Chapter 10

Comparative Development Experience of India, Pakistan and China

INTRODUCTION

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-8, G-20, BRICS 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 neighbouring nations as it allows them to better comprehend their own strengths and weaknesses vis-à-vis their neighbours. In this chapter we will compare the developmental strategies pursued by India and the largest two of its neighbouring economies—Pakistan and China.

Similarities in growth path of India, Pakistan & China

Indian and its neighbours – Pakistan and China, have very similar development strategies as an economy. A few such similarities in their development strategies are as follows:

- **All three countries, India, Pakistan and China began towards their economic development at the same time. In addition, India and Pakistan attained independence in the year 1947. However, China was an independent economy in the year 1949.**
- **India and Pakistan began with similar strategies for creating larger public sector units. And soon began working on raising public expenditure on social development.**
- **All the countries began planning their development strategies in a very similar fashion. India made an announcement of its first 5-year plan in the year 1951. However, Pakistan made its 5-year plan announcement in the year 1956. China, on the other hand, had made this announcement in the year 1953.**
- **Up until the 1980s, all 3 countries had very similar growth rates and per capita incomes.**
- **Economic reforms took place in all the 3 countries – India, China and Pakistan.**

Strategies of Growth of India and Pakistan

After Independence (1947), India and Pakistan adopted almost a similar strategy of growth.

→They adopted a mixed-economy model of growth

→The strategy of growth underlined the significance of both private and public sectors.

→Public sector was assigned the key role of "kick starting" the process of growth.

→Private sector was assigned the secondary role of pushing the process of growth.

Why was the Public Sector assigned the key role?

→Partition of the country (into India and Pakistan) has rendered both the economies as laggard economies (slow growing or backward economies)

→Both the economies needed a big push of investment. Only the govt. could afford it. Hence, the greater reliance on the public sector.

Which model did China adopt for Economic development?

China, on the other hand, adopted a more rigorous model of growth. Established as People's Republic of China in 1949, it decided to bring all critical areas of production activity under govt. control. National resources (included all land) were declared a govt. monopoly. Thus, China adopted "Statism" as a model of growth in which: -

→Ownership of all resources vested with the state

→The state was to decide what to produce, how to produce and for whom to produce

Growth story of India

→*It was because of New Economic policy that between the period 1991-2017, GDP growth rate in India increased to around 7% per annum.*

→*In 2017, GDP of India was estimated to be 2,439 trillion USD (US dollars). Between the years 1951-2017, Indian economy achieved an average annual growth rate of 5.9%.*

→*The GDP growth in India showed a substantial rise only after 1991, the year when New Economic Policy was launched. The basic components of NEP included privatisation, liberalisation and globalisation.*

→*NEP focused on greater integration of the domestic economy with the global economies on the basis of free play of the market forces.*

Growth story of Pakistan

- →*Economic reforms in Pakistan were almost similar to those in India. But, from the beginning of 2008, economic outlook in Pakistan turned out to be disappointing. It is attributed to several factors including war of terror which has eroded business confidence of the domestic as well as foreign investors, corruption and political instability are other factors that significantly contributed to economic stagnation of the economy of Pakistan.*
- →*Pakistan achieved a breakthrough in GDP growth in the mid-80s. It was as a consequence of economic reforms, focusing on FDI and greater participation of the private sector in the process of growth.*
- →*The average annual growth rate of GDP has slumped to 3.75% between the period 2008-2016. In 2017, economy of Pakistan grew at the rate of 5.3%*
- →*Owing to slow GDP growth and consequently the low level of income. Pakistan economy has almost sunk into a low income-low growth trap.*

