	12.8	27.4	11.0

Source: Asian Development Bank, (1993) ***Asian Development Outlook***, Table A 18.

Empirical studies have suggested that foreign investors response is strongly influenced by the size and growth of the host nation's economy, than by changes in government policies towards FDI. (Ray, 1994)

In this connection, Ray discusses six factors on which FDI depends. He says that, there are six areas in which India's achievements in relation to other countries will be judged by foreign investors. (1) ***Political stability and irreversibility of economic reforms:*** FDI is a long-term investment decision and if with frequent changes in central government we are going to revert the policies of economic reforms introduced by earlier governments then FDI will not consider India as a prospective country to invest their resources in. (2) ***State infrastructure:*** FDI will flow into India only if it is convinced that they will get an uninterrupted supply of power, accompanied by excellent transport and communication services. (3) ***Policy regime:*** This include policies regarding tariff rates and domestic restrictions on repatriation of profits and capital. (4) ***Implementation of government policies and bureaucratic red tape:*** Mere declaration of bold and imaginative policies along with very defective and faulty implementation of these policies is a sure recipe for disaster on the FDI front. (5) *Labour market conditions:* Indian wages are considerably lower than a large number of countries. We also have a substantially large stock of highly skilled manpower. But, India is also known for problems of labour in discipline. Under such a situation FDI will think twice before entering India on a long-term basis. (6) *Intellectual property rights:* FDI will hesitate to enter India, particularly in R&D activities, if the controversies regarding IPR are not settled.

«China attracted more FDI due to better management of domestic as well as external sectors of the economy resulting in a higher average annual growth rate of the order of 9.1 percent during 1980-92 period against the same as 5.2 percent for India. Due to better management of the economy, average annual rate of inflation during the same period was 6.5 percent in China against 8.5 percent in India». (World Bank, 1994; Table. 1-2).

Considering the economic factor of external debt, India's external debt outstanding is quite high including the debt service ratio as compared to China.

These actual amount of debt and debt service ratios is given in table no. 7. Even in this case, the performance of the Chinese economy is quite small as compared to India vis-a-vis its debt service ratio. In economics, higher the external debt nearer the debt trap and vice-versa. «India's external debt stood at $ 90.723 billion as on March 31,1994; The debt was

TABLE No. 7 — *External Debt Outstanding and Debt Service Ratio of India and China*

Year	Values			
	in million US Dollars		Percentage	
	India	China	India	China
1986	43538	23746	32.0	8.2
1987	55856	35303	29.4	8.5
1988	58524	42406	29.8	8.7
1989	64373	44847	26.5	9.8
1990	70116	52555	26.8	10.3
1991	73511	55500	26.9	9.2
1992	77027	58500	27.2	9.0
1993	80125	60500	26.8	9.0

Source: Asian Development Bank, (1993) *Asian Development Outlook*, Oxford University Press, P. 306 & 307.

around $ 75.9 billion in 1990. Since then it has been gradually increasing till March 1994. It came down to $ 90.45 billion in September 1994». (Deccan Chronicle, 1995) (5).

It is more meaningful, «if we look at the actual and projected debt service both interest and principal-which of course excludes servicing of any future borrowing». The same is given in table no. 8. «Debt service in 1991/92 represented around 30 percent of exports of goods and services including remittances and although other solvent borrowers have higher ratios, this is considered in excess of maximum safe level for India, which is thought to be around 25 percent, especially in view of the additional IMF borrowing that will be required and the need to attract long-term financing for big projects requiring substantial imported inputs». (The Economist Intelligence Unit Ltd, 1993).

TABLE No. 8 — *Debt-Service Payments and Projections of India*

($ billion)

	1991/92	1992/93	1993/94	1994/95	1995/96
Aid	3.3	3.7	4.1	4.3	4.3
Commercial	2.2	2.4	2.5	2.6	2.7
IMF	0.7	0.5	0.3	1.1	1.0
Short-Term, NRI Deposits	4.4	3.2	2.0	1.3	0.5

Source: The Economist Intelligence Unit (1993) *Country Report* No.1.

The position of external debt of China and India is given in table no. 9. It is observed from the table that the external debt ratios to export and IMF credit is zero for China and in India they are 17.9 and 1.9 respectively. With respect to many other ratios also China's position is far better than that of India. In China the total debt position has been 16 percent of GDP and projected to fall below and the debt service level is also healthy declining from 9.7 to 8 percent in 1990. It is evident from the general indicators (refer Annexes 1 and 2 for China and India) that China has been placed several times better than India. The share of industrial and agricultural production have been greater for China than India.

(5) Though Indian business is still struggling to get out of crisis and to find markets globally, Finance Minister, Dr. Manmohan Singh on March 21,'95 says in Parliament that,"90 per cent of India's imports were being financed by its exports".

TABLE No. 9 — *Position of External Debt of China and India as per 1992*

Ratios	India	China
Export Ratios		
(a) long term/exports	281.0	56.9
(b) IMF credit/exports	17.9	0.0
(c) short term debt/exports	20.6	9.3
Total Debt Service/Exports	30.1	10.0
GDP Ratios		
(a) long term debt/exports	30.0	12.0
(b) IMF credit/GDP	1.9	0.0
(c) short term debt/GDP	2.2	2.0
Long Term Debt Ratios		
(a) private non-guarenteed/long term public & publically guaranteed	2.3	0.0
(b) private creditors/long term	36.2	68.2
(c) official creditors/long term	61.5	31.8

Source: World Bank (1993) *Trends in Developing Economies.*

There is a large difference between annual import and export growth. In terms of other indicators China is also better placed than India, which makes its position advantageous to attract more FDI in to its economy.

CONCLUSIONS

To conclude, it may be stated that both India and China started the era of planning more or less at the same time. Both were centralised economies. But China could count on a tremendous work force, who are literate and made its co-operative movements, especially in farming, a great success. In India the co-operative movement could not pick up due to varied reasons (like non-implementation of land reforms).

