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CHINA AND INDIA: EMERGING GIANTS ON THE ASIAN ECONOMIC SCENE

LIAM RYAN AND ANITA MEDHEKAR-SMITH

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INTRODUCTION

In its 1993 Policy Research Report titled '*The East Asian Miracle*', the World Bank explored the causes of East Asia's "remarkable record of high and sustained economic growth from 1965 to 1990". (World Bank. 1993:1). Neither the People's Republic of China (PRC) nor India were ranked among the elite group of High-Performing Asian Economies (HPAEs). However, by the end of 1996, both China and India, the two most highly populated countries in the world, could claim to have achieved remarkable economic growth performances over the previous five years.

This paper compares and contrasts the recent economic growth performances of China and India using a range of key economic and socio-economic performance indicators. From the experiences of the eight HPAEs - Japan, Hong Kong, Korea, Taiwan, Singapore, Indonesia, Malaysia and Thailand, the 1993 World Bank Report, identified several factors, some compulsive, some permissive, some generic and some applicable to only some countries, that contributed to the spectacular economic performances of these pacesetters. This paper assesses the extent to which these growth-promoting factors are present , or emerging, in China and India, as well as identifying a range of growth-inhibiting factors in each country.

Initially, the recent economic performances of China and India are examined in terms of a number of critical permissive factors contributing to the attainment and maintenance of sustained high rates of economic growth. It is noted that high rates of economic growth alone may not be an indication of a thriving economy; several other measures are needed, so a family of performance measures is used in order to isolate basic strengths and weaknesses in the structure, operation and management of these two massive economies. In the case of each of the HPAEs there was a congruence of a number of permissive factors that collectively contributed to a strengthening of their competitive trading positions. These enhanced trading positions were reflected in improvements in merchandise trade balance, current account balance, foreign exchange reserves and long-term external debt positions, as well as in real Gross Domestic Product (GDP) growth rates and real GDP per capita growth rates. Economic miracles do not just happen; invariably they result from deliberate policies developed and implemented in a strategic manner. In addition, there are usually costs associated with highly successful growth achievements that, due to limitations in conventional national accounting practice, remain hidden and therefore distort to some extent, the true picture.

The East Asian Economic Miracle

In discussing the impressive economic growth performance of Japan, Hong Kong, South Korea and Taiwan, Garnaut (1989:1) observes:

> " The whole world has been forced to respond to the phenomenon of sustained and rapid, internationally-oriented economic growth in Northeast Asia. The whole framework of international trade has changed, and is yet to find a new balance. Europeans have been forced to accelerate internal integration partly in response to an East Asian challenge. United States political and intellectual life is heavily laden with uncertain and ambivalent responses to the realisation that the success of its own post-war international trade policies has reduced its own relative weight and power".

The sheer dynamism of these four HPAEs, all located in Northeast Asia, has induced accelerated economic growth in a number of Southeast Asian economies including Indonesia, Malaysia and Thailand, all of which were already subject to the stimulating influence of Singapore's outstanding economic performance in a stringent natural resource environment.

By 1990, Japan, Taiwan, Hong Kong, South Korea and Singapore had become role models. They had proved that human ingenuity can overcome natural resource endowment deficiencies. They had demonstrated remarkable capabilities for mobilising human and capital resources.

Changing patterns in Northeast Asian Dynamism

By the end of 1996, the Japanese economy appeared to be tentatively emerging from a prolonged period of stagnation having experienced an annual average economic growth rate of only 2% throughout the 1990s. Hong Kong had experienced an economic slowdown as it became more deeply integrated with the PRC economy and business expectations became less optimistic in the light of the uncertainty surrounding its political and economic future.

The economies of South Vietnam and the Philippines, on the other hand, had turned in improved economic performances and were starting to rein in their HPAE neighbours.

In the context of the centre of gravity of world trade inexorably shifting to East Asia, the prospect of China in particular, and possibly India, matching the performances of the HPAEs, should cause some concern in Europe and North America. Should China and India manage to maintain their recent strong economic growth performances, this could well act as a catalyst for strengthening and extending both the European Union (EU) and the North American Free Trade Agreement (NAFTA) trading blocks to counterbalance the growing economic strength and increasing integration of the Asian economies.

