

## GIST OF N.C.E.R.T

# INDIA'S ECONOMIC INTERACTION WITH THE WORLD

Nations have been primarily trying to adopt various means which will strengthen their own domestic economies. To this effect, they are forming regional and global economic groupings such as the SAARC, European Union, ASEAN, G-20 etc. In addition, there is also an increasing eagerness on the parts of various nations to try and understand, the developmental processes pursued by their neighboring nations as it allows them to better comprehend their own strengths and weaknesses vis-à-vis their neighbors. In the unfolding process of globalization, this is particularly considered essential by developing countries as they face competition not only from developed nations but also amongst themselves in the relatively limited economic space enjoyed by the developing world.

Besides an understanding of the other economies in our neighborhood is also required as all major common economic activities in the region impinge on overall human development in a shared environment.

Here we will compare the developmental strategies in pursued by India and the largest two of its neighboring economies - Pakistan and China. It has to be remembered, however, that apart from the similarities in their physical endowment, there is little in wedded to a secular and deeply liberal constitution for over half a century, and the authoritarian militarist political power structure of Pakistan or the command economy of China that has only recently started moving towards a more liberal restructuring.

### DEVELOPMENTAL PATH - A SNAPSHOT VIEW

India, Pakistan and China have many similarities in their developmental strategies? All the three nations have started towards their developmental path at the same time. While India and Pakistan become independent nations in 1947, People's Republic of China was established in 1949. In a speech at that time, Jawaharlal Nehru had said, "these new and revolutionary changes in China and India, even though they differ in content, symbolize the new spirit of the Asia and new vitality

which is finding expression in the countries in Asia."

All the three countries had started planning their development strategies in similar ways. While India announced its first five Year Plan for 1951-56, Pakistan announced its first five year plan, called. The Medium Term Plan, in 1956 China announced its five Year Plan in 1953 till current planning in India is based on Tenth Five Year Plan (2002-07). India and Pakistan adopted similar strategies such as creating a large public sector and raising public expenditure on social development. Till the 1980s, all the three countries had similar growth rates and per capita.

**China:** After the establishment of People's Republic of China under one party rule, all the critical sector of the economy, enterprises and lands owned and operated by individuals were brought under government control. The Great Leap Forward (GLF) campaign to set up industries in their backyards. In rule areas, communes were started. Under the Commune system, people collectively cultivated lands. 1958, there were 26,000 communes covering almost all the farm population.

GLF campaign met with many problems. A severe drought caused havoc in China killing about 30 million people. When Russia had conflicts with China, it withdrew its professional who had earlier been sent to help in the industrialisation process. In 1965, Mao introduced the Great Proletarian Cultural Revolution (1966-76) under which students and professional were sent to work learn from the countryside.

The present-day fast industrial growth in China can be traced back to the reforms introduced in 1978. China introduced reforms in phases. In the initial phase, reforms were initiated in agriculture, foreign trade and investment sector. In the initial phase, reforms were initiated in divided into small plots which were allocated (for use not ownership) to individual households. They were allowed to keep all income from the land after paying stipulated taxes. In the later phase reforms



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were initiated in the industrial sector. Private sector firms, in general, and township and village enterprises, i.e. those enterprises which were owned and operated by local collectives, in particular, were allowed to produce good. At this stage, enterprises owned by government (know as State Owned Enterprises-SOEs), which we, in India, call public sector enterprises, were made to face competition. The reform process also involved pricing. This means fixing the prices in two ways, farmers and industrial units were required to buy and sell fixed quantities of inputs and outputs on the basis of prices fixed by the government and the rest were purchased and sold at market prices. Over the year, as production increased, the proportion of good or inputs transacted in the market was also increased. In order to attract foreign investors, special economic zones were set up.

**Pakistan:** While looking at various economic policies that Pakistan adopted, you will notice many similarities with India. Pakistan also follows the mixed economy model with co-existence of public and private sectors. In late 1950s and 1960s. Pakistan introduced a variety of regulated policy framework (for import substitution industrialization). The policy combined tariff protection for manufacturing of consumer goods together with direct import and increase on competing imports. The introduction of Green Revolution led to mechanization and increase in competing import. The infrastructure in select areas, which finally led to a rice in the increase in the production of food grains. This changed the agrarian structure dramatically. In the 1970s, nationalization of capital goods industries took place areas were denationalization and encouragement to private Sector. During this period, Pakistan also received financial support form western nations and remittances form continuously increasing outflow of emigrants to the middle-east. This helped the country in stimulating economic growth The then government also offered incentives to the private sector. All this created a conducive climate for new investments. In 1988, reforms were initiated in the country.