With respect to foreign debt China is comfortably placed, with limited foreign borrowings, than that of India. India is nearer to the vicious circle of debt trap with its outstanding debt payments ranging up to $ 90 billion in 1995. If this is unchecked, India may well be in the debt trap. Coming to the more important point of FDI, as we have already seen, India unlike China, has not been able to attract substantial FDI. Apart from the low foreign capital investments, not even technology transfers were remarkable. What India got in the earlier decade of 1980s was only "Screw Driver Technologies". Contrary to this phenomenon, China attracted FDI enormously, particularly in the manufacturing sector, it acted as a transmission belt. It also assimilated these technical know how rapidly, thereby giving indigenous R&D a real thrust, in an area where India lagged behind.

To obtain maximum advantage of FDI, India has to devise policies and create conditions for maximising the linkage effects created by foreign enterprises. There must be proper integration of local industries with the foreign ones, so as to prevent increased foreign dependency. In other words we will have to evolve a "reform policy" with Indian characteristics as that of Chinese "market socialism", which has indigenous features.

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APPENDIX-1

Major Economic Indicators: Peoples' Republic of China

Indicator	Character	1991	1992	1993	1994*	1995*
Gross Domestic Product	% change	8.0	13.2	13.4	10.0	9.0
Agriculture	% change	2.4	4.0	4.0	3.7	3.8
Industry	% change	13.3	20.8	20.9	13.5	11.0
Services	% change	5.5	9.3	9.4	8.5	9.0
Gross Domestic Investment	% of GDP	35.4	34.1	36.7	36.2	36.0
Gross Domestic Savings	% of GDP	38.3	35.9	35.5	36.2	35.5
Inflation Rate	% change	5.1	8.6	14.5	11.0	9.0
Merchandise Exports	$ billion	58.9	69.6	73.4	80.7	89.6
	% change	14.4	18.1	5.5	10.0	11.0
Merchandise Imports	$ billion	50.2	64.4	82.5	92.4	101.6
	% change	18.5	28.3	28.1	12.0	10.0
Current Account Balance	$ billion	13.3	6.4	−9.6	−8.5	−5.5
	% change	3.5	1.5	−1.9	−1.6	−0.9
External Debt Outstanding	$ billion	60.9	69.3	83.7	92.0	100.0
Debt Service Ratio	% of exports	13.7	9.6	10.1	10.3	10.5

* Projections

Note: Inflation Rate realised in China in 1994 is 27 per cent.

Source: Asian Development Bank (1994) *Asian Development Outlook*

APPENDIX-2

Major Economic Indicators: India

Indicator	Character	1991	1992	1993	1994*	1995*
Gross Domestic Product	% change	1.2	4.0	3.8	4.8	5.5
Agriculture	% change	−1.4	4.6	2.3	2.5	2.5
Industry	% change	0.0	1.9	1.6	5.5	8.3
Services	% change	4.3	5.0	6.5	6.0	5.7
Gross Domestic Investment	% of GDP	25.5	24.6	24.1	25.4	25.9
Gross Domestic Savings	% of GDP	24.7	22.4	23.6	24.2	25.1
Inflation Rate	% change	13.6	9.7	8.6	8.5	8.0
Merchandise Exports	$ billion	18.2	18.8	22.5	25.9	29.8
	% change	−1.4	3.1	20.0	15.0	15.0
Merchandise Imports	$ billion	21.6	23.4	23.6	25.7	28.4
	% change	−17.8	8.4	0.8	9.0	10.6
Current Account Balance	$ billion	−4.3	−6.3	−1.1	−4.1	−3.5
	% of GDP	−1.7	−2.6	−0.5	−1.6	−1.2
External Debt	$ billion	71.6	77.0	85.2	81.2	79.2
Debt Service Ratio	% of exports	29.0	25.6	31.1	35.4	33.2

* Projections

Note: Inflation Rate realised in India in 1994 is 10 per cent.

Source: Asian Development Bank (1994) *Asian Development Outlook*

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ABSTRACT

Attracting foreign investments into an economy is not an easy task. It requires high credit worthiness, low debt burden, good market potential, limited governmental controls, political stability et al. India and China had embarked upon such an ambitious project of liberalising their economies so as to make them viable globally and had shifted from import-substitution to export led growth strategy to attract foreign investments into their respective economies and bring in growth and development.

China due to its low debt burden and political stability attracted more foreign investments than India. India on the other hand, is wooing all potential investors-institutional, governmental and also individual - with many concessions. But, the relative political instability, high debt burden and repayments are causing the investors not to bring in new technology or capital into it. One reason for China's success may be because of large number of consumers (ie- one billion) who are eagerly awaiting to accept anything which is western. In case of India, the limited consumers and inflow of technological and capital goods have been delaying for a long time the benefits of liberalisation, ie- to attract more foreign capital and technology into it. In such a backdrop, the analysis on the impact of foreign debt on foreign direct investments- a major form of foreign investment is timely and relevant

RIASSUNTO

Investimenti esteri diretti e debito estero: l'esperienza dell'India e della Cina

Attrarre investimenti esteri in un paese non è facile. Occorrono alta reputazione, una posizione debitoria non critica, buone prospettive di mercato, limitati controlli governativi, stabilità politica, ecc. Sia l'India che la Cina hanno avviato l'ambizioso progetto di liberalizzare le rispettive economie per renderle competitive a livello mondiale passando da una strategia di sostituzione delle importazioni ad una basata sulla crescita trainata dalle esportazioni per attrarre investimenti esteri e stimolare crescita e sviluppo.