Comparative Economic Performances: China and India (1980-1996)

Each of these countries has experienced many political disruptions and changing economic fortunes between 1980 and 1996. China has been gradually introducing market-oriented reforms since 1978, but the pace of change accelerated rapidly in the early 1990s. India, after a virtual economic collapse in 1990-91, pushed through a spate of economic and trade liberalising reforms resulting in a much-enhanced economic performance which was sustained in 1996 despite considerable political instability.

China and India, both long-stifled by inward-looking trade and investment policies, cumbersome bureaucracies, and severe institutional rigidities, are now resolutely striving to match the economic performance of the HPAEs. Many of the reform measures being implemented in both countries are related to trade liberalisation with a view to attracting more foreign investment and boosting export earnings. The basic strategy in each case has three main prongs – restructuring, liberalising trade and fostering export-led economic growth.

In 1996, China had an estimated population of 1.23 billion and a stable population growth rate of 1.3 percent per annum. India's estimated population in 1996 was 936 million with a population growth rate of 2.3 percent per annum.

China's Gross National Product (GNP) per capita (official) in 1996 was US$ 565 whilst that of India was significantly lower at US$ 331.

There are wide disparities in the distribution of income between these two countries with a more even distribution in China; there are also major differences in resource endowment and growth potential between States (India) and Provinces (China).

Of the two, China's prospects of maintaining a high economic growth performance appear to be much stronger than those of India; in addition, China has the advantage of already being in a stronger position and well down the economic reform track.

In terms of real GDP per capita growth between 1960 and 1985, China was ranked nineteenth in the 'top twenty' countries and India was ranked twentieth in the 'middle twenty' grouping. (World Bank. 1993:3). So India has a lot of leeway to make up.

Table 1 provides a basis for comparing the recent economic performances of these two countries across a range of domestic and external economic indicators.