Growth story of China

- →*Between 1979-2015, average annual GDP growth was estimated to be about 9%. GDP growth reached its peak of 15.2% in 1984, and it touched the bottom of 3.8% in 1990. In 2017, GDP growth rate was 6.9%.*
- →*In 2017, GDP in China was estimated to be 12.40 trillion USD. It achieved the distinction of 2nd largest economy in the world (next to US)*
- →*China achieved breakthrough in GDP growth in the early 1980s. The jump has indeed been very substantial; from about 4% per annum to nearly 10% per annum. The breakthrough was attributed to factors including shift from a centrally planned economy to market economy, focus on export-related domestic production, availability of cheap labour force, establishment of Special Economic Zones (SEZs) offering all basic amenities to the investors.*

Development strategies of India

→Because of the historical background, there was a crucial challenge for India in order to make a new policy which could support the new open trade system. New Economic Policy was introduced in 1991 in India to accelerate economic growth.

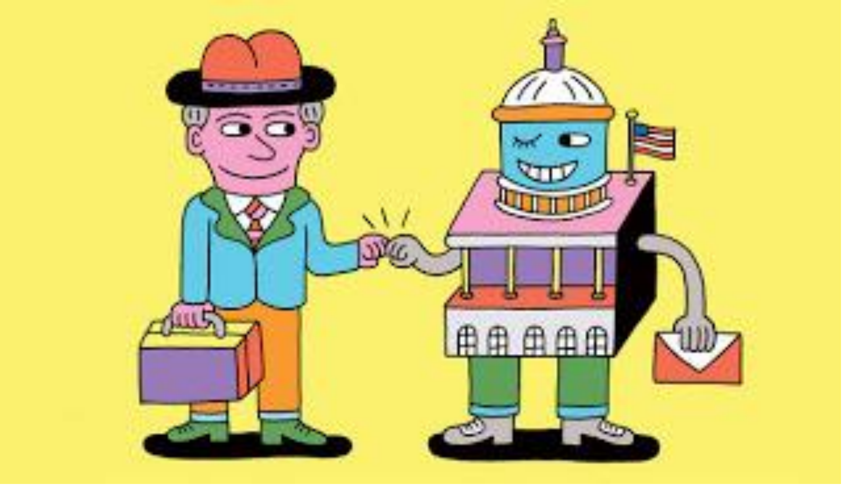
→India had adopted Poverty alleviation programs to reduce poverty in India. Their objective was to increase per capita income, rise in nutritional levels of poor and decrease in percentage of absolute poor in India.

→Employment generation programmes were introduced to generate employment in the country and their aim is to provide gainful self-employment and skilled wage employment opportunities.

Development strategies of Pakistan

i) Mixed Economy

Pakistan follows the mixed economy model with co-existence of public and private sectors.



ii) Introduction of various policies

In the late 1950s and 1960s, Pakistan introduced a variety of regulated policy framework (for import substitution-based industrialisation). The policy combined tariff protection for manufacturing of consumer goods together with direct import controls on competing imports.

iii) Green Revolution

The introduction of Green Revolution (1960s) led to mechanisation and increase in public investment in infrastructure in select areas, which finally led to a rise in the production of food grains. This changed the agrarian structure dramatically

iv) Importance to role to public sector (Nationalisation)

In the 1970s, nationalisation of capital goods industries took place.

v) Importance to role to private sector (Denationalisation)

Pakistan shifted its policy orientation in the late 1970s and 1980s when the major thrust areas were denationalisation and encouragement of private sector. The government also offered incentives to the private sector. All this created a conducive climate for new investments.

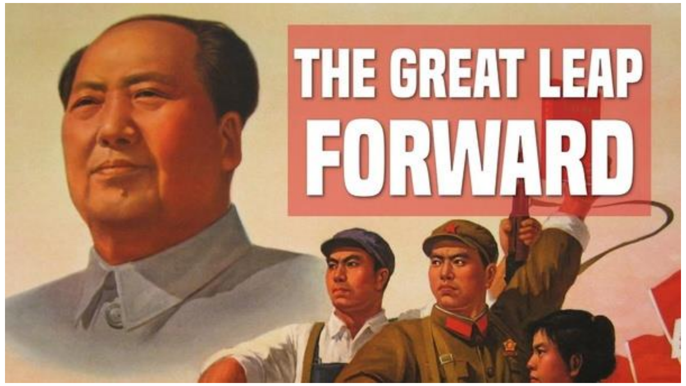
vi) Financial support

Reforms were initiated in 1988. During this period, Pakistan also received financial support from western nations and remittances from continuously increasing outflow of emigrants to the Middle east. This helped the country in stimulating economic growth.

