ARTHASHASTRA

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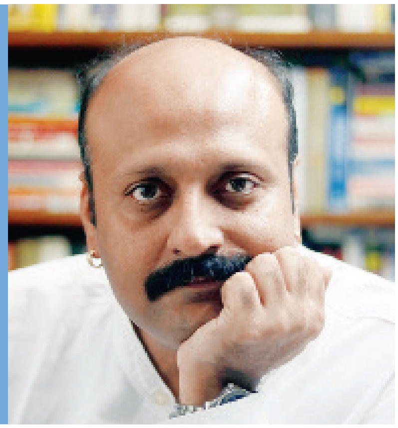
The Asian Divergence



BACK IN OCTOBER 1949, when India was framing a constitution that would make it a democratic republic, China was adopting communism. The two neighbours, recently emerged from a colonial past, adopted starkly different approaches to societal organisation. While India distributed political power among its people, China chose an authoritarian model.

The outcome of these choices have been vast as is evident today in China's prominence on the global stage. From being at par with India in the 1950s to surpassing India in all aspects, China's rise has been extraordinary.

During the early nineteenth century, both countries followed opposite growth trajectories. India's per capita income grew from \$533 in 1820 to \$673 in 1913 while China's declined from \$660 to \$552 (in 1990 dollars). Both countries witnessed a fall in per capita income from 1913 to 1950, but the fall was more severe for China. So, by the year 1950 when India became a republic, it was economically more sound than China. In fact, even till 1978 the difference between the per capita GDP of both countries was not very significant.

The aftermath of Mao's calamitous programmes of the Cultural Revolution and the Great Leap Forward derailed China's economic progress in the first three decades after 1950. But after Deng Xiaoping came to power in 1978, this trend reversed. From an equal standing, China's per capita GDP today is approximately 4.6 times that of India. Thus, China's economic performance holds some noteworthy lessons for India.

One of the most important things that China did well was targeting human development. Its emphasis on education for all and provision of healthcare facilities by its communes helped the country perform well on human development. Starting with similar scores in HDI (China - 0.163 and India - 0.160), China showed remarkable improvement by 1973 (0.407 against 0.289 for India).

While China made its vast pool of human capital its strength, India faced concerns in education and healthcare. Even when India undertook economic reforms in the early 1980s, its health and education levels were a cause of worry. In 1980, when the life expectancy in China was 64 years and the literacy rate 66 per cent, an average Indian died at the age of 54, while just 43.6 per cent of the Indian population was literate.

Another considerable difference between the two countries was their focus on type of industries. China leveraged on its pool of cheap labour by focusing on labour-intensive industries such as textiles, while India emphasised on heavy industries, which are predominantly capital-intensive and employ less labour. By introducing special economic zones (SEZs) in 1980, China pushed growth in manufacturing and setting up export-oriented industries. India too focussed on SEZs, but much later. As a result, by 1998, China's FDI investments were more than ten times that of India (Maddison estimates).

Since India did not give the required push to growth in labour-intensive manufacturing, the sector always remained sluggish and a service-led economy evolved. To the contrary, China became the manufacturing powerhouse of the world. Even Bangladesh is following China's footsteps by greatly focusing on its manufacturing sector, which will create higher employment opportunities for its citizens. Since 2017, Bangladesh has surpassed India and has become the fastest-growing South Asian country. It is now effectively capturing export industries which are looking for an alternative to China, following increased labour costs and the US-China trade war.

India thus needs to learn from the holistic growth trends of its neighbours. It is time India focused on market-oriented policies for short-run and human capital development for sustained long-run growth. BW

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