

# Economic Reforms, External Opening and Growth: China and India

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- 1. Introduction**

- 2. Reform and Growth Process**

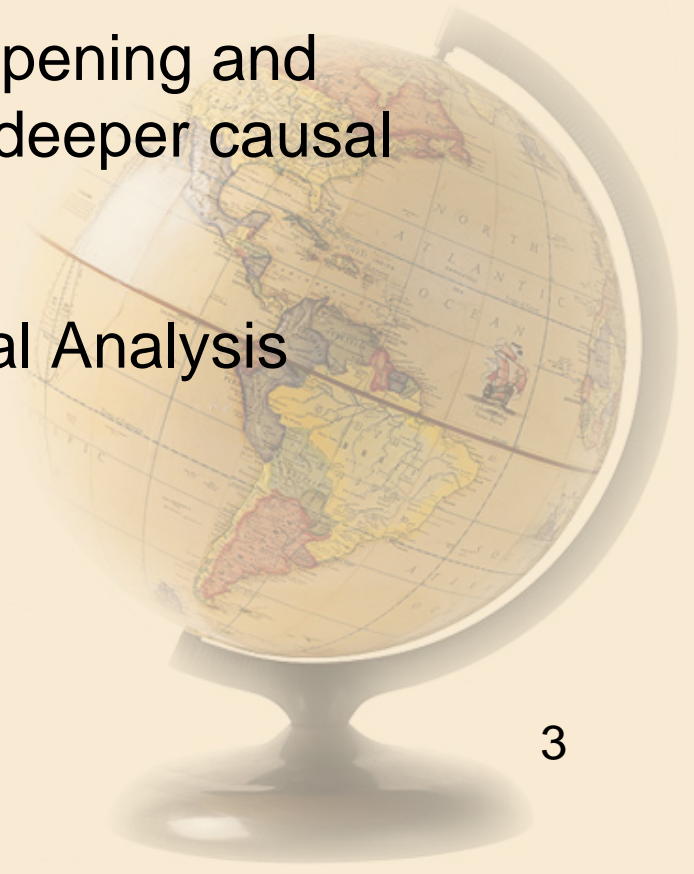
- 3. External Opening: Foreign Trade and Capital Flows**

- 4. Summary, conclusions and Future Prospects**



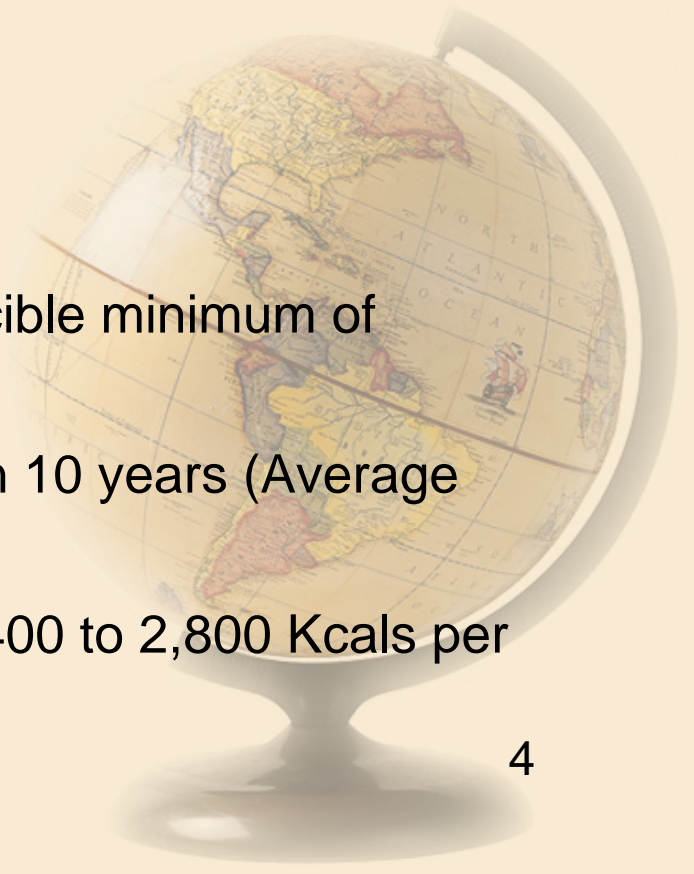
# 1. Introduction

- China and India: Two Fastest Growing major Economies since 1980 - [Table 1A](#)
- Optimistic forecast of Fogel for 2040.
- Economic Reform, External Opening and Growth: mere association or deeper causal connection?
- Complexity of Counter Factual Analysis
- Analytical Description