#### DEMOGRAPHIC INDICATORS

If we look at the global population, out of every six persons living in this world, one is an India and another Chinese we shall compare some demographic indicators of India, China and Pakistan The population of Pakistan is very small

and accounts for roughly about one-tenth of China or India.

Though China is the largest nation among the three, its density is the lowest though geographically it occupies the largest area. Population growth as being highest in Pakistan, followed by India and China. Scholars point out the one-child norm introduced in China in the late 1970s as the major reason for low population growth. They also state this measure let to decline in the sex ratio, the proportion of females per 1000 males. Scholars cite son preference prevailing in all these countries as the reason. In recent time, the resultant arrests in the growth of population also have other implication. For instance, after a few decades, in China there will be more elderly people in proportion to young people This will force China to take Steps to provide social security measures with fewer workers.

The fertility rate is also low in China and very high in Pakistan Urbanization is high both Pakistan and China with India having 28 per cent of people living in urban areas

#### GROSS DOMESTIC PRODUCT AND SECTORS.

One of the much talked issues around the world about China is its growth of Gross Domestic Product China has the second largest GDP (PPP) of \$7.2 trillion whereas India's GDP (PPP) is \$3.3 trillion and Pakistan's GDP is roughly about 10 per cent of India's GDP.

| Country   | 1980 - 90 | 1990 - 2003 |
|---|-----------|-------------|
| India   | 5.7       | 5.8         |
| China   | 10.3      | 9.7         |
| Pakistan  | 6.3       | 3.6         |
| Growth of Gross Domestic Products (%),<br>1980 - 2003 |           |             |

When many developed countries were finding it difficult to maintain a growth rate of even 5 per cent, China was able to maintain near double- digit growth for more than two decades. Also notice that in the 1980s Pakistan was ahead of India, China was having double digit growth and India was at the bottom. In the 1990s, there is a marginal decline in India and China's growth rates whereas Pakistan met with drastic decline at 3.6 cent. Some scholars hold the reform processes introduced in 1988 in Pakistan and political instability as the reason behind this trend.

First, look at how people engaged in different sectors contribute to Gross Domestic Product. China and Pakistan have more proportion of urban people than India. In China, due to topographic and climatic conditions, the area suitable for cultivation is relatively small – only about 10 per cent of its total land area. The total cultivable area in China accounts for 40 per cent of the cultivable area in India. Until the 1980s, more than 80 per cent of the people in China were dependent on farming as their sole source of livelihood. Since then, the government encouraged people to leave their field and pursue other activities such as handicrafts, commerce and transport. In 2000, with 54 per cent of its workforce engaged in agriculture, its contribution to GDP in China is 115 per cent.

In both India and Pakistan, the contribution of agriculture to GDP is the same, at 23 per cent, but the proportion of workforce that works in this sector is more in India. In Pakistan, about 49 per cent of people work in agriculture whereas in India it is 60 per cent. The sectoral share of output and employment also shows that in all the three economies, the industry and service sectors have less proportion of workforce but contribute more in terms of output. In China, manufacturing contributes the highest to GDP at 53 per cent whereas in India and Pakistan, it is the service sector, which contributes the highest. In both these countries, service sector accounts for more than 50 per cent of GDP.

In the normal course of development, countries first shift their employment and output from agriculture to manufacturing and then to service. This is what is happening in China. The proportion of workforce engaged in manufacturing in India and Pakistan were low at 16 and 18 per cent respectively. The contribution of industries to GDP is also just equal to or marginally higher than the output from agriculture. In India and Pakistan, the shift is taking place directly to the service sector.

Thus, in both India and Pakistan, the service sector is emerging as a major player of development. It contributes more to GDP and, at the same time, emerging as a prospective employer. If we look at the proportion of workforce in the 1980s, India and Pakistan was faster in shifting its workforce to service sector respectively. In 2000, it has reached the level of 24, 19 and 37 per cent respectively.