La Cina, grazie alla sua bassa esposizione debitoria e alla stabilità politica, è riuscita ad attrarre più investimenti esteri dell'India che invece cerca di allettare i potenziali investitori – istituzionali, governativi e privati – con numerose concessioni. Ciononostante, per quanto riguarda l'India, la relativa instabilità politica, la posizione debitoria e i problemi di finanziamento del debito dissuadono gli investitori dall'introdurre nuove tecnologie e capitali. Un motivo del successo della Cina è attribuibile all'elevato numero di consumatori (un miliardo) ansiosi di procurarsi prodotti occidentali. Nel caso dell'India, il limitato numero di consumatori e l'esiguo afflusso di beni tecnologici e capitali ritardano da tempo i benefici della liberalizzazione in termini di capitali e di tecnologie. In questo contesto, l'analisi degli effetti del debito estero sugli investimenti esteri diretti, quale principale forma di investimento estero, si rivela opportuna ed attuale.

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Liberalisation, Power and Politics in China and India

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The issues which dominates both Chinese and Indian politics today is that of who will succeed in obtaining the legacy of Deng Xiaoping in China where a one party non-institutionalized system contains within it bitter political struggle; and secondly as to which political party will succeed in the 1996 parliamentary elections in India where corruption and lack of political ethics threaten the very existence of this system. The current crop of political leaders in both the nations wait in mutual fear. This is because of the fact that in China, the leadership transfer is to be done by those who participated in the revolution and handed to those who were brought up in post-revolutionary China. This new breed of leaders lack the epochal stature of Deng to lead China. In India, all political parties have been tainted, especially after the exposure of corruption of politicians in the Hawala scandal. Names of those persons who were projected as future prime ministers were charge-sheeted in this episode.

Liberalisation and Political System

Contrary to India, where multi-party parliamentary democracy has been functioning fairly satisfactorily since independence with periodic elections and institutions such as the Legislature, Executive and Judiciary equally balancing each other. China, by contrast, is a one-party totalitarian state. Here the rules regarding transfer of power is not formalised and any mistake will have definite bearing on the system as such.[1]

In spite of this difference in political framework, in China liberalisation occured; but it was the outcome of ideological debates at different levels both within the party as well as inside the governmental hierarchy. Thus, liberalisation was agreed upon by the Chinese only after Deng Xiaoping proclaimed it necessary evil. Prior to 1978, the Chinese economy was characterised by command politics and command economics, wherein the centralized planning, establishment of communes, bureaucracy and party structures stressed heavy industry and basic industrialisation. Here, whoever tried to violate or challenge the system were termed as "revisionists"[2] and were either isolated or eliminated from the political and party structures.

Since the adoption in 1978 of the *Four Modernisations Programme* there was a marked change in the Chinese. There is now more or less consensus as far as economic reforms are concerned. Hence, after the implementation of phased reform programmes [3] the Chinese liberalisation has met its logical end in "market socialism." Here, market determines everything in commerce and state had almost withdrawn from regulation of market activity (Swamy, 1989: 37-39, see also Hore, 1991, Bhalla, 1992).

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In India, the initiation of economic reforms were done out of an inherent weakness in the political and economic system. The Indian system was never free from external interference. Right from independence itself, we have witnessed the entry of foreign capital and technology albeit with little pressure from native business. When India devalued its currency in 1966 it was largely a result of the pressures of foreign investors. From then onwards, the Indian leadership succumbed to the pressures of western capital and thereby lost its individual identity. This integration of Indian capital with world capital however, reflects certain political dynamics.

Thus, when India started its liberalisation programme in 1980 and approached I.M.F. for a $5 billion loan, it was welcomed by many quarters in the citadel of world finance capital. It was noted by some observers, however, that "the typical economic growth based on IBRD/IMF would harm the interests of certain sections of Indian monopoly capital and hence rejection of third installment of loan in June 1984." (Mehta, 1991:11).

There then started an Indian-style of liberalisation where the stress was on consumer durables and the movement in investment strategy was away from basic industries. India had in the 1980s, borrowed from international commercial banks. Because of budgetary deficits and high borrowings the Indian economy was proceeding towards inevitable disaster. By 1989, India was on the threshold of a debt trap and was forced to borrow at commercial rates just to service previous debts.

The crisis of 1991 was a catalyst exposing an already impending disaster. The NEP of India in 1991 featured the structural adjustment conditionalities of IMF/IBRD which most observers concluded was detrimental to its sovereignty. Since India had started off with very weak economic base and could not capitalise on the gains of green revolution and heavy industrialisation. From the viewpoint of economic officials there was no other option left but to surrender to world capitalism.

In China, the record was different: liberalisation from centralised planning and the move to "market socialism" was based on ideological consensus,[4] unlike in India, where no real discussion ever took place on the problems and prospects of liberalisation. In India no debate was ever initiated in parliament on such a national issue: every bourgeois party agreed that it was inevitable. No one tried to explore its intricacies, its validity and its indiginisation. Instead politicians got carried away by the Congress Party initiated reform programme.

Though India is formally a multi-party democracy, the Congress Party actually dominated the entire post-independence political scenario, excepting for two brief intervals. Thus, everything in India (whether of socialist stress in 1970s, centralised planning and mixed economy or of the present policy of liberalisation) had the Congress Party mark on it. This was similar to the Chinese, where the communist party had itself taken responsibility of command economics and the changeover to that of "market socialism."

Political Economy of Liberalisation: Challenges Within

It is believed by many "development economists" that the success of economic reforms depends on political will. Bates and Krueger (1993) point out the importance of the party system and ambitious politicians in introducing and sustaining economic reforms. That is they claim that "the success of proposed reform was attributable to the number of competitive parties (some times groups representing varied interests with in a single party) and the ideological space within which the policy positions adopted by these parties was arrayed" (Bates and Kruegeri: 1993).

However, this picture needs challenge, both in India as well as in China the political system was dominated by one party rule where the individual charisma of leaders mattered a lot.[5] There was some limited room for political participation through multi-party democratic system where political institutions were established before independence itself and were carried over by the existing political elite. In China the political system was dominated more by the single party command system. Similarity exists between the Communist Party of China (CPC) as well as that of Indian National Congress (INC). It is that in both of them there were groups which resembled a political party. They had support base and also party ranks were with them. Such group interests were also to be taken up by both these parties before finalising any policy matter especially that of Economic Reforms.