TABLE 1. COMPARATIVE ECONOMIC PERFORMANCES: CHINA & INDIA

COUNTRY	CHINA					INDIA				
INDICATOR	1980	1990	Change	1996	Change	1980	1990	Change	1996	Change
Domestic Indicators			*1980-90*		*1990-96*			*1980-90*		*1990-96*
GDP (US $ bn)	251	388	64.9%	825	112.6%	173	298.3	57.1%	355.3	16.0%
Population (million)	981	1155	17.7%	1233	6.8%	675	839	24.3%	936	11.6%
GNP per capita (US $)	288	339	17.7%	694	104.7%	257	319	24.1%	331	3.8%
Real Growth (GDP) (% p.a)	7.7	3.9	-49%	9.7	148.7%	6.7	5.6	-16%	6.8	21.4%
INFLATION RATE (% p.a. CPI)	7.5	3.1	-4.4	8.5	5.4	11.4	11.6	0.2	8.7	-2.9
Growth in Money (M2, %)	25.9	28.9	11.6%	26	-10.0%	15.9	15.1	-5.0%	15	-0.7%
Share in GDP (%)			**Absolute**		**Absolute**			**Absolute**		**Absolute**
Agriculture	32.4	27	-5.4	17.1	-9.9	38.1	31	-7.1	27.9	-3.1
Industry	45.5	41.6	-3.9	51.1	9.5	25.9	28.8	2.9	29.8	1
Manufacturing	*	33.6	*	40.1	6.5	17.7	18.6	0.9	23.8	5.2
Services	22.1	31.4	9.3	31.8	0.4	36	39.5	3.5	42.3	2.8
Share in GDP (%)			**Absolute**		**Absolute**			**Absolute**		**Absolute**
Gross Domestic Investment	33	33.2	0.2	43.1	9.9	20.9	27.7	6.8	25	-2.7
Gross Domestic Saving	32.3	37.3	5	42.4	5.1	17.4	24.3	6.9	24.6	0.3
Government Expenditure	27.1	19.5	-7.6	13.5	-6	10	13.7	3.7	13	-0.7
External Indicators										
Merchandise Exports (US $ bn)	18.2	61.3	236.8%	151.8	147.6%	8.3	18.1	118.1%	35	93.4%
% GDP	2.4	17.3	14.9	21.8	4.5	4.8	6.7	1.9	11.1	4.4
Merchandise Imports (US$ bn)	19.9	52.5	163.8%	137.4	161.7%	15.9	24.1	51.6%	39	61.8%
Merchandise Trade balance (US$ bn)	-1.7	8.8	10.5	14.4	5.6	-7.5	-6	1.5	-4	2
Current Account Balance (US$ bn)	0.9	11.9	11	10	-1.9	-2.9	-9.7	-6.8	-5.4	4.3
% GDP	0.1	3.4	3.3	1.4	-2	1.7	-3.6	-5.3	-1.7	1.9
Terms of Trade (1990=100)	114	100	-14	*	*	99.2	100	0.8	*	*
Foreign Exchange Reserves (US$ bn)	2.3	29.6	27.3	110	80.4	6.9	2.2	-4.7	20.4	18.2
External long-term debt (US$ bn)	4.5	45.5	41	104.6	59.1	18.3	70.8	52.5	*	*
% GDP	0.6	12.9	12.3	15	2.1	10.6	26	15.4	*	*
EXPORTS Destination (%Share)			**Percentage**		**Percentage**			**Percentage**		**Percentage**
ASEAN	6.2	6.1	-1.6%	5.6	-8.2%	3.6	4.2	16.7%	8.1	92.9%
Hong Kong & Taiwan	22.4	43.7	95.1%	26.4	-39.6%	3.0	4.0	33.3%	6.7	67.5%
Korea	*	0.7	N.A	4.2	500.0%	0.8	0.9	N.A	2.1	133.3%
Japan	20.7	14.4	-30.4%	18.9	31.3%	9.2	9.3	1.1%	7.2	-22.6%
Australia & New Zealand	1.3	0.8	-38.5%	1.1	37.5%	1.8	1.2	-33.3%	1.4	16.7%
European Union	12.2	9.5	-22.1%	11.8	24.2%	23.1	26.4	14.3%	27.2	3.0%
NAFTA	5.9	9.3	57.6%	20.9	124.7%	12.5	16.1	28.8%	18.4	14.3%
Rest of the World	31.4	15.7	-50.0%	11	-29.9%	46.2	38.0	-17.7%	29	-23.7%
IMPORTS Source (% Share)			**Percentage**		**Percentage**			**Percentage**		**Percentage**
ASEAN	3.3	5.1	54.5%	6.7	31.4%	5.9	6.4	8.5%	9.7	51.6%
Hong Kong and Taiwan	11.5	37.1	222.6%	28.1	-24.3%	1.0	2.6	160.0%	3.6	38.5%
Korea	*	0.4	*	8.0	1900.0%	1.2	1.4	16.7%	2.7	92.9%
Japan	26.1	12.9	-50.6%	17.2	33.3%	5.5	7.5	36.4%	6.3	-16.0%
Australia & New Zealand	6.2	2.5	-59.7%	2.6	4.0%	1.5	3.4	126.7%	2.8	-17.6%
European Union	14.2	14.2	0.0%	11.2	-21.1%	21.8	30.6	40.4%	26.7	-12.7%
NAFTA	23.9	13.8	-42.3%	11.3	-18.1%	15.2	12.7	-16.4%	9.2	-27.6%
Rest of the World	14.8	14.2	-4.1%	15	5.6%	*	35.6	*	39.1	9.8%

Change = Actual change in Absolutes and Percentage share

% = Percentage change in Absolutes *** Data not available** **N.A - Not Applicable**

Sources: compiled from Asia-Pacific Profiles 1997, Asian Year Book 1996 and Asian Development Outlook 1997 – 98

China's real GDP increased by 64.9% between 1980 and 1990 whereas India's grew by a lower 57.1%. However, between 1990 and 1996, China's real GDP expanded by a massive 118.7% while that of India increased by only 16%.

China's population grew by only 6.8% between 1990 and 1996 but India experienced a population increase of 11.6% over the same period. This compounds India's economic problems. India has been grappling with the population growth phenomenon; however, the Crude Birth Rate decreased from 33.9 per thousand population in 1981 to 28.3 in 1995 but the Crude Death Rate declined from 12.5 to a per thousand over the same period *(Government of India and Budget 1997).*

Both countries had approximately the same GNP per capita in 1980; India had edged slightly ahead of China by 1990. China's GNP per capita increased by 84.6% between 1990 and 1996 to US$565 whilst that of India grew by only 3.8% to US$331, testimony to China's higher real growth performance and more successful population growth control measures.