In the last two decades, the growth of agriculture sector, which employs the largest proportion of workforce in all the three countries,

has declined. In the industrial sector, China has maintained a double – digit growth rate whereas for India and Pakistan growth rate has declined. In the case of service sector, India has been able to raise its rate of growth in the 1990s while China and Pakistan has shows deceleration in all the three sectors.

| Country  | 1980 – 90   |          |         | 1990 – 2002/03 |          |         |
|----------|-------------|----------|---------|----------------|----------|---------|
|          | Agriculture | Industry | Service | Agriculture    | Industry | Service |
| India    | 3.1         | 7.4      | 6.9     | 2.7            | 6.6      | 7.9     |
| China    | 5.9         | 10.8     | 13.5    | 3.9            | 11.8     | 8.8     |
| Pakistan | 4           | 7.7      | 6.8     | 3.7            | 3.9      | 4.3     |

Trades in Output Growth in Different Sectors, 1980-2003

### INDICATORS OF HUMAN DEVELOPMENT

If we compare the indices given in the table you will find that China is moving ahead of India and Pakistan. This is true for many indicators - income indicator such as GDP per capita, or proportion of population below poverty line or health indicators such as mortality rates, access to sanitation, literacy, life expectancy or malnourishment. Pakistan is ahead of India in reducing proportion of people below the poverty line and also its performance in education, sanitation and access to water is better than India. But neither of these two countries have been able to save women from maternal mortality. In China, for one lakh births, only 50 women die whereas in India and Pakistan, more than 500 women die. Surprisingly India and Pakistan are ahead of China in providing improved water sources. You will notice that for the proportion of people below the international poverty rate of \$1 a day, both China and Pakistan are in similar position whereas the proportion is almost two times higher for India.

| Items   | India | China | Pakistan |
|---|-------|-------|----------|
| Human Development Index (Value)                           | 0.602 | 0.755 | 0.527    |
| Rank  | 127   | 71.6  | 135      |
| Life expectancy at birth (Years)                          | 63.3  | 90.9  | 63.0     |
| Adult literacy rate (8 aged 15 and above)                 | 61.0  | 5,003 | 48.7     |
| GDP per capita (PPP US\$)                                 | 2,892 | 16.6  | 2,097    |
| People below poverty line                                 | 34.7  | 85    | 13.4     |
| Infant Mortality Rate                                     | 63    | 30    | 81       |
| Maternal Mortality Rate                                   | 540   | 56    | 500      |
| Population with sustainable access to improved sanitation | (8)   | 30    | 44 54    |

| Items  | India | China | Pakistan |
|--|-------|-------|----------|
| Population with sustainable access to an improved water source (8) | 86    | 77    | 90       |
| Population undernourished (8 of total)                             | 21    | 11    | 20       |

**Some Select Indicators of Human Development, 2003**

In dealing with or making judgments on such question, however, we should also note a problem with using the human development indicators given above with conviction. This occurs because these are all extremely important indicators: but these are not sufficient. Along with these, we also need what may be called 'liberty indicators'. One such indicator has actually been added as a measure of 'the extent of democratic participation in socially and politically decision mankind' but it has not been given any extra weight. Some obvious 'liberty indicators' like measures of the extent of constitutional protection given to rights of citizens ' or the 'extent of constitutional protection of the independence of the judiciary and the rule of law' have not even been introduced so far. Without including these (and perhaps some more) and giving them overriding importance in the list, the construction of a human development index may be said to be incomplete and its usefulness limited.

#### DEVELOPMENT STRATEGIES- AN APPRAISAL

It is common to find developmental strategies of country as a model to other for lessons and guidance for their own development. It is particularly evident after the introduction of the reform process indifferent parts of the world. In order to learn from economic performance of our neighboring countries, it is necessary to have an understanding of the roots of their successes and failures. It is also necessary to distinguish between, and contrast, the different of their strategies. Though different countries go through their development phases differently, let us take the ignition of reforms as a point of reference. We know that reforms were initiated in China in 1978, Pakistan in 1988 and India in 1991. Let us briefly assess their achievements and failures in pre and post reform periods.