Thus in China, when Deng took over in late 1978, the average per capita income of urban residents was 316 yuan and that of peasants 134 yuan. Rural Chinese survived on an average annual income of less than 50 yuan. Foreign trade stood at only $21 billion" (Fewsmith, 1995: 252). In the post-Mao reform programme, Deng has made the Chinese realise economic progress.[6] According to Fewsmith (1995) China had now become a moderately developed nation. He says, "after more than 10 years of approximately 10 per cent annual GDP growth, urban residents in 1994 registered a per capita annual income of 3,179 yuan while rural residents earned 1,220 yuan. Foreign trade grew to $234 billion last year, making China the eleventh largest trading nation in the world (Ibid).

Chinese achievements in attracting foreign investments of up to $30 billion and reaping high overall growth largely depended on the dual role the government in China plays. According to Hinton (1996) "Chinese success was because of dual taxation policy on a subsidy oriented soft package for foreign investors and a harsh unfavourable tax policy for domestic entrepreneurs"[7] (Hinton: 1996). In such a backdrop the future of economic reforms in China can be under serious threat,[8] even more so when there is evidence of serious succession problem in post-Deng era.

Similarly in India, the precipitated balance of payment (BOP) crisis during the decade of the 1980s had made conditions for economic reform politically inevitable.[9] Thus, the New Economic Policy (NEP) introduced by Narasimha Rao Government in 1991 had to accept the conditionalities of IMF/IBRD for structural adjustment loan. Accordingly, many reforms including change in industrial licensing, convertibility of currency etc., were taken up so as to open up hitherto protected Indian market to international competition. This had made India shift from the policy of import substitution to that of an export-led growth strategy. According to Chibber (1995), "This reform, however, has been accompanied by persistently high government expenditures and budgetary deficits topping seven per cent of GDP. These deficits have persevered despite government pronouncements to the contrary" (Chibber, 1995: 75).

In his budget speech for 1996-97 the Finance Minister Man Mohan Singh announced that "the fiscal deficit was 5.9 per cent of GDP against the target of 5.5 per cent"[10] (*The Hindu*, 1996). There is phenomenal increase in governmental non-plan expenditures "which rose from Rs. 113361 crores in 1994-95 to Rs. 134320 crores in 1995-96 and are estimated to reach Rs. 151503 during 1996-97 financial year" (Vartha, 1996). The growth of fiscal deficits can be attributed to large non-plan expenditures of the Government, which include allocations for subsidies and defence among other things.

We may consider that drastic or *large scale* liberalisation and economic reform is a failure in the Indian context, unlike in China where the State could introduce all those policies which were for the advantaged foreign investors and against the interests of the public.[11] The Indian government seems to have been only partially successful in carrying out its policy reforms. It could not reduce its expenditure. Its policies with regard to foreign trade and payments regime were effective. It could succeed in reforming its regulatory practices but not its distributive policies.

This inability of India to reform its economy more radically can be attributed to multi-party democratic politics. Here, parties compete with each other so as to win elections and come nearer the power centre. That no political party would be interested to lose in the elections, appeasement was inevitable. On the contrary, in China one party rule had ensured that economic reforms were carried out from the top down and the state withdrew from regulation of market forces. This has serious political and economic effects and the social responsibility of state is reduced.

Power Politics and Leadership Crisis

The most serious concern for the leaders of both India and China is that of political succession. Leaders at various levels in both these nations are competing so as to be near the centre of power. In China the Tiananmen square incident revealed the gulf between rulers and the ruled. We must understand that in the years to come power will be contested domestically in China. According to Waldron (1995) "Chinese political situation today is a product of collapse...which means that if the transition does not succeed, we could be in for a period of chronic political instability" (Waldron, 1995: 30).

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The history of post-liberation China is full of examples of the problem of succession. Apparent heirs like Liu Shaoqi, Lin Biao and the Gang of Four could not succeed Mao. After Deng's assumption of power Hu Yaobang and Zhao Ziyang who were apparent successor to Deng had also failed to assume power. Jiang Zemin's fate as Deng's apparent successor hangs in the balance.

Contrary to this situation, in India up until 1996 the Congress Party mobilised support and maintained dominance through out its control over the state. "Competition to Congress was not organised around a left-right economic policy dimension, but focussed more on access to the state and appropriating state resources." (Chibber, 1995-76) Though there are numerous political parties, the opposition parties especially those from state level, were not interested in redefining the policy regime but were trying to get access to state resources. As Bardhan (1984) points out "Political analyses of these developments have focussed on the role played by state actors in conjunction with the dominant classes and ideologically proclivity of Indian policy makers" (Bardhan, 1984).

In India, there were no succession problems as in the case of China because of the existence working of established political institutions. Political parties and leaders are many who often were at contending positions. Since independence Congress Party was ruling except for two brief intervals where Janata Party and National Front led by Janata Dal were successful. But the picture for political parties in India is not so bright, especially after the Hawala scandal where entire top leadership was tainted with corruption charges. Congress has gradually lost its support base and is hardly in position to set its own party right as regional interests got prominence.[12] Apart from Congress, Bharatiya Janata Party (BJP), Janata Dal and Left parties are also in fray for the 1996 parliamentary elections. The irony is that no party has any alternative economic policies,[13] that is those which are different from what are being pursued by Congress.

The pressures in Chinese society are complex and varied, ranging from inflation and corruption to social inequalities and weakening political legitimisation. Inflation rates inflicted serious effects on inland provinces like Guanxi, Guizhou etc., rather than the coastal provinces like Fujian or Guangdong. This was mainly because of varied growth rates which these provinces achieved during early 1990s. The coastal provinces attract more investments and also have the good infrastructures necessary for prompt development compared to interior China. "Such varied socio-economic factors have contributed to the emergence of "neo-conservative" forces that seems likely to be a factor in Chinese politics in the years to come" (Hinton, 1996).