India was more successful than China in controlling inflation throughout the 1980's but both countries have had to grapple with high inflationary pressure throughout the 1990s.

These comparative performance statistics establish that, in terms of domestic economic indicators China's performance is superior to that of India.

In China, agricultural sector output as a percentage of GDP was reduced from 32.4% in 1980 to 27% in 1990 and experienced a further 9.9% decline from 1990 and 1996 to 17.1%.

India's agricultural sector accounted for 38.1% of GDP in 1980, 31.9% in 1990 and 27.9% in 1996 but India had a larger services sector in 1996 – 42.3% of GDP compared with China's 31.8%

China's real success story, and the reason for its current economic superiority over India, is portrayed through the external economic indicators. China's consistently strong overseas trading performance would be the envy of any country, let alone India, which recorded a somewhat mediocre performance. The one danger sign for China is its high and rising level of foreign debt which reached US$104.6 billion in 1996 (15% of GDP) – well above India's US$52.5 billion in 1995, but that also was approximately 15% of GDP.

In terms of export destinations both countries still rely heavily on the European Union, the North American Free Trade Area and the rest of the World. The low exposure to Southeast Asia would have cushioned the impact of the current Asian financial crisis in both countries.

Table 2 summarises the average annual comparative performances of these two economies from 1990 to 1996 in terms of seven key performance indicators.

TABLE 2. Comparative performances of China & India
(Period : 1990 to 1996)

COUNTRY	CHINA	INDIA
INDICATORS		
Average Annual GDP (Real growth rate % p.a.)	10.41	5.54
Average Annual Inflation Rate (% p.a. CPI)	11.04	9.83
Average Annual Gross Domestic Savings(Share in GDP %)	39.46	23.91
Average Annual Gross Domestic Investment(Share in GDP %)	37.97	25.3
Average Money Supply Growth(M2, %)	31.54	16.46
Average Annual Merchandise Trade Balance (US$ bn)	6.41	-3.29
Average Annual Current Account Balance (US$ bn)	7.3	-4.17
Average Annual Foreign Exchange Reserves (US$ bn)	50.66	12.51
Average External Long-term Debt(US$bn)	72.66	*80.42
Average External Long-term Debt service ratio	9.51	27.23
*** 1996 Data not available** **Source: compiled from Asia-Pacific Profiles 1997**		

China's average annual growth rate was nearly double that of India, with an average annual inflation rate that was 1.21% higher.

The higher average annual gross domestic saving (39.5%) and gross domestic investment (38%) for China, over the six year period partially explains China's superior economic performance. Over the same period, India's gross domestic saving averaged 24% and gross domestic investment 25% - too low to ensure a high economic growth performance without heavy reliance on foreign investment, itself a politically sensitive issue in India.

China's average annual money supply growth was nearly double that of India. It is difficult to interpret money supply data without reference to particular deliberate policy changes.

China's average annual Merchandise Trade Balance was US$ 6.41 bn in surplus in sharp contrast with India's US$ 3.29 bn deficit over the same period. China's position is even stronger in terms of average annual Current Account Balance with a surplus of US$ 7.3 bn in sharp contrast with India's deficit of US$ 4.17 bn.

China's average annual Foreign Exchange Reserves (US$ 50.66 bn) were more than four times those of India (US$ 12.51 bn). India and China both experienced rising levels of foreign debt over the six year period with India's average debt burden approximately US$ 10 bn above that of China and its debt service ratio three times that of China.

On the basis of these comparisons, India's external trade performance emerges as a problem area, and until this problem is rectified, India is unlikely to achieve the HPAE-style sustained high economic growth rates that have produced the *'Asian Miracle'*.

China, on the other hand, is outperforming the HPAEs in terms of recent real GDP growth rates, and, with its determination to keep inflation in check, and barring catastrophies, is well-positioned to join the HPAEs pacesetters. Ignoring the mid-1997 Asian economic crisis, what lessons can China and India draw from the HPAE experience? There are certain characteristics, or elements, of a growth-focussed discipline that may be portable in some cases. There are common characteristics that can provide useful insights and assist in economic development strategy formulation. Getting the 'economic fundamentals' right is of paramount importance. However, each of these two heavily populated countries has to confront problems not experienced by the HPAES, and each has to contend with retarding factors that are deep-seated and difficult to eradicate.