# The Reform and Growth Process: Inclusiveness

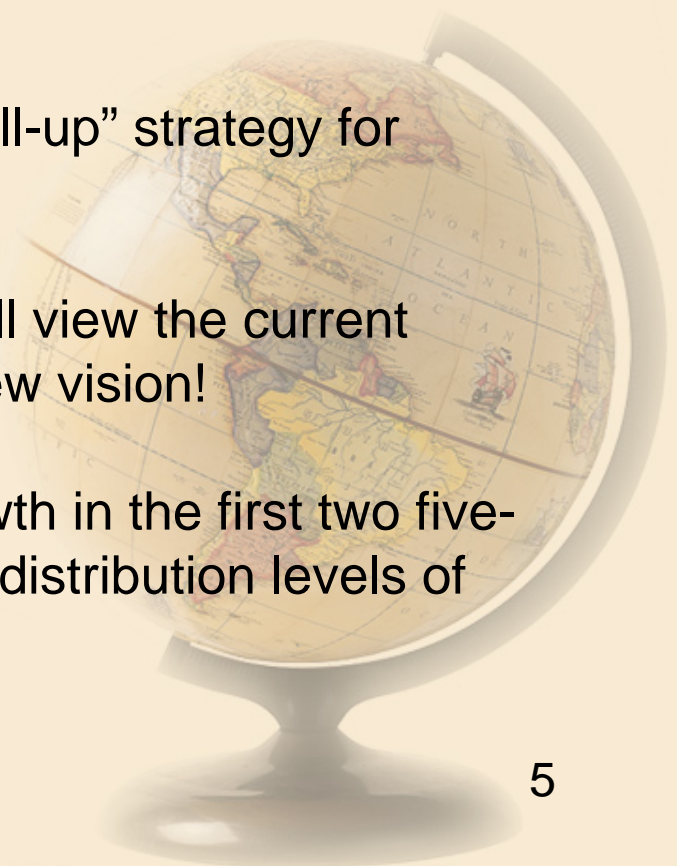
- Poverty Eradication as the overarching objective of development in India.
- Growth never viewed as having an intrinsic value in and of itself
- Instrumentality of sustained, rapid, and inclusive growth for poverty eradication
- Naoroji, 1873
- National Planning committee 1938
  - Adequate standard of living – an irreducible minimum of Rs.15 – Rs. 25 per capita, per month
  - Doubling to tripling of National Wealth in 10 years (Average growth at 7.5% and 12.5% per year)
  - Objective Tests including nutrition at 2,400 to 2,800 Kcals per day per adult.



# The Reform and Growth Process:

## Inclusiveness, *continued...*

- Plan in 1962 for providing a minimum level of living (Rs. 20 per capita per month)
- Three points from history:
  - A: Rapid growth always viewed as a “Pull-up” strategy for Poverty eradication
  - B: Emphasis on inclusiveness
  - C: Only those suffering from amnesia will view the current emphasis on inclusive growth as a new vision!
- Question about distribution of benefits of growth in the first two five-year plans – Appointment of a Committee on distribution levels of living.