In short, the general uncertainty of the succession, steady unfolding of potentially threatening economic and social conditions and the existence of elite forces ranging from centrists to neo-conservatives and to traditionalists have provided "a powerful political basis for those in the government who want to slow though not stop the pace of reform in the name of stability" (Fewsmith, 1995: 253).

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In India, the 1996 elections may be as harbinger of a new political order; there is the possibility of change in the basic institutional structure itself. Congress established itself early on to be the "ruling party" and all others constituted "opposition". More recently there was a shift in the *dalit* vote base of Congress who of late moved towards the "Bahujan" ideology and are supporting parties which are favourable to them. This 1996 election result could well put a final seal on the process of transformation which India was witnessing on both political as well as economic front.

The emerging scenario is full of uncertainty. No clear alternative in terms of a party or even coalition of parties is in sight, not even the concept of "third force." A real alternative has yet to be conceived beyond these seeming alternative to Congress. Apart from parties there exists a role in politics for castes, communities, businesses, peasant and labour organisations, political activists etc., (not only from political parties but also individual and social groups of intellectuals) in any such move to form a new alternative.

Kothari (1996) points out that "the likely outcome of all these interventions will still be in the nature of transitions to something more clear-cut that will only emerge later. Meanwhile, we are likely to go through a series of coalition formations, with a variety of permutations, possibly accompanied by traumatic happenings, power games that are at once cynical and turbulent, a large incidence of horse trading, all of which will end in highly unstable coalitions none of which last for long,[14] resulting in a succession of elections and of various leaders vying to emerge as saviours" (Kothari, 1996:4).

In China during the 1920's when Chiang Kai Shek's victory did not put an end to agitation for constitutional rule, this demand was taken up by elements in the Kuomintang itself, as well as opposition parties including communists. This led to the democratic constitution of 1947 and nation wide elections the following year. "Even the communist victory did not expunge formal constitutionalism: elections were promised, and the first PRC cabinet had a communist majority of only one" (Waldron, 1995: 26).

The search for constitutional order to replace dynastic rule still remains in China - more so after prolonged personal rule of Mao and Deng. But, when Deng expires this search is certain to resume, although it may prove abortive as it did before 1949. Its implications are significant and noteworthy. The question of "Taiwan," (whether it is to be an independent state or as a part of mainland China) is still hanging in the balance. As for Hong Kong, the Beijing response to Governor Chris Pattern's modest expansion of the democratic franchise has made its problem with the movement for democracy worse. "PRC law now provides that the existing system of government in Hong Kong including the elected legislative assemblies will be dissolved when the PRC takes control on July 1, 1997, which means that, over the next three years, the PRC must draft an entirely new constitution for Hong Kong. What will it be? It is hard to see how Beijing can avoid facing, in one small but important corner of the Chinese world,[15] the issues of legitimacy and governmental institutions that cast a shadow far beyond the returning British Colony" (Ibid).

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The army in China has greater say in the struggle for succession. Though Jiang Zemin is Chairman of the powerful Central Military Commission (CMC), and is at present projected as Deng's successor, no leadership succeeding Deng is likely to have the authority necessary to keep the whole of the military forces under control; recourse to force, therefore, may lead to a split within the army, and perhaps usher domestic conflict. Even if there is repression, it will have negative impact on trade and investments which will further weaken a government which is already confronting massive budgetary deficits.

Hence, many in the government and CPC understand the necessity of change: "If a post-Deng leadership acts on that understanding...to enlarge the circle of rulers and systematically to apportion the power now theoretically held at centre, then China may be able to bridge the chasm between the governmental structures it now possesses and those that it needs" (Ibid: 29). Such initiatives require discarding of Deng's legacy which would invite opposition, (both internal as well as external). Chances of success remain only if the economy grows steadily with inflation under control which are distant possibilities.

In India the social evil causing uncertainty is corruption: no party is immune from corrupt practices. Throughout post-independence period, each party has its share of criminalisation and corruption of politics at various levels. Even bureaucracy could not be spared. Obviously, Congress apportions the lion's share of this practice. This was because Congress after loosing elections in state after state to regional parties (some to national ones also), nevertheless dominated the national politics. This election will serve as something of a deterrent to corruption and malpractice at the highest office.[16] In recent years there were unprecedented number of issues pertaining to corruption etc. ... which were raised, but still remain unanswered. Issues such as Bofors, St. Kitts, or HMW submarine deal etc., where kickbacks are involved were not solved. The recommendations made by the Joint Parliamentary Committee (JPC) on the multi-crore stock scam were not implemented. Similar is the case of diversion of funds from disinvestment of public sector units (PSUs). The Hawala scam, where many a political party is believed to have been involved in charges of corruption and mis-appropriation of funds, had left deep scars on Indian polity. Amounts running into crores of rupees were disbursed to many political parties. After the intervention of the Supreme Court based on a public interest litigation in 1993, the CBI probe had hastened the cleansing of political system. In such backdrop coming election provides an opportunity to the citizens of this country in choosing representatives to parliament, so as to have stable government at the centre, as Chakravarthy (1996) writes, "the preview of the election scene in our country this time is going to be noteworthy because of the many knew features of utmost importance. It will not be just an unrelieved picture of cesspool politics dominated by thoroughly opportunists and vote bank calculations, in which corrupt practices

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generally dominate. As against this, there are signs of new stirrings of democratic assertion which dares to challenge the growing menace of muscle power and many power nexus. Perhaps, these may indicate the path to regeneration of India's democracy" (Chakravarthy, 1996: 8).

Leaders in the Race

In China, among the prospective contenders for the top posts in the succession period, Jiang Zemin runs foremost. He is projected as the head of China in the post-Deng era.[17] Other candidates being Li Peng, Zhu Rongji, Qiao-Shi, Wan Li, Yang Shangkun and Zhao Ziyang.