High-Growth Permissive Factors

Although there is no blueprint that if rigidly followed assures sustained high economic growth rates, there are certain critical factors that characterise the success of HPAEs. These characteristics, or permissive factors, include:

- all have adopted 'market friendly' approaches where the private sector has had a dominant role in driving development;
- all have adopted export-push strategies and have concentrated on the export of high value-added manufactured products;
- all have achieved high (approaching 40% of GDP) saving and investment ratios;
- all have placed strong emphasis on investment in human resources;
- all have provided stable macroeconomic environments;
- all have encouraged rapid technological change;
- all have created business confidence by developing effective and secure financial/banking systems;
- all have opened up their economies to encourage foreign investment and technological transfer;
- all have devoted resources to assembling and distributing strategic product and trade information;
- all have achieved demographic transitions from high to low fertility rates;
- all have shared the benefits from growth through improved living standards including the provision of better housing, education and health services and a reduction in poverty;
- all have maintained flexible labour markets and rewarded productivity increases;
- all have encouraged institutional and public sector reform;
- all have developed mechanisms for encouraging effective public/private sector cooperation; and
- all have had governments that, from time to time, have taken decisive action, through 'selective interventions', to free up markets by limiting price distortions, improving the availability of credit, or, enhancing the infrastructure necessary to attract foreign direct investment to support export-push strategies.

These selective interventions can involve the control of interest rates or offering differential rates to different types of borrowers (World Bank. 1993:89). Another important feature is policy flexibility and experimentation, as well as the abandonment of policies that have proved to be ineffective (World Bank.1993:145). A further noticeable feature of HPAEs is their commitment and tenacity (World Bank.1993:145).

China: Forging Ahead

"China remains the fastest growing economy in the world with output growing at 9.7 percent in 1996". (Asian Development Bank.1997:19).

Goodhart and Xu (1996:58) are reasonably confident that China's current strong economic growth performance is sustainable, noting:

> " Moreover, Chinese growth rates have been and are predicted to remain at a level consistent with a (Rostow-style) take-off into self-sustaining growth. They are, and may remain, comparable with the earlier experience of rapidly expanding economies, both in Asia and the USA".

Borensztein and Ostry, (1996:224), although stressing that the recent Chinese growth experience is not as dramatic as it appears "---once adjustment is made for the effects of a period of political turbulence and natural disasters in the pre-reform years", are confident that an annual growth rate of 8 - 9 % in GDP can be maintained, but caution against double-digit growth,, which tends to be inflationary and leads to the erosion of competitive positions. These authors also refer to the practice of "high-measured 'socialist' economic growth---", (p.226). (a practice not unknown in India) which is attributable in part to not using proper GDP deflators, and in part to the selective 'doctoring' of the data, including the practice of inflating estimates.

According to Borensztein and Ostry, (1996:226) China's State-Owned Enterprises (SOEs), "---which account for 70 percent of fixed investment and 70 percent of bank credit--", unless drawn into the reform agenda, will act as a brake on economic growth due to their failure to respond to consumer wants, their low productivity and their high rate of absorption of investment funds. The highly inefficient SOE phenomenon, identified as a real problem area for China, is currently being addressed.

Mehran and Quintyn (1996:20-21) advance the view that "---future financial reforms will need to emphasise liberalisation measures focussed on interests rates and exchange rates" and that the financial reforms undertaken since 1978, and those currently on the reform agenda, will need "----a solid legislative underpinning---". (p.21).

There is a general consensus that the entire financial system needs to be overhauled and brought up to international standards. This is a major task.

Apart from these caveats, these authors are cautiously optimistic that China can maintain its recent high economic growth performance in the medium term.

The Chinese Business Review (January-February.1996:4) endorses the above concern regarding the fragility of the financial sector, noting that without locking in the recent and prospective financial sector reforms with appropriate legislation, corruption may undermine confidence. In addition, it takes up the point raised by Borenstzein and Ostry regarding the cumbersome SOEs, and the political dilemma of serious attempts to rationalise or privatise them, causing employment shakeout which could be politically destabilising in the absence of a well-developed social welfare system.

