THE INTERNATIONAL JOURNAL OF HUMANITIES & SOCIAL STUDIES

Myths and Realities of Inclusive Growth in India and China

Ritanjali Dash
Associate Professor, Department of Economics,
Regional Institute of Education (under NCERT, New Delhi), Bhubaneswar, India

Abstract:
Inclusive growth strategies in India all along have remained a debatable issue and it is not a completely new agenda of government. In this debate China always takes the centrestage as the two economies are demographically similar to each other, irrespective of many differences specifically differences in governance. But the crucial thing is growth strategies adopted by China all along has addressed issues of not only growth but employment for all sections, whereas in India too much focus is on growth only. Employment agenda of India is never clear. In the name of inclusive growth, local governments are obsessed with providing different kinds of subsidies and freebies which in the long run is not going to ameliorate the problem of unemployment, hence poverty and inequality. So it is high time that everyone should think of inclusive growth in terms of employment generation rather than provision of freebies. In this context skill development is a key issue that needs to be addressed properly.

Keywords: *inclusive growth, human development index, corruption index, skill development,vocational education*

During the last few years in India, political parties, governments,non-governmental organisations, public sector banks and financial institutions are competing to be the champions of inclusive growth by claiming adoption and implementation of various inclusive growth policies. Besides, NBFCs and Corporates are persuaded to adopt policies to facilitate inclusive growth. Both Central as well as the State governments are providing huge amount of freebies and subsidies through various projects and programmes. The latest Jan DhanYojana is considered as one of the flagship programme of the prime minister where a massive bank inclusion programme has been taken up to empower poor people financially.This might be a step towards removal of poverty,but mere opening of account in a bank and a onetime disbursal of money to the poorcannot increase the productive capacity of the poor. While the money will temporarily save the poor from the clutches of the money lender, it will mostly meet, partly or fully, avoidable consumption needs. Empowerment does mean enhancing productive capacity of people througheducation, health, skill development and creating opportunities for employment.Skill development does not mean providing higher grade skills by setting up premier institutes like IITs all over the country. It means providing basic level of skills for all those which are needed in many small scale and village industries, in services sector of India. Citing Japan's model, which was later adopted by South Korea, Taiwan, Hong Kong and Singapore, the noted economist Amartya Sen suggested that without education and proper healthcare facilities, it was difficult to achieve inclusive or equitable growth. For Professor Sen, how India's 8.5% growth compared with China's 9.5% rate was "not a serious question." Instead he wanted India to learn from China about human development. Against this backdrop, this paper makes an attempt to study the myths and realities of growth in India and China and comparesinclusive growth strategies in these two big economies.

China and India are two large countries with many things similar and having many things dissimilar as well.Chinais the third largest country by area;India isseventh largest country by area. China is the world's most populous country, with a population of over 1.4 billion. India is the second most populous country with over 1.2 billion people.But in many respects these two countries are dissimilar. People’s Republic of China is a single party state governed by the Communist party. It was basically a command economy.Under the leadership of Deng Xiaoping, the People's Republic of China began to reform its economy in 1978 by changing from a command economy to a market economy.India is a federal constitutional republic governed under a parliamentary system and the most populous democracy in the world. India’s Economy is a mixed market economy. India followed the market based economic reforms in 1991.Prior to the 1978 reforms, nearly four in five Chinese worked in agriculture; by 1994, only one in two did.Manufacturing and services sector have become the major job changers in China. A series of reforms conducive to growth of manufacturing and services has made China the largest manufacturer in the world outpacing USA. As compared to China, in India till date agriculture is considered a major job provider though its contribution to GDP has come down. Economic growth in India has been driven mostly by the expansion of services that have been growing consistently faster than other sectors.Insufficient industrial development and virtual stagnation in agriculture has aggravated the problem of unemployment in India.Besides, India’s services sector growth, which mostly centresonInformation technology and Information technology activities, can be compared to rise of stock market index due to inflow of Foreign Direct Investment which is highly volatile. This has been experienced after 11/9 incident. Information technology and Information technology enabled sector is also facing increasing competition and threats from other Asian majors.