# The Reform and Growth Process:

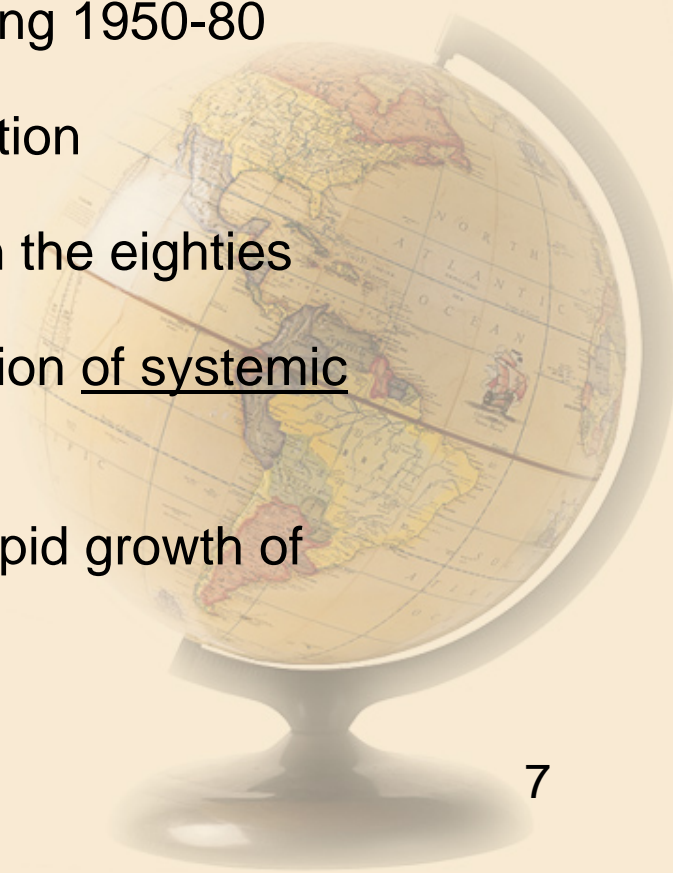
## Inclusiveness, *continued...*

- Sad story is not lack of a vision of inclusive growth, but an utter failure to deliver growth, let alone inclusiveness, during 1950-80 - [Table 2](#)
- China's Per capita income below India's by 25% in 1950
  - **Merely caught up with India during 1950-80**
  - Excesses of Great Leap Forward and the Cultural Revolution



# The Reform of Growth Process: Origins of Reforms

- China ripe for reform in 1978 when Den Xiao Ping took over
- India – no pressure for systemic reform during 1950-80
- 1966 Crisis and brief flirtation with liberalization
- **Piecemeal** reforms and **fiscal profligacy** in the eighties
- Macroeconomic crisis of 1990-91 and initiation of systemic reforms
- Collapse of the Soviet Union in 1991 and rapid growth of China since 1978



# The Reform and Growth Process: Characteristics of Reforms:

- Are Chinese reforms gradual?
- Origins in the crisis of 1990-91 and **World Bank-IMF conditionalities** determined the contents of Indian reforms
- Indian reform “Top-Down”
- Reform of Institutions of fiscal federalism and Planning are yet to take place
- “Xiaokong Society” in China, another phrase for inclusiveness of growth?





# The Reform and Growth Process:

## Sources of Reforms:

- Importance of Total Factor Productivity growth for sustainability.
- Bosworth and Collins (2007) – [Table 1B](#)
- Herd and Dougherty (2007) – [Table 1C](#)
- Other studies – [Table 1D](#)
- TFP growth in both countries went up after reforms.



# Foreign Trade and Capital Flows: Perspectives:

- National Planning Committee's emphasis in India on self-sufficiency and complete neglect of comparative advantage
- 'Vent for surplus'
- Ideal in GATT/WTO
- China in GATT/WTO
- Accession to WTO in 2001
- China's rationale for accession



# Foreign Trade and Capital Flows: Trade Barriers in China and India 2005-06:

- Tariff Barriers on imports – [Table 3A](#)
- Tariff barriers faced by exports – [Table 3B](#)
- Anti-Dumping measures – [Table 3C](#)



# Foreign Trade and Capital Flows:

## Outcomes:

- Shares in world merchandise exports – [Table 4, Part I](#)
- Shares of merchandise trade in GDP – [Table 4, Part II](#)
- Service trade – Table 4, [Part IIIA](#)
- IT services – Table 4, [Part IIIB](#)
- Composition of Foreign Capital Flows – [Table 4, Part IVA](#)
- Shares in GDP of capital flows – [Table 4, Part IVB](#)
- External Debt – [Table 4, Part V](#)
- Disaggregated performance prior to 2001