The sensitivity of this problem becomes apparent when, along with the official unemployment rate of 2.9 percent in 1995, that is 5.2 million people unemployed, account is taken of "--- the 30 million redundant workers who are still on the payroll of SOEs and the possible underemployment of 150 million migrant workers from rural areas who eke out a living in the urban informal sector". (Asian Development Bank. 1996:19).

One could state that the maintenance of political stability as a pre-requisite for future sound economic performance applies equally to all countries, and that China has done well in maintaining macroeconomic stability through a difficult transition from a decentralised planning system to a socialist market economy. The key macroeconomic indicators in Table 2 demonstrate that China has a firm grasp on the economic helm. Most commentators agree that China is proceeding deliberately, yet cautiously, with a challenging reform agenda, and, importantly, is being rewarded for its efforts.

An important feature of China's growing economic importance in the Asia-Pacific region is the heavy involvement of Overseas Chinese in its development. Lasserre and Schutte (1995:17) observe:

> "The leading forces of the economic integration of the region are the Overseas Chinese with their nationless enterprises and multinational firms, mainly of Japanese and more recently of Korean and Taiwanese origin. The Overseas Chinese are the dominant foreign investors in China, and Hong Kong and China are each others largest trading partners".

Lasserre and Schutte (1995:201) observe that China's history of colonial exploitation has left a legacy of deep-rooted mistrust of foreigners. This is exacerbated by the pervasive influence of the Communist Party, with its ideological opposition to profit-seeking capitalists. Foreign investment policy is therefore viewed in the context of political stability. As a consequence, negotiations can be tedious, the bureaucratic hurdles are numerous and, the foreign investment legislation itself is often obscure, and in many instances, not binding on the host country. Patience and perseverance is required by those representing the interests of foreign investors.

In line with the virtual consensus of expert opinion, Garnaut (1994) is confident that China has grasped the opportunity of positioning its economy well with a view to sharing in the East Asian experience of maintaining sustained, rapid, internationally-oriented growth.

Asia Pacific Profiles, 1997 predicts that "Growth rates of 8% p.a. in real terms for a decade are likely, and an average percentage point or so higher possible." (p.120)

Integration of the three Chinese economies

The degree of economic integration that already exists between Taiwan, Hong Kong and the PRC is not well documented nor fully understood. The extent to which Hong Kong has become involved in the PRC economy through the adjacent Guandong Province tends to distort Hong Kong's trading statistics. Garnaut (1994:418) explains:

" Hong Kong's specialisation in international trade has been transformed since 1984, from integrated export-oriented manufacturing to the supply of high-value business services overwhelmingly related to the economic relationship with the mainland. Hong Kong's manufacturing employment has fallen by a third in recent years, to 700,000, while employment in Hong Kong related manufacturing enterprises in Guandong province has increased rapidly to over 2 million. Two-way Hong Kong-China trade, including re-exports, at US$ 50 billion in 1990, and growing rapidly, is one of the largest bilateral relationships in the Pacific region. Exports from Taiwan, nominally to Hong Kong, but in reality in unknown proportions to Hong Kong and the mainland, have grown even more rapidly since the legislation of indirect trade with the mainland in 1987. Exports to Hong Kong and China now account for 15 percent of Taiwan's total exports, and in the early months of 1991 were one-third larger than the year before."

The three Chinese economies are now major participants in the Pacific and world economies, with combined exports two-thirds as large as Japan, and three- quarters the total for all other Western Pacific economies".

They constitute a formidable economic force on the Asia-Pacific scene. The complementarities between Taiwan and Hong Kong and mainland China can be fruitfully exploited to the advantage of all parties.

India: Striving to join the Big League

Economic reforms implemented since 1991 have shown slow but positive results. The initial reforms of 1991 relating to more efficient resource allocation, tax reform, exchange rate and trade liberalisation, and market-friendly industrial policies, were supplemented by financial and capital market reforms. In spite of the reforms, there are various problems which need continuing attention in the area of infrastructure, state owned enterprises (SOEs), the labour market, poverty alleviation, education, population control, political stability and corruption.