Development strategies of China

i) The Great Leap Forward (GLF) campaign

It was initiated in 1958 and it aimed at industrialising the country on a massive scale. People were encouraged to set up industries in their backyards. In rural areas, "*communes*" were started. Under the Commune system, people collectively cultivated lands. In 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.



ii) The Great Proletarian Cultural Revolution

Mao introduced the Great Proletarian Cultural Revolution (1966–76) under which students and professionals were sent to work and learn from the countryside. However, when Russia had conflicts with China, it withdrew its professionals who had earlier been sent to China to help in the industrialisation process

iii) Reforms introduced in China

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 sectors. In agriculture, for instance, commune lands were divided into small plots, which were allocated (for use not ownership) to individual households. They could keep all income from the land after paying stipulated taxes.**
- **In the later phase, reforms 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 could produce goods. At this stage, enterprises owned by government (known as State Owned Enterprises—SOEs), which we, in India, call public sector enterprises, were made to face competition**

iv) Dual pricing

The reform process also involved dual pricing. This means fixing the prices in two ways: -

→Farmers and industrial units were required to buy and sell fixed quantities of inputs

→Outputs based on prices fixed by the government and the rest were purchased and sold at market prices.

v) Special economic zones

Over the years, as production increased, the proportion of goods or inputs transacted in the market also increased. In order to attract foreign investors, special economic zones were set up. A special economic zone (SEZ) is an area in which the business and trade laws are different from the rest of the country. SEZs are located within a country's national borders, and their aims include increased trade balance, employment, increased investment, job creation and effective administration

Structure of Growth (Sectorial share in output and employment)

Sectoral Share of Employment and GDP (%) in 2015–2017

Sector	*Contribution to GDP*			*Distribution of Workforce*		
	India	*China*	*Pakistan*	*India*	*China*	*Pakistan*
Agriculture	17	9	25	42.7	17.5	42
Industry	30	43	21	23.8	26.5	3.7
Services	53	48	54	33.5	56	54.3
Total	**100**	**100**	**100**	**100**	**100**	**100**

China: -

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 fields and pursue other activities such as handicrafts, commerce and transport. In 2015–17, with 18 per cent of its workforce engaged in agriculture, its contribution to the GDP in China is 9 per cent.

India and Pakistan: -

In both India and Pakistan, the contribution of agriculture to GDP were 17 and 25 per cent, respectively, but the proportion of workforce that works in this sector is more in India. In Pakistan, about 42 per cent of people work in agriculture, whereas, in India, it is 43 per cent. The sectorial share of output and employment also shows that in all three economies, the industry and service sectors have less proportion of workforce but contribute more in terms of output. In China, manufacturing and service sectors contribute the highest to GDP at 43 and 48 per cent, respectively whereas in India and Pakistan, it is the service sector which contributes the highest by more than 50 per cent of GDP.

Observations: -

In the last four 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 near double-digit growth rate whereas for India and Pakistan growth rate has declined. In case of service sector, China was able to raise its rate of growth during 1980–2015, while India and Pakistan stagnated with its service sector growth. Thus, China's growth is mainly contributed by the manufacturing and service sectors and India's growth by the service sector. During this period, Pakistan has shown deceleration in all three sectors.

Conclusion: -

In the normal course of development, countries first shift their employment and output from agriculture to manufacturing and then to services. This is what is happening in China as can be seen from the above table. The contribution of industries to GDP is at 30 per cent in India and 21 per cent in Pakistan. In these countries, 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, emerges as a prospective employer.

