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Lessons from China's Growth Story

What is the issue?

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- Chinese economy has rose to a position of dominance in international trade from humble beginning just about 50 years ago.
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- Considering the similarities at the start and the size of their populations, India has much to learn from the Chinese story.
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How does China's and India's growth fare?

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- **History -** China and India started rebuilding their economies as independent nations in the 1950s, with India having a greater structural advantage.
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- Both economies struggled after the initial euphoria and faced tremendous challenges in tackling a burgeoning population and a very poor growth rate.
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- Significantly, the same time saw Japan, Germany and South East Asian countries seeing miraculous growth rates.
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- Excessive government control, corruption and civil dissatisfaction were proving to be a serious menace in both.
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- **Growth -** In 1978, after the death of Mao, China liberalised its economy, by inviting foreign capital and promoting its coastal areas for investment.
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- Also, agriculture was freed from state control and "One-child policy' was introduced to reduce population.
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- Today, China is a $12.5 trillion economy - the 2nd largest in absolute terms and the largest in PPP terms.
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- India took to liberalisation in 1991 after an economic crisis and grew at around an impressive 8% per annum from then.
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- But with a $2.5 trillion, it is currently way behind China.
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How did China's case evolve?

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- China first focused on labour-intensive industries to create jobs for its huge labour force — textiles, garments, toys, assembly lines, electronics etc...
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- It created multiple "Special Economic Zones" (SEZ), where large tracts along the coast were provided with a differential pro-business ecosystem.
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- It soon attracted over massive FDI and become the factory of the world and the largest global importer and exporter.
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- With liberal bank lending, it also enabled the growth of large firms which could invest and sustain a virtuous economic cycle.
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- Also, a decentralised economic model that empowered provinces to make many economic decisions, helped reduce bureaucratic bottlenecks.
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- China invested massively in skill development and higher education, promoted urbanisation by nudging over 400 million towards cities.
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- Through mercantilist policies, it created a foreign currency kitty of over $4 trillion and managed its currency to keep its advantage.
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How is this in contrast to India's?

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- Contrarily, India incentivised capital-intensive industries and missed focusing on job creation in the initial years.
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- India championed the romantic notion of rural villages, failing to understand that rapid urbanisation and effective city governance was the future.
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- Also, its policy of reserving many goods for the MSME sector and the regressive labour policies inhibited free business.
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- Notably, only an effective 4.7% of India's GDP was invested whereas the need was at least 6.5%, which was 8.5% in China's case.
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- Resultantly, India's supply-chain costs are at 14% of GDP in contrast to China's 6%, which makes India highly uncompetitive.
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What is the way ahead?

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- While GST is a good move to boost trade, huge investment in infrastructure and job creation is need for bettering the entire eco-system.
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- Removing restrictive labour regulations and reducing corporate taxes to 25% for all and special tax breaks for select industries needs to be considered.
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- Increasing investment to at least 6.5% of GDP, release divestment in state-owned mature infrastructure assets would also help.
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- Bettering port, power, highways and rail infrastructure and investing in higher education for developing human capital are essential.
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- Promoting innovation by providing considerable autonomy to research institutions and investing in urban governance is another priority.
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Source: The Indian Express

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