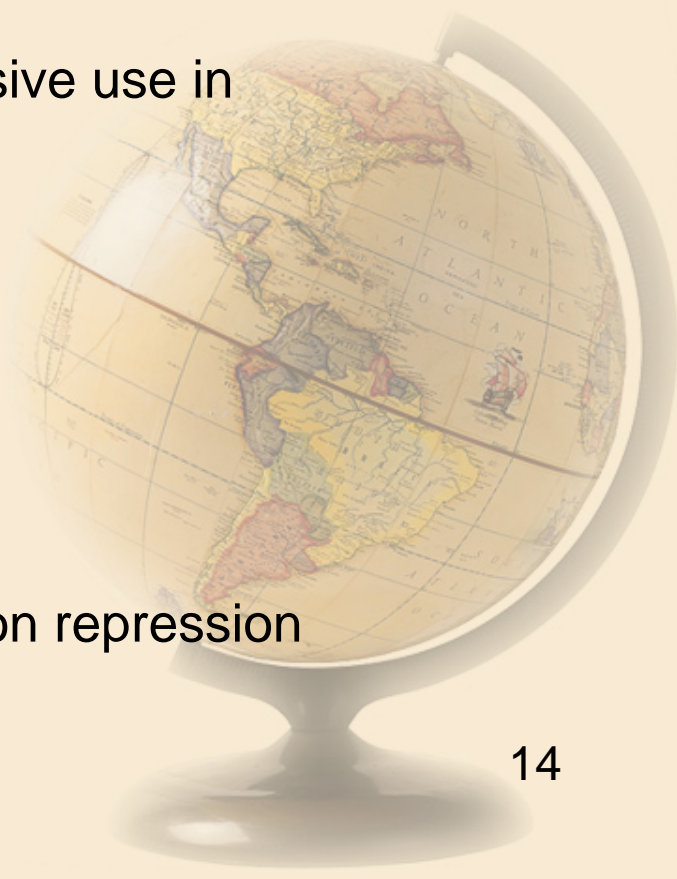
# Foreign Trade and Capital Flows: Outcomes, *continued*:

- Recent shifts in China's pattern of exports
- Review of China's and India's trade policies in WTO
- China and India: as proliferation of regional trade agreements (RTAs)
- RTAs consistent with WTO rules – an oxymoron
- Sunset clause on RTAs
- Surprising low key role of China in contrast to the aggressive posture of India in Doha.



# Summary, Conclusions and Future Prospects

- Inclusiveness of growth as a vision in both countries
- China has liberalized trade far more than India
- India – one of the most protected countries in the developing world
- China's embrace of openness and its purposive use in accelerating domestic reform process
- Reluctant opening in India
- SEZs in China and India
- Rising Inequalities: Regional and individual
- India: Democracy as a safety valve
- China's authoritarian systems still depends on repression



# Summary, Conclusions and Future Prospects, *continued...*

- Infrastructure issues
- Reforms of agricultural sector and shift of labour away from it, a challenge in both
- Financial Sector reforms
- China's inefficient investment



# Table 1A: Growth of Real GDP (Average, percent per year)

	1950-80	1980-1990	1990-2000	2000-2005	2006	2007
<b>China<sup>1</sup></b>	4.40*	10.3 <sup>+</sup>	10.6 <sup>++</sup>	9.6 <sup>++</sup>	10.7 <sup>~</sup>	10.4 <sup>~</sup>
<b>India<sup>2</sup></b>	3.75**	5.7 <sup>+</sup>	6.0 <sup>++</sup>	6.4 <sup>***</sup>	9.4 <sup>***</sup>	
<b>Low Income</b>	-	4.4	5.0	5.6		

1. Calendar Years

2. Except for 1980-1990 and 1990-2000 data for other periods represent fiscal years so that 1950-80 relate to 1950-51 to 1980-81, 2000-2005 to 2000-2001 to 2005-06, and 2006 to 2006-07.

Sources: \* Maddison (1998); \*\* Author's estimate; + World Bank (2005), Table 4.1, ++World Bank (2007a, Table 4.7), ~ World Bank (2007b), \*\*\* RBI (2007) for 2000-2005 and CSO (2007) for 2006 - 2007.