The anatomy of growth strategies in both the countries show the reasons that brought about tremendous changes in the gigantic economy of China but not so much in India.Prior to 1978 China was a dormant economy. China encouraged the formation of rural enterprises and private businesses,liberalised foreign trade and investment, relaxed state control over some prices, and invested in industrial production. At the same time it focussed on the education and skill development of its workforce.In China, the majority of investment is carried out by entities that are at least partially state-owned. Most of these are under the control of local governments. Thus booms in China are primarily the result of perverse incentives at the local-government level. In its growth strategy, China not only gave importance to the growth in the country's stock of capital assets, such as new factories, manufacturing machinery, better technology, communications systems and investment in infrastructure—but also to the numerous of Chinese workers. A sharp, sustained increase in labour productivity was the driving force behind the economic boom in China. Analysis of the pre- and post-1978 periods indicates that the market-oriented reforms undertaken by China were critical in creating this productivity boom. The reforms raised economic efficiency by introducing profit incentives. They also freed many enterprises from constant intervention by state authorities.

In India in the Pre-reform phase i.e. prior to 1990- 91 most of the enterprises remained in the public sector. These enterprises were making huge losses. Even enterprises belonging to private sectors were suffering from losses mostly due to the protectionist policies of the government, non-competition, license raj, bureaucratic red-tapism, etc. India adopted its economic reform process much later during 1990-91. Economic reforms introduced after 1991 brought foreign competition, privatisation of certain public sector industries and led to an expansion in the production of fast-moving consumer goods.The Indian private sector, which was earlier run by old family firmshad to face foreign competition, including the threat of cheaper Chinese imports in the post-liberalisation phase. It has since then tried to handle the challenges by minimising costs, revamping management, designing new products, bringing in efficiencyleading to low labour costs and smarter technology.In the post reform phase, Government's intervention was minimised. These enterprises had no option but to increase their efficiency through profit and higher productivity to survive in the market. But this productivity growth was more due to the contribution of capital and technology rather than labour. The growth of the economy could not be propelled so much due to lack of productivity of labour. India has experienced "extensive growth" driven by the pent up demand of a billion people and has not seen a supply side revolution. India's manufacturing sector productivity story is "grim“. Services sector and agriculture sector story is the same.

Since productivity-led growth is more likely to be sustainable, China's growth is more likely to be sustainable than India's growth. While pre-1978 China had seen annual growth of 6% a year, post-1978 China saw average real growth of more than 9% a year. In several peak years, the economy grew more than 13%. Per capita income has nearly quadrupled in the last 15 years. In 2013 first quarter it had slowed down. But growth rate has revived after that.Recently though the growth rate in China has slowed down to7.3%.India's growth rate popularly known as Hindu rate of growth was moving at the rate of 3% to 4%. After reform (1990-91) it picked momentum and became 8% in 2005. In subsequent years it remained between7% to 9%. After climbing up to 10% in 2010, it then slowed down to 4.4% in 2013.Analysts are predicting that the Chinese economy will be larger than that of the United States in about 20 years. Such growth compares very favourably to that of the "Asian tigers"--Hong Kong, Korea, Singapore, and Taiwan - which, as a group, had an average growth rate of 7-8 per cent over the last 15 years. Analysts are also predicting that with its potential, India is most likely to emerge as a powerful economy in coming 20 years. But sustainability of India's growth has been questioned.

A higher growth rate definitely has widened the scope for removal of poverty and inequality in both the countries. Comparative literature of both the countries reveals that trickle down has taken place more in China rather than in India.According to Prof. Amartya Sen this is possible due to faster human development in China as compared to India. India's ranking in the Human Development Index (HDI) remained unchanged at 135 in 2013, reflecting little improvement in the living standard of its people, as per United Nations Development Programme report. China measured 0.699 in the UNDP's "human development index" (HDI) in 2012, up from 0.695 in 2011. It sees China remaining above the average level of regions and the BRICS nations.The following indicators of human development reveal this.