Comparison of India, China and Pakistan on Demographic Indicators

Select Demographic Indicators

Country	*Estimated Population (in million) (2015)*	*Annual Growth of Population (2015)*	*Density (per sq. km)*	*Sex Ratio (2015)*	*Fertility Rate (2015)*	*Urbanisation (2015)*
India	1311	1.2	441	929	2.3	33
China	1371	0.5	146	941	1.6	56
Pakistan	188	2.1	245	947	3.7	39

→India and China together are a habitat for 38% of the world's population. India, with a more than 1.31 billion is a habitat to nearly 18% of the world's population. China, with nearly 1.37 billion is a habitat for nearly 20% of the world's population. Pakistan's population is just 1/10th of India or Pakistan. Large size of population is a hindrance in the process of growth as it requires a huge amount of maintenance investment (investment which is directed towards the maintenance of existing standard of living of the people). High maintenance investment implies low development investment. Accordingly, pace of growth and development is affected.

→However, 2 demographic parameters are distinctly in favour of China: a) moderate growth rate of Population; b) low density of population

"One child policy" adopted by China in 1979 has been very successfully pursued. Consequently, growth rate of population which was nearly 1.33% has now been reduced to 0.5% per annum.

→Growth rate of population continues to be fairly high in India at 1.2% (2015) and Pakistan at 2.1% (2015). It is feared that at the existing rate of growth, population size in India may soon exceed that in China.

→China has low density of population compared with India and Pakistan. It is because of a very large geographical area of China than India and Pakistan. It is estimated to be 146 per square kilometre in China compared to 441 and 245 per square kilometre in India and Pakistan respectively.

→Both China and Pakistan are showing brighter signs of urbanisation than India. Urbanisation is closely linked with structural transformation in the country. It is a consequence of a shift of working force from agriculture to industry and services. In India, 33% of the population is urbanised compared to 56% in China and 39% in Pakistan.

→Sex ratio is found to be biased against females in all three countries. It is estimated to be 929, 941 and 947 in India, China and Pakistan respectively.

Comparison of India, China and Pakistan on Human Development Indicators

Human development indicators

a) Life expectancy- Higher the better
b) Adult literacy rate- Higher the better
c) Percentage of population below poverty line- lower the better
d) Infant mortality rate- lower the better
e) Maternal mortality rate- lower the better
f) Percentage of population having access to improved water sources- higher the better
g) Percentage of undernourished population- lower the better
h) Percentage of population having access to improved sanitation- higher the better
i) GDP per capita (US $) adjusted for the differences in purchasing power of a dollar across different nations (Called purchasing power parity)- higher the better

Some Selected Indicators of Human Development, 2016–2017

Item	*India*	*China*	*Pakistan*
Human Development Index (Value)	0.640	0.752	0.562
Rank (based on HDI)	130	86	150
Life Expectancy at Birth (years)	68.8	76.4	66.6
Mean years of Schooling (% aged 15 and above)	6.4	7.8	8.6
GDP per capita (PPP US$)	6,427	15,309	5,035
People Below Poverty Line (at $3.20 a day ppp) (%) (2011)	60.4	23.5	46.4
Infant Mortality Rate (per 1000 live births)	34.6	8.5	64.2
Maternal Mortality Rate (per 1 lakh births)	174	27	178
Population using Improved Sanitation (%)	44.2	75	58.3
Population with Sustainable Access to improved Water Source (%)	94	96	91
Percentage of Undernourished Children	37.9	8.1	46.4

Based on these indicators, a composite index is constructed, called Human Development Index (HDI). It was invented by Mahbub ul Haq in 1990 .Higher value of HDI points to a higher rank and a higher level of growth and development for a country.

→ *HDI*: In the year 2017, HDI for China, India and Pakistan was estimated to be 0.752, 0.640 and 0.562 respectively.

→*GDP per capita (PPP $US):* Higher HDI ranking of China is mainly due to largely to GDP per capita. In the year 2016, its GDP per capita (PPP US $) was estimated to be US $ 15,309 while it was merely $6,427 for India and US $ 5,035 for Pakistan.