Jiang Zemin holds all top positions in the party as well as government. He is the Secretary General of the Chinese Communist Party (CCP), the President of China and the Chairman of the powerful Central Military Commission (CMC). He is trying to woo both intellectuals as well as military and party cadres through appointments.[18] After he successfully sidelined Zhu Rongji, by appointing Liu Bangguo, Jiang Chun Yun and Hunang Ju to the party secretariat, Jiang made both Wu and Jiang Vice-Premiers of National People's Congress in March 1995. Wu was given control over the reform of state-owned enterprises, the focus of reform work in 1995 and a major chunk of Zhu's portfolio. At the same time, Jiang was given the task of overseeing agriculture, another task for which Zhu Rongji had previously been responsible.

Li Peng as the premier of China enjoys the support of conservatives in the party and has extensive ties with bureaucrats. However, the blame for the Tiananmen incidents hangs over him, and he has been forced to cede economic portfolio to Zhu Rongji.

Zhu Rongji, considered (until now) as Deng's economic Tsar is the standard bearer of the liberal reform faction in the party. He is supported by many economic groups. So long as China maintains a booming economy Zhu Rongji enjoys clout, in the event of dowturn he may become a scapegoat.

Qiaoshi enjoys support of conservatives through the patronage of the late Chen Yun and Peng Zhen, and reformers through his service to the late Hu Yao Bang. Presently he is the Chairman of National Peoples Congress. He is trying to improve his stake by making rubber stamp-Parliament more assertive and also through some appointments. Being free from the blame of Tiananmen incident, he is a person whose support would be vital for succession in post-Deng era.

Wan Li is a long time supporter and bridge partner of Deng, earned a reputation as the father of China's rural reform. Long a Politburo member, Wan served as head of the National Peoples Congress from 1988-93. Perhaps, the most liberal of China's elders, Wan might weigh in against Jiang, if reform seems to be stagnating.

There are two other key figures to consider: the former President Yang Shangkun and the disposed Secretary General Zhao Ziyang. Yang Shangkun, one of the older

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generation supporters of Deng in the military, appears to have aspired to replace Deng as the strongman behind the throne. In 1992 he lost a major battle to Jiang Zemin, when his half brother Yang Baibing had to be removed from the headship of PLA General Political Department and also from the CMC. This incident and subsequent shakeups of the military hierarchy clearly bolstered Jiang's position vis-a-vis the Yang brothers and the military, though it did not necessarily consolidate it. If Yang's health holds good, he may yet try to rally his supporters in the army, who are sure to play a vital role in any transition, to oppose Jiang. Another previously significant figure, Zhao Ziyang, remains popular among the intellectuals for his role during the 1989 incident. Though he is the ex-secretary general of the CCP, his stake in the post-Deng era cannot be under estimated.

India being a multi-party democracy, where the largest party which gets majority will form the government, parties and their policies matters more than the personality and charisma of leaders, although the latter also has a definite say in the parlimentary elections. In India there being large group of parties, it would be difficult to estimate who really are the persons contending for the highest office. The electoral alliances between political parties will have its impact on the poll outcome. Nevertheless, there are certain political parties which project candidates as future prime minister viz., P. V. Narasimha Rao of Congress and A. B. Vajpayee of B.J. P. etc. Apart from them, Ramakrishna Hedge, Biju Patnaik of Janata Dal, Jyothi Basu of CPI (M) are other contenders. Only Congress and BJP have projected their leaders for future prime minister unlike others, who wait till elections are over and decide on their candidates after alliances.

P. V. Narasimha Rao held all the important posts in government as well as in his party. Being ex-minister of Human Resource Development (HRD), External Affairs, ex-prime minister, Rao has strength on the premise that it was he who initiated economic reform since July 1991. He has backing from many a MNC and native capitalists also. By strategically eliminating rivals within the party such as N. D. Tiwari, Arjun Singh etc., and also suppressing the revolt plan made by certain sections led by Sharad Pawar, Rao had steadily asserted his supremacy over the party. Being the first south-Indian to reach such stature, Rao consolidated his position against rival contenders within the party such as Madhav Rao Scindia, Balram Jakhar, Sharad Pawar, Kalpanath Rai, etc., by exposing them in the Hawala scandal just prior to parliamentary elections. Rao has managed to silence any opposition what so ever both within or outside his party and also other opposition parties after the Hawala issue. What remains to be seen is can he become charismatic and regain the largest number of seats so as to form stable government on his own?

A. B. Vajpayee was External Affairs Minister during the Janata Government. He is considered to be a moderate in the party which advocates vocifarously a "hindutva" ideology. Vajpayee has many "friends" in almost all political parties on whom he can rely for support. However, it remains to be seen whether he can win back at least some sections of Muslims.

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Some Possible Scenarios

It would be difficult to predict the successor to Deng Xiao Ping in China as the leaders in the race who we have seen lack the charisma and personality comparable to Deng and also lack the much needed supports of the military (to a certain extent Jiang Zemin has consolidated his position vis-a-vis other contenders as also military support) what complicates the whole process is the fact that new generation of leaders will replace the old guard. The growth of economy in the last 15 years has given rise to various socio-economic and political problems such as rural-urban inequalities, inflation, regionalism, corruption etc. To add to these, Deng has foreclosed political reform and institutional change, thereby denying any leader to carve his own support base. We may conclude saying that Deng, keeping in view of various groups, has set a path of collective leadership of Jiang, Li and Zhu with Jiang being the "Core" since late 1980s. Though there was wide spread speculation of Li's removal at the 14th party Congress, he was retained so as to satisfy the conservative faction. But the question arises, how long and how smoothly the collective leadership will continue, especially in the backdrop of struggle between Jiang and Zhu.