1.China's life expectancy for both sexes is remarkably close to the average life expectancy of Europe - just 2 years lower. Europe's life expectancy for both sexes, however, is about 4 years lower than in the United States of America - due to the exceptionally low level of life expectancy in Eastern Europe.Compared to China, India's life expectancy for both sexes has increased much slower. Today, it is more than 8 years below the level of China and more than 14 years below the level of the United States of America.

2.In the 2000–2002 periods, China had one of the highest per capita caloric intakes in Asia, second only to South Korea and higher than countries such as Japan, Malaysia, and Indonesia. In 2003, daily per capita caloric intake was 2,940 (vegetable products 78%, animal products 22%); 125% of FAO recommended minimum requirement.

3. In 1992 in India the incidence of stunting among children aged 0–3 years was notably higher than in China (47% and 32%), and underweight was three times more prevalent (52% and 17%, respectively).In India, the share of underweight children declined by a few percentage points between the two early surveys but remained virtually unchanged from 1998-99 to 2005-06. Child stunting, in contrast, was almost flat between 1992-93 and 1998-99 but declined by 8 percentage points between 1998-99and 2005-06.In China, the decline in child underweight and stunting between the 1992 and 2002 surveys was quite dramatic—a reduction of about half. This means that China reached its Millennium Development Goal (MDG) by 2002, more than a decade ahead of the target year 2015.

4. In 2005, China had 1.5 physicians and 2.4 hospital beds per 1,000 persons. Health expenditureswere 5.5% of GDP. 80% of the health and medical care services were concentrated in cities, and timely medical care was not available to more than 100 million people in rural areas. Despite the introduction of western style medical facilities and the implementation of a National Essential

Drug Policy, China has several emerging public health problems, which include problems as a result of pollution, a progressing HIV-AIDS epidemic, hundreds of millions of cigarette smokers and the increase in obesity among the population etc.HepatitisB infection is widespread in mainland China, with about 10% of the population contracting the disease. In contrast to China, India's health sector expenditure by central government and state government, both plan and non-plan, increased from 0.94 per cent of GDP in tenth plan (2002-07) to 1.04 per cent in eleventh plan (2007-12). The provision of clean drinking water and sanitation as one of the principal factors in control of diseases is yet to get due attention in India. Substantial expansion and strengthening of public sector health care system, freeing the vulnerable population from dependence on high cost and often unreachable private sector health care system are issues yet to be addressed in India.

5. Before the Communist party took power in 1949, about 80% of China's population were illiterate. Enrolment rate was below 20% for elementary school, about 6% for junior secondary school. Today, China's literacy rate is 91.6% out of which male literacy is 95.7% and female literacy is 87.6%.Youth between the age group 15 to 24 years have a 99% literacy rate.India's literacy rate had grown from 52.2% in 1991 to 74.04% in 2011. However, the literacy rate of 74% is still lower than the worldwide average and the country suffers from a high dropout rate.Further, there exists a severe disparity in literacy rates and educational opportunities between males and females, urban and rural areas, and among different social groups. Inequalities and inadequacies in the education system have been identified as an obstacle preventing the benefits of increased employment opportunities from reaching all sectors of society. Further in India there is limited demand for unskilled and less skilled labour on account of technological development and upgradation and changes in the organisation of work. To sort out this problem following problems are to be taken care of.

According to Swati Majumdar,India does not under perform in primary education but has a comparative deficit in secondary education compared to countries having similar income levels. There is a high dropout rate at Secondary level in India and only around 12% students reach university. Vocational Education is presently offered at Grade 11, 12th – however students reaching this Grade aspire for higher education. Since the present system does not allow vertical mobility, skills obtained are lost. There is no opportunity for continuous skill up-gradation. Further, Poor quality of training is not in line with industry needs. Enrolment in 11th & 12th Grade of vocational education is only 3% of students at upper secondary level. International experience suggests that what employers mostly want are young workers with strong basic academic skills and not just vocational skills. The present system does not emphasize general academic skills.Another significant issue is over 90% of employment in India is in the Informal sector.