[Back](#)



# Table 1B: Sources of growth of Productivity/worker: 1978-2004

	Growth rate of output per worker		Contribution of:			Total Factor Productivity (TFP)
			Capital	Land	Education	
Total Economy	China	7.3	3.2	0.0	0.2	3.8
	India	3.3	1.3	0.0	0.4	1.6
Agriculture	China	4.3	2.8	0.0	0.2	1.8
	India	1.4	0.4	-0.0	0.3	0.8
Industry	China	7.0	2.2		0.2	4.4
	India	2.5	1.5		0.3	0.6
Services	China	4.9	2.1		0.2	1.9
	India	3.5	0.6		0.4	2.4

Source: Bosworth and Collins (2007), Tables 1 and 2

# Table 1C: Analysis of factors behind growth in China and India

## China:

Period average compound growth rates

	1950-1979	1980-1989	1990-1999	1999-2005
GDP	5.62	10.62	9.94	8.75
Employment	2.6	2.9	1.17	1.01
Labour productivity	2.95	7.51	8.66	7.67
Capital deepening	2.61	2.96	4.81	5.09
Total factor productivity	0.31	4.39	3.68	2.45
<i>Memorandum item</i>				
Capital stock	7.3	8.24	9.71	10.04
GDP per capita	3.45	9.11	8.74	8.13
Labour productivity	2.95	7.51	8.66	7.67
Participation	0.49	-0.27	0.13	-0.45
Demographics	0	1.78	-0.07	0.89

## India:

	1950-1979	1980-89	1990-99	2000-05
GDP <sup>1</sup>	3.54	4.94	6.00	6.47
Employment	2.26	2.11	1.56	2.61
Labour productivity	1.25	2.78	4.36	3.76
Capital deepening	0.76	0.94	1.90	1.98
Total factor productivity	0.49	1.83	2.44	1.76
Human capital	0.29	0.38	0.38	0.16
Residual	0.20	1.45	2.06	1.60
<i>Memorandum item</i>				
Capital stock	3.81	4.02	5.42	6.68
GDP per capita	1.30	2.68	3.86	4.80
Labour productivity	1.25	2.78	4.36	3.76
Participation	0.11	-0.65	-0.60	0.17
Demographics	-0.05	0.56	0.12	0.83

Source: Herd and Dougherty (2007)



# Table 1D: Other pre-Reform TFP Estimates

	India		China		
Virmani (2002)	1950-65	1.9	Hu and Khan (1997)	1953-78	1.1
	1965-80	0.1			
IMF	1960s	-1.0 to 1.1			
Ahluwhlia (1992)	1960-80	-0.5a			

a: Manufacturing only

[Back](#)

# Table 2: Poverty

(proportion of population below poverty line)

India (official)	1951-52	1961-62	1973-74	1977-78	1983	1987-88	1993-94	1999-00	2004-05
Rural India	47.4	47.2	55.7	53.1	45.7	39.1	37.3	27.1	28.3
Urban India	35.5	43.6	48.0	45.2	46.8	38.2	132.4	23.6	25.7
Combined	45.3	46.5	54.1	51.3	44.5	38.9	36.0	26.1	27.5

Sources: Datt, G (1999, 1998), Deaton (2003), GOI (2007)

	1978	1990	1996	1998	2001	2005
China (National Poverty Line)*	30.7 <sup>a</sup>	9.5 <sup>a</sup>	6.0	4.6	---	
China (World Bank, \$1/day Poverty Line)**		31.5	16.4	16.1	14.3	10.2

a = rural areas only

Sources: \*Park and Wang (2001) for 1978 and 1990 and World Bank (2007a), Table 2.6 for 1996 and 1998; \*\* Yusuf and Nabeshima (2006).