Why did China introduce structural reforms in 1978? China did not have any compulsion to introduce reforms as dictated by the World Bank and International Monetary Fund to India and Pakistan. The new leadership at that time in China

was not happy with the slow pace of growth and lack of modernization in the Chinese economy under the Maoist rule. They felt that Maoist vision of economic development based on decentralization, self-sufficiency and shunning of foreign technology, goods and capital has failed. Despite extensive land reforms, collectivization, the Great Leap Forward and other initiatives, the per capita grain output in 1978 was the same as it was in the mid- 1950s.

It was found that establishment of infrastructure in the areas of education and health, land reforms, long existence of decentralized planning and existence of small enterprises had helped positively in improving the social and income indicators in the post reform period. Before the introduction of reform, there had already been massive extension of basic health services in rural areas. Though the commune system, there was more equitable distribution of food grains. Experts also point out that each reform; measure was first implemented at a smaller level and then extended on a massive scale. The experimentation under decentralized government enabled to assess the economic, social and political costs of success or failure. For instance, when reforms were made in agriculture, as pointed out earlier by handing over plots of land to individuals for cultivation, it brought prosperity to a vast number of poor people. It created conditions for the subsequent phenomenal growth in rural industries and built up a strong support base for more reforms. Scholars quote many such examples on how reform measures led to rapid growth in China.

Though the data on international poverty line for Pakistan is quite healthy, scholars using the official data of Pakistan indicate rising poverty there. The proportion of poor in 1960s was more than 40 per cent which declined to 25 per cent in 1980s and started rising again in 1990s. The reasons for the slow-down of growth and re-emergence of poverty in Pakistan's economy, as scholars put it. Are (i) agricultural growth and food supply situation were based not on an institutionalised process of technical change but on good harvest. When there was a good harvest, the economy was in good condition, when it was not, the economic indicators showed stagnation or negative trends (i) you will recall that India had to borrow from the IMF and World Bank to set right its balance of payment crisis: foreign exchange is an essential component for any country and it is important to know how it can be earned. If a

country is able to build up its foreign exchange earnings by sustainable export of manufactured goods, it need not worry. In Pakistan most foreign exchange earnings came from remittances from Pakistani workers in the Middle-east and the export of highly volatile agricultural products: there was also growing dependence on foreign loans on the one hand and increasing difficulty in paying back the loans on the other.

However, as stated in the 'One Year Performance of the (Pakistan) Government' for the year August 2004-2005, the Pakistan economy has been witnessing GDP growth at about 8 percent for three consecutive years = (2002-2005). All the three sectors, agriculture, manufacturing and service, have contributed to this trend. Besides facing high rates of inflation and rapid privatisation, the government is increasing the expenditure on various areas that can reduce poverty.

#### CONCLUSION

What are we learning from the developmental experiences of our neighbors? India, China and Pakistan have traveled more than five decades of development path with varied results. Till the late 1970s, all of them were maintaining the same level of low development. The last three decades have taken these countries to different levels. India, with democratic institutions, performed moderately, but a majority of its people still depends on agriculture. Infrastructure is lacking in many parts of the country. It is yet to raise the level of living of more than one-fourth of its population that lives below the poverty line. Scholars are of the opinion that political instability, over-dependence on remittances and foreign aid along with volatile performance of agriculture sector are the reasons for the slowdown of the Pakistan economy. Yet, in the recent past, it is hoping to improve the situation by maintaining high rates of GDP growth. It is also a great challenge for Pakistan to recover from the devastating earthquake in 2005, which took the lives of nearly 75,000 people and also resulted in enormous loss to property. In china, the lack of political freedom and its implications for human rights are major concerns; yet, in the last three decades, it used the 'market system without losing political commitment' and succeeded in raising the level of growth along with alleviation of poverty. Unlike India and Pakistan, which are attempting to privatize their public sector enterprises, China has used the market mechanism to 'create additional social and

economic opportunities'. By retaining collective ownership of land and allowing individuals to cultivate lands, China has ensured social security in rural areas. Public intervention in providing social infrastructure even prior to reforms has brought about positive results in human development indication in China.



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