Both Jiang and Li believed that the economic, social and political risks of Zhu's fast paced strategy were too great. They feared possible diminition of state authority, risk of continued inflation, and the prospect of millions of workers being laid off. In a period of transition, their natural tendency was to play down the hatches and go more slowly. Thus, controlling inflation become major objective albeit not to repeat the hard line of 1989 retrenchment. The NPC which met in March 1995 had officially set the goal of reducing inflation to 10 per cent, at the same time reform must be focussed on improving standards and production in state-owned enterprises which constitute major revenue source for Central Government.

Sinologists feel that prospects of collective leadership depends largely on China's economic condition. If China's economic boom continues there will be smooth sailing, else i.e., if it fails to deliver the goods, the stage could be set for a power struggle by any one even outside the "collective leadership" of Jiang, Li and Zhu.

Much depends on Jiang, how efficiently he responds to events that may unfold after Deng and how fast he expands his support base in the party as well as in the military. If present indications goes the latest exercises of China on Taiwan straits are more of Jiang's show of strength and warning issued to the internal factions than that of its international implications. This might have been intended to strengthen Jiang's position in post-Deng era.

As we have seen earlier, Hong Kong's integration into China in July 1997 would be another problem which Jiang, Li et al., must solve. Recently China has announced that an "administrative council" is to be formed by China which would take total control after formal integration of Hong Kong into China. This may have international implications, as there is speculation over the continuation of freedom as of now.

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If Jiang some how fails, then we may conclude that either Qiaoshi or Zhu Rongji may emerge as leaders with tacit support of Yang Shangkun, Tian or Zhao Ziyang. If this happens the Chinese economic stress on reform may witness a shift towards extreme opening up to external capital and technology or towards recentralisation. At this state it would be difficult to predict convincingly, as to who will succeed Deng and which course the economy takes. It may take years for the things to take shape. Significant changes are expected at the 15th Congress in late 1997.

In India the emergence of competition amongst political parties has led to increase in government expenditures especially subsidies to appease various sections and also led to certain policies such as reservations to backward classes etc. Hence, the previous ruling party (mostly Congress) had often used state resources to acquire support for itself, as political parties often do in competitive electoral democracies, which reduces the resources available for development related expenditures. Thus, in India redirection of resources towards subsidies affected economic growth because less resources were available for investment in the infrastructure sectors. The lack of infrastructural development has led to industrial stagnation up to 1980s and also hampered the government's ability to attract foreign investments into industrial sector. Though the economy was opened to limited foreign investments since 1980s culminating in the NEP of P. V. Narasimha Rao government in 1991, India could attract less than $5 billion foreign investments as of 1995 (the same for China being $30 billion) and only Maharashtra, Gujarat, Tamil Nadu and Delhi could attract majority of it. This shows the wider inequality which is fast emerging in India.

Similarly despite wide proclamations, inflation, rural -urban inequalities etc., and lack of social security has led to regionalism, with a majority of states opting for regional parties who stress on local issues. Communalism is also on the rise largely due to the economic insecurity of the people. Above all, corruption has almost become common feature at all levels of administration. If such things persists, the system itself for sure would break (sometimes it may become another Soviet Union) unless necessary action is taken.

The 1996 election could well pave the way for such cleansing of political and bureaucratic circles. Many formation based on community, religion, ideology, region et al., can now emerge. Despite party alliances, members belonging to each such group may not stick to parties but instead move towards others. There may be MPs belonging to Dalits, Muslims, hindutva ideologues, and Left parties. In order to subserve their interests, they may go beyond the present conceptions of state, party and government. If this permutations and combinations continue, we can conclude that only a broad front based on liberal democratic lines can help India out of present crisis.

Whatever be the end results, the post-Deng era in China will experience a long drawn out succession struggle. Such a struggle may well lead China into greater

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institutionalisation. For example, the effort to strengthen "democratic centralism" has been accompanied by a campaign to diminish personalism within the party. Similar is the move to strengthen the role of NPC not only to pass legislation but also to supervise implementation of law. These trends are healthy as they might lay the foundation for a more institutionalised era.

In India also, such uncertain scenario which is fast emerging would lead to power games and traumatic incidents and a large incidence of horse-trading, all of which end in highly unstable coalitions which can not last long resulting in succession of elections and emergence of various groups. The only feature of this could be activating various groups within civil society which results in emergence of a party or group with new style of institution building as a truly democratic and radical alternative.

Post-script

In India the post-poll sceneno sees the fractured verdict of electorate, giving no clear majority to any single party or to any front which had contested the elections on common programme. This "hung parliament" where three major blocs emerged, vindicates my earlier analysis on pre-election situation. After the constitution of XI Lok Sabha (the lower house), the BJP, and its combine (Shiv Sena, Haryana Vikas Party, Shiromani Akali Dal, plus outside support from Samata Party) has a over all strength of 197 members of parliament. The BJP apparently grew in its size from 119 at the end of 1991 polls to 163 in the current elections, registering an increase of around 34 percent. The Congress Party had lost the mandate of people to rule in the current elections. It lost 96 seats from its 1991 tally of 232, registering a decrease of more than 40 per cent. Its tally in the 1996 elections remains at 140. Although the Congress lost power, it is this party which determines who should take over the reins of power. (As was indicative when Vajpayee could not muster support for his 13 day old government and had to resign as no party or front came forward to support this government) the Congress had thrown its weight behind the National Front-Left Front Combine (now called United Front.)

The NFLF combine along with 13 regional parties had emerged as second largest front though their alliances are post-poll ones they have a combined strength of 190 members. The Janata Dal, which lost 16 seats showing loss of nearly 35 per cent when compared to 1991 situation, had emerged as the "natural" leader of the National Front.

The President of India had invited Vajpayee to form the government on the basis of leading single largest party in Lok Sabha and asked to prove his majority within 15 days on the floor of the House. An interesting development emerged, again vindicating our argument of unholy alliances (in the post-poll scenerio) among various parties representing divergent interests and groups. Thus emerged the United Front (UF) with 13 parties (including national and regional parties) and with the outside support of CPI (M) and Congress they were sure to out number the BJP and its allies on the floor of the House.