# Table 3: Trade Barriers

## A. Tariffs (summary). CHINA IMPORTS

### Part A.

Summary		Total	Ag	Non-Ag	WTO member since		2001	
Simple average final bound		10.0	15.8	9.1	Binding coverage:	Total	100	
Simple average MFN applied	2006	9.9	15.7	9.0		Non-Ag	100	
Trade weighted average	2005	4.7	15.4	4.2	Ag: Tariff quotas (in %)	5.0		
Imports in billion US\$	2005	602.7	26.0	576.7	Ag: Special safeguards (in % )	0		

Frequency distribution		Duty-free	0 <= 5	5 <= 10	10 <= 15	15 <= 25	25 <= 50	50 <= 100	> 100	NAV
		Tariff lines and import values (in %)								in %
Agricultural products										
Final bound		5.8	8.1	25.0	25.2	26.3	7.0	2.5	0	0
MFN applied	2006	6.0	7.2	25.8	25.5	25.8	7.3	2.3	0	0.3
Imports	2005	1.1	40.5	25.7	5.2	3.9	19.7	3.9	0	1.3
Non-agricultural products										
Final bound		6.8	18.3	46.9	14.7	12.0	1.4	0	0	0
MFN applied	2006	7.3	19.9	45.5	14.3	11.5	1.6	0	0	0.4
Imports	2005	43.6	22.5	29.0	2.7	1.1	1.1	0	0	0.1

Source: WTO (2007a)

# Table 3: Trade Barriers, *continued*

## A. Tariffs (summary), INDIA IMPORTS

### Part A.

Summary		Total	Ag	Non-Ag	WTO member since		1995
Simple average final bound		49.2	114.2	34.9	Binding coverage:		Total 73.8
Simple average MFN applied	2005	19.2	37.6	16.4			Non-Ag 69.8
Trade weighted average	2004	14.7	60.6	12.3	Ag: Tariff quotas (in %)		0.7
Imports in billion US\$	2004	102.7	5.2	97.5	Ag: Special safeguards (in %)		0

Frequency distribution		Duty-free	0 <= 5	5 <= 10	10 <= 15	15 <= 25	25 <= 50	50 <= 100	> 100	NAV
		Tariff lines and import values (in %)								in %
Agricultural products										
Final bound		0	0	1.3	0.1	2.5	6.7	53.0	36.2	0.3
MFN applied	2005	2.5	0	1.4	3.0	0.4	80.5	10.7	1.4	0.3
Imports	2004	0.4	0	5.1	3.7	0.0	48.5	41.5	0.8	2.3
Non-agricultural products										
Final bound		3.2	0.5	0.0	0	15.0	50.0	0.8	0.3	6.1
MFN applied	2005	2.4	1.8	0.2	84.8	5.2	4.2	1.1	0.2	6.0
Imports	2004	7.7	4.4	28.6	55.5	3.5	0.2	0.1	0.0	0.3

Source: WTO (2007a)

# Table 3: Trade Barriers, *continued*

## A. Tariffs (summary), CHINA EXPORTS

<b>Part B</b>		<b>Exports to major trading partners and duties faced</b>							
<b>Major markets</b>	<b>Bilateral imports</b>		<b>Diversification</b>		<b>MFN AVG of traded TL</b>		<b>Pref. margin</b>	<b>Duty-free imports</b>	
	<b>in million</b>		<b>95% trade in no. of</b>		<b>Simple</b>	<b>Weighted</b>	<b>Weighted</b>	<b>TL in %</b>	<b>Value in %</b>
	<b>US\$</b>		<b>HS 2-digit</b>	<b>HS 6-digit</b>					
European Communities	2005	193,337	88	1,521	5.9	4.0	1.9	56.8	71.5
United States	2005	193,299	83	996	4.0	3.6	0.0	41.1	53.8
Hong Kong, China	2005	134,909	73	915	0.0	0.0	0.0	100.0	100.0
Japan	2005	107,681	85	1,231	7.9	4.8	0.6	59.7	69.8
Korea, Republic of	2005	38,648	89	1,397	10.5	13.6	0.1	13.3	34.2
Canada	2005	24,271	79	1,078	4.2	5.1	1.0	65.4	57.3

Source: WTO (2007a)