India's Infrastructure Problems

The parlous state of India's industrial infrastructure is, and will continue to be a major barrier to economic growth and industrial development. Since the 1991 macroeconomic crisis, both central and state governments have paid increasing attention to reforming the policies and institutions responsible for providing and maintaining India's infrastructure, particularly power, roads, water and telecommunications. While public investment in infrastructure over the 1991-96 period has been an estimated 43 percent of total public investment, actual progress in reforming the institutional and operational framework has been too slow (Chopra et al., 1996:59-60). The provision of high quality infrastructure services continue to suffer from very poor financial management, low operational inefficiency and inadequate maintenance. What is needed is a massive injection of private sector funds. In addition to the much needed substantial reform and rehabilitation of the SOEs which monopolise the provision of most infrastructure facilities, a radical overhaul of the regulatory and governance systems under which they operate is required.

The *1997 India Infrastructure Report* estimated that over the next 10 years, total infrastructure investment requirements are about US$215 billion. It is envisaged that foreign investment in-flow will fund about 15 percent of this; the remaining 85% will have to be funded domestically by the private sector and government. This will require a boost in infrastructure investment expenditure from the current 5.5% to about 7% of GDP to enable annual investment to reach US$30 billion by 2001. Realistically, this is a difficult if not impossible task, given existing government fiscal constraints (Asia Pacific Economics Group, 1997: 334) and India's comparatively low domestic saving.

The crisis facing the power sector provides perhaps the best example of India's infrastructure difficulties. The growth in demand for power has consistently exceeded supply with projections indicating a peak demand shortfall of 18% by 2007. The poor performance of the State Electricity Boards (SEBs), which until recently have held a monopoly on power generation, transmission and distribution, has been the main cause of low growth in supply, and is also the main obstacle to private sector investment. Concerns about the solvency of the SEBs are being allayed to some extent by the Central Government's willingness to provide counter guarantees for the payment obligations of SEBs to would-be private power companies (EuroMoney, 1993: 93).

Owing to deficiencies in management and operation, capacity utilisation is typically poor, and SEBs have suffered very high transmission and distribution losses - an average of 21% over the 1991-95 period due to underinvestment, high pilferage and inadequate billing systems. This compares with the international average of 10% for advanced countries, is three times that of China and twice as high as that recorded by Thailand, Chile and Argentina. The main source of loss is due to pilferage, with free energy being considered a right by those occupying politically favoured positions. Poor capacity utilisation coupled with high losses and politically influenced discriminatory tariff systems preventing full cost recovery (eg. just 78% in 1992-93) have seen bankrupt SEBs generate large commercial losses, increasing from about Rs 4,000 crore in 1992-93 to Rs 10,941 in 1996-97 (Government of India, *Budget 1997*).

Asian Business (July.1996:1) expressed concern about the fact that mounting public sector enterprise deficits were being financed from Government funds so the Government had an excuse for raising administered prices which would tend to adversely affect the cost structure of industry. This article also draws attention to the appalling state of India's industrial infrastructure stating:

" But all dimensions of economic progress are contingent on India solving its acute infrastructural problems, particularly in the power sector. Decades of mismanagement have led to a situation where the peak demand shortfall is presently more than 20% of supply. Next year this is expected to climb to 30%".

Hardly the kind of 'incentives' that inspire the confidence necessary to attract increased foreign investment into Indian industry! The infrastructure bottleneck problem will reduce economic growth potential by reducing the competitiveness of exports and raising the cost of imported plant and equipment and other industrial inputs.

Commenting on India's road network, The East Asian Analytical Unit (1994:107) observes:

"It is generally accepted that the main road system in India, particularly the National Highway System, is highly congested, and the expansion of road traffic is expected to be rapid over the years ahead."

The Unit went on to note "--- port services are high cost and low quality arising from low capital and labour productivities. The weaknesses are apparent in container delays and long ship waiting times; in the outdated technology of feeder as against mainline services and in slow turnaround of cargoes".

Similar problems exist with air cargo and passenger services, both domestic and international, with long delays, outdated technology and inept organisation.

There are also chronic deficiencies in water supply and sewerage services. These are some of the infrastructure problems confronting a would-be export manufacturer in any of India's major port cities.

Encouraging Signs

Kaushik (1996:58) asserts that the Indian economy "---is growing because of increased investment, incoming foreign capital and technologies along with increased competition and less state intervention". In essence, it has been foreign investment-led growth.