→*Life expectancy*: It refers to the average number of years for which people are expected to live. China has the highest life expectancy at 76.4 years, India has expectancy at 68.8 years and Pakistan at 66.6 years.

→ *Mean year of schooling*: It is highest in case of China with 7.6% while the corresponding figures of India and Pakistan are 6.3% and 5.1% respectively.

→ ***Infant Mortality Rate (IMR)***: It refers to number of infants dying before reaching one year of age per 1,000 live per births in a year. Low IMR shows better health and sanitation facilities as most of the infants die due to unhygienic and insanitary environments. It is lowest in China with 9 infants and highest in Pakistan with 66 infants. IMR in India is 38.

→ ***People below Poverty line***: People below the poverty line are the people who don't even have that levels of income and expenditure, which is necessary to meet specified minimum levels of calorie intake. For the proportion of people below the international poverty rate of $3.10 a day, people below poverty line are 37%, 32% and 44% for India, China and Pakistan respectively.

→ ***Maternal Mortality rate***: The maternal mortality ratio is defined as the number of maternal deaths during a given time period per 1,00,000 live births during the same time period. Both India and Pakistan have not been able to save women from maternal mortality. In China, for one lakh live births, only 27 women die, whereas in India and Pakistan, maternal mortality rate is 174 and 178 respectively.

→*Access to improved sanitation*: Pakistan's performance in providing sanitation is better than India and China. China has provided sanitation to 77% of population, whereas corresponding figures for Pakistan and India are 64% and 40% respectively.

→*Access to improved water sources*: It refers to the percentage of population which has a reasonable access to water sources (From hand pump, tap or protected well) and is able to obtain at least 20 litres per person per day. China (96%), is ahead of India (94%) and Pakistan (91%) in providing improved water sources.

→*Population undernourished:* The percentage of population, which is not able to obtain adequate diet, is termed as undernourished population. China has the lowest percentage of population (9%), which is being undernourished. In India, 39% and in Pakistan, 45% of the population is undernourished.

Common success story of India and Pakistan

→Both India and Pakistan have succeeded in more than doubling their per capita income. This is a remarkable achievement considering the fact that population has increased four-fold in Pakistan and three-fold in India.

→The incidence of absolute poverty (equated with $1.25 per day) has been reduced significantly although the number below poverty line continues to be very large.

→Food production has successfully kept pace with the rise in population. Leaving aside annual fluctuations due to weather conditions, both countries are self-sufficient in food.

→Food self sufficiency has been accompanied with improved nutritional status. Daily caloric and protein intake per capita has risen by almost one-third. However, malnourishment among children is still very high.

→A well-developed modern sector (Along with a backward traditional sector) has found global recognition in both the countries.

Common failures of India and Pakistan

- →*The relativity inward-looking economic policies and high protection to domestic industry did not allow India and Pakistan to take timely advantage of globalisation.*
- →*The mind-set of the politicians and the bureaucrats has not shown a progressive change. Controls continue to be their preferred option rather than freedom of choice of the producers and consumers.*
- →*Private sector has thrived more on contacts, bribes, loans from public financial institutions. Tax evasion is a national hobby.*
- →*Fiscal management is grossly disappointing. Higher fiscal deficit averaging 7-8% of GDP has persisted for fairly long periods of time. Owing to huge borrowing by the govt., private capital formation has failed to trend up to the desired context.*
- →*Large proportion of tax revenue is spent to meet defence expenditures and internal debt servicing. It hampers the process of growth.*
- →*Deficient urban services (Water, electricity and transport) are a big hurdle in their process of growth and development.*
- →*The politicians are yet to provide a sincere and strong leadership focusing on social welfare*