# Table 3: Trade Barriers, *continued*

## A. Tariffs (summary), INDIA EXPORTS

Part B Exports to major trading partners and duties faced									
Major markets	Bilateral imports		Diversification		MFN AVG of traded TL		Pref. margin	Duty-free imports	
	in million		95% trade in no. of		Simple	Weighted	Weighted	TL in %	Value in %
	US\$		HS 2-digit	HS 6-digit					
European Communities	2005	22,970	85	1,269	5.9	5.3	2.2	56.5	56.5
United States	2005	16,490	74	636	4.3	4.7	0.6	69.5	66.4
China	2005	9,740	29	119	8.9	3.4	0.1	8.5	58.7
Hong Kong, China	2005	4,584	19	59	0.0	0.0	0.0	100.0	100.0
Singapore	2005	4,063	60	308	0.1	0.0	0.0	99.9	100.0
Japan	2005	3,181	57	310	11.0	2.5	0.6	54.0	64.2

Source: WTO (2007a)



# Table 3: Trade Barriers, *continued*

## B. Tariffs (details), All Products

Country/Territory	Year of MFN applied tariff	Binding coverage in %	Simple average		Duty-free		Non ad valorem duties		Duties > 15 %	
			Bound	MFN applied	Bound	MFN applied	Bound	MFN applied	Bound	MFN applied
			Share of HS 6 digit subheadings in per cent							
1	2	3	4	5	6	7	8	9	10	11
China	2006	100	10.0	9.9	6.6	7.1	0	0.4	16.4	16.0
India	2005	73.8	49.2	19.2	2.8	2.4	5.3	5.3	70.4	21.6

Source: WTO (2007a)

# Table 3: Trade Barriers, *continued*

## B. Tariffs (details), Agricultural Products

Country/Territory	Year of MFN applied tariff	Simple average		Duty-free		Non ad valorem duties		Duties > 15 %	
		Bound	MFN applied	Bound	MFN applied	Bound	MFN applied	Bound	MFN applied
		Share of HS 6 digit subheadings in per cent							
1	2	4	5	6	7	8	9	10	11
China	2006	15.8	15.7	5.8	6.0	0	0.3	35.9	35.4
India	2005	114.2	37.6	0	2.5	0.3	0.3	98.5	93.1

Source: WTO (2007a)

# Table 3: Trade Barriers, *continued*

## B. Tariffs (details), Non-Agricultural Products

Country/Territory	Year of MFN applied tariff	Binding coverage in %	Simple average		Duty-free		Non ad valorem duties		Duties > 15 %	
			Bound	MFN applied	Bound	MFN applied	Bound	MFN applied	Bound	MFN applied
			Share of HS 6 digit subheadings in per cent							
1	2	3	4	5	6	7	8	9	10	11
China	2006	100	9.1	9.0	6.8	7.3	0	0.4	13.5	13.0
India	2005	69.8	34.9	16.4	3.2	2.4	6.1	6.0	66.2	10.7

Source: WTO (2007a)

# Table 3: Trade Barriers, *continued*

## C. Anti-Dumping Measures

AD Measures Reported, January 1, 1995 - December 31, 2006

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	Totals	Rank out of 38
China, PR	0	0	0	0	0	0	0	5	33	14	16	24	92	6
European Community	15	23	23	28	18	41	13	25	2	10	21	12	231	3
India	7	2	8	22	23	52	38	64	53	29	17	16	331	1
United States	33	12	20	12	24	31	33	25	12	14	18	5	239	2
All countries	119	92	125	170	185	227	167	216	221	151	131	137	1,941	

Source: [http://www.wto.org/english/tratop\\_e/adp\\_e/adp\\_stattab7\\_e.xls](http://www.wto.org/english/tratop_e/adp_e/adp_stattab7_e.xls)

# Table 3: Trade Barriers, *concluded.*

## D. Anti-Dumping Measures as reported versus Exporting Country

Exporting Country	Reporting countries					Totals:	Rank out of 98
	<i>China, P_R</i>	<i>European Community</i>	<i>India</i>	<i>United States</i>			
China, P.R.	0	72	93	64	536	1	
European Community	8	0	37	0	63	13	
India	4	28	0	19	127	6	
United States	20	11	24	0	175	3	
Totals for 01/01/95 - 31/12/06	142	362	457	373	3044		
<b>Rank out of 42</b>	<b>7</b>	<b>3</b>	<b>1</b>	<b>2</b>			