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Thus, the Vajpayee government may have resign as there is no evidence of support for it from any quarters. This will lead to a scramble for power amongst the NF-LF combine. They initially named Jyothi Basu of CPI (M), who refused to take over as PM, as Congress support is indispensible, which would hurt the interests of the party in the long run. Host of other leaders were considered for the coveted post viz., V. P. Singh, Lallo Prasad Yadav, Hedge et al. But the United Front could only find Karnataka C. M. Deve Gowda as a concensus candidate for the P. M. post.

Though the election of Deve Gowda as Leader of UF was intimated to the President earlier, the President invited Gowda to form the government on 1st June 1996, after Vajpayee's resignation. Gowda tookover as PM and announced Common Minimum Programme (CMP) of his government.

The objective force behind such alliance (of UF) seems to be "power," notwithstanding their proclaimed version of "Secular Unity" for dethrowning "Communal forces," so as to preserve national integrity and secularism. How long such an alliance of divergent parties with outside support of Congress and Communists would last is a most moot question which has to find answer in the near future.

Similarly, with regard to China, drafting of "new constitution" for Hong Kong before its takeover in July 1997 is snowfalling into a crisis, with Governor Cris Patten's insistance on democratic "autonomy" for the natives of Hong Kong, after its integration with China.

However, the Chinese leadership may have a sigh of relief, as the Taiwan-leadership is willing for a dialogue with it, instead of declaration of national independence. The newly elected president of Taiwan, Lee Teng Hui's intention of billateral discussions with Chinese leadership so as to resolve the crisis is a positive step. Taiwan had earlier issued a statement that "it would not declare independence from China but, would only seek international recognition." It remains to be seen whether the Chinese leadership would accept such offers or would go outright for assertion of their hegemony in East Asia by political or military action on Taiwan and/or Hong Kong?

Whatever be the outcome of such changes in India and China, the political and economic challenges to their leadership are under constant flux, which would sure rewrite the process of development in the developing societies.

Notes

1. Tiananmen Square incident in 1989, where progressive elements having tasted the fruits of economic liberalisation have asked for political reforms, indicates bitter struggle ahead.
2. If we recall, Deng was also branded as revisionist by Mao when there was disagreement on whether economy or party must dominate. Deng's position was degraded and only in late 1972 ie., after Mao himself has realised the importance of new technology and capital in nation building had reinstated Deng or rather found position in the party's central committee.
3. In the first phase of reform between 1978-82 there was decollectivisation of communes. In the second phase between 1982-84 there was promotion of individual land ownership and also rural industries.

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In the third phase between 1984-87 there was establishment of export processing zones etc., and more radical reform programmes. In the fourth phase 1987 to the present, there is stress on market principles. Thereby they promoted even stock exchanges in certain cities like Shanghai etc., and "market" was given free hand now

4 This consensus was proved to be authenticated when socialist bloc collapsed after peristroika and Glasnost of former Soviet Union. The Chinese could strike balance between market reforms and political ideology.

5 In China it was of Mao Zedong as Chairman of CPC and in India it was of Nehru and Mrs. Gandhi as heads of Congress Party. It was largely personality cult which dominated post-freedom politics in both nations

6 This economic progress, brought income inequalities in China and also brought rural-urban disparities. Serious economic ills such as corruption cropped into hither to disciplined nation.

7 According to William Hinton (1996) this unfavourable terms of trade for the domestic business has ruined Chinese domestic investments. He contends that, majority of the capital which is flowing into China is not of compradore in nature. But, is from expatriate Chinese based at Hong Kong or that of domestic investor's investing through Hong Kong connection to avail subsidies and other benefits which the local units cannot get. Hore (1991) also points to similar tendency.

8 Hinton says that, there is every possibility of reuniting of people on Moist lines. It seems the peasants in interior China are repenting their move towards liberal reform programmes which were affecting adversely their social life

9 Economic reforms from strength when TOT are in favour of India could have succeeded, thereby bringing in foreign investments and achieving growth. But when an economy is in crisis, and did not initiate land redistribution and other measures which are prerequisites for economic reforms, hardly these reforms succeed

10 Though this figure was far short of 7.3 per cent of GDP for 1994-95. We must understand that the 1996-97 Budget was interim in nature and was only a vote on account one-vide pending the parliamentary elections due to be held shortly in 1996

11 People who are protesting against such policies were put in jails. For details see Fewsmith (1995) Hinton (1996). Weil Robert (1996).

12 The AIADMK's rule in Tamil Nadu, Assam Goha Parishad in Assam Telugu Desam in A. P., Shiv Sena in Maharashtra etc., have been fighting elections on local issues and could succeed.

13 Though the Left parties and the BJP are projecting their model of economic reforms based on Swadeshi and worker orientation, they are not opposing the liberalisation programme but the way it is being implemented they have reservations. This once again proves the point that they are only trying to be near power politics instead of being radical alternatives to Congress. The ENRON deal (Dhabol Power Project) in Maharashtra exposes this fact

14 Such a situation prevails in Japanese political system, where there is fusion of both political aspirations and economic interests. No government in Japan is stable. They are in constant flux. New combinations/coalitions shall topple each government. Similarly, in India between 1987-91 we had witnessed series of coalitions which proved unsuccessful and there were two consecutive elections which made a hung parliament possible which in turn made minority congress government survive.

15 We must understand that expatriate Chinese and others from Hong Kong has invested lot of money in China running into billions, vowing to special status which they get as foreign investors. Their future hangs in balance.

16 We must understand that corruption charges and scams are aplently during the last 5 years.

17 Officially after Jiang Zemin is declared as the leader to take power in post-Deng era, the succession is complete. But we must understand that, it is far from complete seeing various lobbies functioning within.

18 We know that military, poverty and intellectuals play vital role in post-Deng era.

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