Vocational education in the Chinese school system is introduced at the junior secondary level (or junior middle school) in the age group of 12-14year. Junior level secondary schooling is the last 3-year stage of the 9 years of compulsory schooling advocated by the Nine- Year Compulsory Education Law of 1986. The element of vocational education is however loosing significance at the junior secondary level over the years. Unlike India, after the junior secondary level, each student is required to undertake the Senior High School Entrance Examination called the 'Zhongkao', the score in which determines the entry into general academic and vocational education schools. Typically, middle school graduates with lower marks land up in the senior secondary vocational stream. After completing 9 years of compulsory schooling, only about 11.6 per cent junior secondary graduates entered the workforce (2012) in contrast to India, where the share is much higher. Out of the 88.4 per cent continuing senior secondary education, the proportion of those entering the vocational stream, is about 47 per cent. That is almost half of the junior secondary graduates who enter the vocational secondary schools – again in total contrast to the situation in India. In 2011, there were about 13,093 schools under vocational secondary education (China Statistical Yearbook, 2012). To increase participation in the vocational education stream and support students from poorer economic backgrounds, the government initiated various measures. Since 2006 over 40 billion Yuan has been spent on vocational education, with more than half financed by the local levels of government. To overcome the financial burden and to ensure that the poor students continue in VET schools, a national scheme was introduced to offer a subsidy of 1500 Yuan per year per student, for their first two years at secondary vocational schools to cover their fees. Since 2009, an initiative has been taken to make tuition fees for senior secondary vocational schools free of cost for all students.

Inflation is one such factor that determines the quality of life of people in a country. China's inflation rate jumped to a new decade high of 8.7% in February 2008 after severe winter storms disrupted the economy and worsened food shortages. By November 2010, the inflation rate came down to 5.1%, despite an 11.7% increase in food prices year on year. The Chinese government took measures to stabilize market prices and increase the severity of punishments for those guilty of driving up prices through hoarding or cheating.Inflation in India started increasing from 2.23% in 2004 to 13.33% in 2010. In 2012 it has come down to10.05%. It has further come down to around 5% recently. The growth is basically due to growth in fuel and food prices. But problem also lies in supply bottlenecks like inadequate production, hoarding, speculative trading, black-marketing, etc. RBI has increased interest rate many times to control inflation.

These indicators do indicate that human development has taken place faster in China as compared to India.But along with this the growth policy in China is also more inclusive as adequate employment opportunities could be created in China for all categories of population. The various ways in which jobs could be created in China are the following.

In China reforms introduced property rights in the countryside. It is encouraged to form small non-agricultural businesses in rural areas. Decollectivization and higher prices for agricultural products also led to more productive (family) farms and more efficient use of labour. These forces induced many workers to move out of agriculture resulting in rapid growth of village enterprises which has drawn millions of people from traditional agriculture into higher-value-added manufacturing. By encouraging the growth of rural enterprises and not focusing exclusively on the urban industrial sector, China has successfully moved millions of workers off farms and into factories without creating an urban crisis. Further, China's open-door policy has spurred foreign direct investment in the country, creating still more jobs and linking the Chinese economy with international markets. India no doubt has lagged far behind China in export as India's growth policy all along was an inward looking import substitution policy.

Though China is often taken as an example for faster human development and economic growth, government in China in recent years has struggled to contain problems relating to social strife and environmental damage.Adequate job growth for millions of workers lay off from state-owned enterprises, migrants, and new entrants to the work force are still challenges for this giant economy. Maintaining the large state-owned enterprises losing the ability to pay full wages and pensions are challenges facing this economy too. In China, massive underemployment exist even now in both urban and rural areas, explicit unemployment is strong too. China faces substantial job creation pressures as there are on average one million more people seeking employment each year up to 2015, compared with the last five years.