Areas where India has edge over Pakistan

- →*In the area of skilled manpower and research and development institutions, India is better placed than Pakistan.*
- →*India has shown remarkable breakthrough in the export of software after economic reforms of 1991. Pakistan is far behind.*
- →*Human Capital Formation in India has emerged as a much more significant determinant of growth than in Pakistan.*
- →*Indian scientists excel in the areas of defence technology, space research, electronics, telecommunication etc. Pakistan is way behind.*
- →*The number of Ph.Ds. produced by India in science and engineering every year (about 5,000) is higher than the entire stock of Ph.Ds. In Pakistan.*
- →*India has also a better record of investment in education. The adult literacy rate, female literacy rate, gross enrolment ratio at all levels, and education index have trended up much faster in India than in Pakistan.*
- →*Owing to rapid decline in fertility rate, population growth in India has been slashed to 1.76%, while in Pakistan it continues to be as high as 2.5% per annum.*

Areas where Pakistan has edge over India

- →Starting from almost the same level as India, Pakistan has achieved better results with regards to migration of workforce from agriculture to industry or migration of people from rural to urban areas.
- →External trade has expanded much faster in Pakistan than India. The trade-GDP ratio in Pakistan (20%) is twice that of India (10%). In fact, in the area of external trade, Pakistan has performed better than all south-Asian countries.
- →Even when the rate of investment in Pakistan has been lower than in India, efficiency of investment (in terms of output per unit of capital) has been higher.
- →Pakistan has achieved better results as regards access to improved water resources.

Areas where China has edge over India

→*The Chinese reform process began more comprehensively during the 80s, when India was in the mid-stream of slow growth process.*

→*Even when the reform process was actively pursued in the 90s, India focused more on GDP growth, contrasting with China's initiative of focusing on poverty alleviation. While rural poverty in China declined by 85% during the period 1978 to 1989, in India it declined only by 50% during this period.*

→*Restructuring of the Chinese agriculture went a long way. It abolished commune system of farming (a system of collective cultivation). Instead, households were allotted land for individual cultivation, though ownership of land remained with the state. This brought about a radical transformation in agriculture. In India, agriculture reforms have been far less effective than in China.*

→Also, global exposure of the economy has been far more wider in China than in India. Thus: -

- *China allowed foreign investors 100% equity investment.*
- *It allowed the foreign investors the freedom to "hire and fire" the workers. It also offered them a lucrative infrastructure.*
- *By establishing SEZs, it offered lucrative infrastructural facilities to the foreign investors.*
- *China was liberal in allowing FDI in retail.*

Critical appraisal of development strategies of China

- *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 modernisation in the Chinese economy under the Maoist rule. They felt that Maoist vision of economic development based on decentralisation, self sufficiency and shunning of foreign technology, goods and capital had failed. Despite extensive land reforms, collectivisation, 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 decentralised 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 reforms, there had already been massive extension of basic health services in rural areas. Through 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 decentralised 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.*

Critical appraisal of development strategies of Pakistan

- *Scholars argue that in Pakistan the reform process led to worsening of all the economic indicators. We have seen in an earlier section that compared to 1980s, the growth rate of GDP and its sectorial constituents have fallen in the 1990s. 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 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.*
- *India had to borrow from the IMF and World Bank to set right its balance of payments crisis; foreign exchange is an essential component for any country, and it is important to know how it can be earned. If a country can 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 exports 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, during the last few years, Pakistan has recovered its economic growth and has been sustaining. In 2015-16, the Annual Plan 2016-17 reports that, the GDP registered a growth of 4.7 per cent, highest when compared to the previous eight years. while agriculture recorded growth rate far from satisfactory level, industrial and service sectors grew at 6.8 and 5.7 per cent respectively. Many macroeconomic indicators also began to show stable and positive trends.*

CONCLUSION: -

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.

- **China: 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 alongwith alleviation of poverty.**

- **India: India, with democratic institutions, performed moderately, but most of its people still depend 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.**

- **Pakistan: 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, last three years, many macroeconomic indicators began showing positive and higher growth rates reflecting the economic recovery.**