Source: [http://www.wto.org/english/tratop\\_e/adp\\_e/adp\\_stattab3\\_e.xls](http://www.wto.org/english/tratop_e/adp_e/adp_stattab3_e.xls)

[Back](#)

# Table 4: Foreign Trade and Investment Indicators, *continued...*

## I. Share in World Merchandise Trade by Region and Economy (percent)

	1948		1953		1973		1983		2006	
	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
China	0.9	1.1	1.2	1.7	1.0	0.9	1.2	1.1	7.5	6.3
India	2.2	3.1	1.3	1.4	0.5	1.5	0.5	0.7	0.9	1.3

Source: WTO (2006a), Tables II.2 and II.3

([http://www.wto.org/english/news\\_e/pres07\\_e/pr472\\_e.htm#appendix\\_table3](http://www.wto.org/english/news_e/pres07_e/pr472_e.htm#appendix_table3)), Appendix, Table 3.

# Table 4: Foreign Trade and Investment Indicators, *continued*

II. Share (%) of Merchandise trade (imports + exports) in GDP

	1981-83	1990	2005
Low Income	25.8	23.6	41.1
China	16.7	32.5	63.6
India	7.4	13.1	28.5

Source: World Bank (1997, 2007a), Table 6.1

# Table 4: Foreign Trade and Investment Indicators, *continued*

## IIIA. Trade in Commercial Services: Total Exports

Total Service Exports (\$, millions)	1980	1990	2005	Share in World Exports (%) 2006
Low Income	9,253	13,307	84,840	
China	2,512	5,748	73,909	3.2
India	2,949	4,610	56,094	2.7

Source: World Bank (1997, Table 4.10; 2007a, Table 4.6)

WTO ([http://www.wto.org/english/news\\_e/pres07\\_e/pr472\\_e.htm#appendix\\_table5](http://www.wto.org/english/news_e/pres07_e/pr472_e.htm#appendix_table5)), Appendix, Table 5



# Table 4: Foreign Trade and Investment Indicators, *continued...*

IIIB. Share of computer, information, and communication and other commercial Services (%)

	1980	1990	2005
Low Income	32.1	51.2	58.9
China	5.6	18.7	38.6
India	30.5	42.7	66.4

Source: World Bank (1997, Table 4.10, 2007a, Table 4.6)

# Table 4: Foreign Trade and Investment Indicators, *continued*

## IVA. Foreign Capital Flows (\$ Millions): Composition

	FDI		Bonds		Equity		Bank & Trade-Related Lending	
	1990	2005	1990	2005	1990	2005	1990	2005
Low Income	2,233	20,522	116	-2,144	7	12,471	1,623	3,902
China	3,487	79,127	-48	2,702	0	20,346	4,668	2,442
India	237	6,598	-3,959	3,722	0	11,968	1,458	4,338

Source: World Bank (1997, Table 5.2, 2007a, Table 6.8)

# Table 4: Foreign Trade and Investment Indicators, *continued*

## IVB. Foreign Capital Inflows: Share in GDP

	China		India	
	1990	2004	1990	2004
Gross Private Capital (% of GDP)	2.5	10.9	0.8	5.9
Gross Foreign Direct Investment (% of GDP)	1.2	3.6	0.1	1.0

Source: World Bank (2007a), Tables 6.1

# Table 4: Foreign Trade and Investment Indicators, *concluded*

## V. External Debt (\$ Billions)

	Long Term			Public & Publicly Guaranteed			Private Non-Guaranteed		
	1980	1990	2005	1980	1990	2005	1980	1990	2005
Low Income	101.94	266.7	338.6	77.54	259.3	298.2	5.09	7.50	40.4
China	4.50	45.5	133.3	4.50	82.9	90.8	0	0	50.9
India	18.33	72.5	114.3	18	71.0	88.7	0.3	1.49	34.1

Source: World Bank (1987, 2007a, Table 4.16)

[Back](#)