India since the inception of planning i.e.since1950-51 focussed more on construction of capital intensive heavy industries. No doubt these industries helped in the development of other industries. But Medium and small enterprise as well as agriculture which are more labour intensive in nature never got due attention. Rural enterprises even to date are rarely visible in India creating a vacuum in the rural job market. Serious concerns have been raised about the jobless nature of the economic growth in India. While employment levels expanded steadily during the seventies and eighties, the rate of growth of employment continued to lag behind that of the labour force.Another feature of the employment situation is the sizeable proportion of the employed working at low levels of productivity and income. Of all the emerging economies, India has by far the highest proportion of informal employment, by any national or international measure.While agriculture has faced stagnation in growth, services have seen a steady growth.Of the total workforce, 7% is in the organised sector, two-thirds of which are in the public sector.The negative growth of employment was recorded in public sector while private sector showed an increasing trend, that is, the employment in public sector decreased by 1 per cent while private sector increased by 2.5 per cent. Unemployment is uniformly higher in urban areas and among women. Avenues for employment generation have been identified in the IT and travel and tourism sectors, which have been experiencing high annual growth rates of above 9%. Government schemes that target eradication of both poverty and unemployment attempt to solve these problems, by providing financial assistance for setting up businesses, skill honing, setting up public sector enterprises, reservations in governments, etc.But the reality is as these measures are not adequate and are not very comprehensive in nature, there is large-scale unemployment and underemployment in India. Unemployment in India is characterised by chronic disguised unemployment. India has two broad groups of migrant labourers - one that migrates to temporarily work overseas, and another that migrates domestically on a seasonal and work available basis. About 4 million Indian-origin labourers are migrant workers in the middle-east alone. Once the projects are over, they are required to return at their own expenses, with no unemployment or social security benefits. Domestic migrant workers have been estimated to be about 4.2 million. These workers range from full-time to part-time workers, temporary or permanent workers.Employment scenario of both the countries does revealthat enormous employment opportunities have been created in China as compared to India.

Despite better performance, China is saddled with problems of inequality even worse than India.Economic growth no doubt has created vast wealth for some in both the countries; it has amplified the disparities between rich and poor. In 2010, China's Gini coefficient - a measure of how wealth is distributed in a society - stood at 0.55. A Gini coefficient of 0.4 is generally regarded as the international warning level for dangerous levels of inequality.Despite the continued growth in urbanisation, 50.3% of China's mainland population (or 674.15 million people) continue to live in rural areas.In 2010, rural residents had an annual average per capita disposable income of 5,900 Yuan ($898). That's less than a third of the average per capita disposable income of urban residents, which stood at 19,100 Yuan ($2,900).The Engel coefficient, which measures how much of their income households have to spend on food, has been consistently higher for rural households.

India has got more unequal over the last two decades—India's Gini coefficient, has gone up from 0.32 to 0.38. In the early 1990s, income inequality in India was close to that of developed countries; however, its performance on inequality has made it closer to China on inequality than the developed world. Inequality in earnings has doubled in India over the last two decades, making it the worst performer among all emerging economies. The top 10% of wage earners now make 12 times more than the bottom 10%, up from a ratio of six in the 1990s. Wage inequality has increased between regular wage earners and contractual employees hired over a period of time.By contrast, inequality in the casual wage sector—workers employed on a day-to-day basis—has remained more stable.And when it comes to inequality in asset ownership (including land), India is much worse than China. When it comes to education, India is one of the most unequal in the world. The monthly expenditure of the poorest 10% population in rural India has risen by only 11.5%, while that of the richest 10% has gone up by 38% in the two years. A similar widening of gap is witnessed in urban India as well. While the monthly expenditure of the poorest 10% of urban population has risen by 17.2%, that of the richest 10% is up by 30.5%.

These kinds of inequality are growth-retarding. Inspite of the fact that inequality is growing both in China and India, China no doubt is a lesson for India to tackle problems of poverty and unemployment.If Inclusive growth means increasing the productive capacity of majority and notshort term gains like freebies and subsidies, then growth strategiesin China over the years have become more inclusive than India. India must recognise it and reorient its growth policies to make it more inclusive.

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