There are many encouraging signs, however. While over the 1991-1995 period, few private power sector investments were brought to closure, many new projects are now being planned or are under consideration. Even Enron International has drawn up a new major Indian infrastructure investment plan which includes several power projects in the South (*The Economic Times*, 12/11/97). Revised policy guidelines have expanded the scope for private sector (including foreign sourced) investment and competitive bidding having been made mandatory for all new projects lessens the likelihood of a repeat of the US$2.8 billion Enron power project debacle in 1995 (World Bank, 1996: Chpt 5; Gordon, 1997). Besides attracting large private and foreign investment in the power sector, the on-going reform process must radically overhaul the SEBs and give them more autonomy to protect them from meddling State Governments, ensure their financial viability, and to dramatically improve their capacity utilisation and overall operational efficiency. Modern industrial infrastructure is necessary if India is to achieve high levels of sustained economic growth.

Corruption

There is overwhelming evidence of corruption in India, both bureaucratic and political; corruption is more likely to occur in any developing country where public sector intervention is widespread. A stage comes where economic or social priorities cease to matter in the allocation of resources when corruption becomes endemic as it has in India. The money involved in black market operations has been estimated by the National Institute of Public Finance Policy to be about 20% of GDP; other estimates put it at over 50% of GDP. Black income has also grown rapidly over recent years: according to a Parliament Standing Committee, black income has grown at 2.6 times the growth rate of GDP over the 14 year period, from 1980-81 to 1994-95. Governments are reluctant to tackle the parallel economy and reduce the volume of black money in circulation because, as Datt and Sundharam (1997:347) note, 'black money is the principal instrument for fighting elections and thus acquiring political power'. The large parallel economy has resulted in a misallocation of resources, increased income inequality, bureaucratic delay and corruption and unreliable data for policy making. While progressive deregulation of the economy should reduce the scope for black market operations, the administrative capacity of government, especially the revenue collection system, needs to be upgraded to tackle the high level of tax evasion and regulatory noncompliance generally. The high level of bureaucratic and political corruption also militates against attracting a higher level of foreign investment because it increases financial costs and associated risks, scaring away potential investors.

Kaushik (1996:58) views the attempt to stamp out political corruption as a major aspect of the current reform agenda, noting:

> " There have been charges and counter-charges of corruption among politicians for years. Usually nothing comes of it. In 1996, however, more than two dozen politicians in major political parties, including several Cabinet Ministers in the just-defeated Congress Government, have been indicted on corruption charges".

India's Growth Prospects

Kaushik (1996:61) advanced the view that international confidence in the Indian economy has been established by carrying out "structural, economic, monetary, and financial reforms in recent years" and, that India was "poised to produce sustainable rates of 5 to 6 percent growth in real GDP for the foreseeable future". This was a modest but as it eventuated, realistic forecast.

Parikh (1997:1) presents a pragmatic assessment of India's future growth prospects. His reservations are expressed as follows:

> "Average GDP growth over the post-reforms period was 5.5%. The public buffer stock of food grains was 25 million tonnes in July 1996, and inflation had been brought down to around 6.5%.
>
> Perhaps the most remarkable transformation was in our perceptions. In early 1996, a 7% growth rate per year seemed a reasonable target to everyone, including the 14 party Government of Mr Deva Gowda."

Then there was the slowdown in industrial growth in the first six months of 1995-96 and export growth fell to 10% with real interest rates rising sharply and credit availability limited. But India got over this temporary setback and achieved a 6.8% growth rate in real GDP in 1996 and a 16% growth rate in the export of goods and services.

Jalan (1996:16) saw a lot of merit in aspiring towards a sustainable high economic growth rate, particularly as a means of reducing poverty.

In Jalan's view, the incentive to eliminate poverty should be the dominant motivation for achieving a sustainable high rate of economic growth and a 7-8 percent growth rate per annum over a period of 25 years would increase India's per capital income fourfold.

Foreign Investment

The reform program implemented since the 1991 crisis has attracted historically large (though comparatively small in international terms) capital inflows which has eased financial constraints and provided political support for continuing economic reform. Over the 1985-91 period, direct foreign investment averaged a low US$200 million a year; most capital inflows comprised aid funds, commercial borrowing and NRI deposits (Collyns, 1995: 41). Since 1991, the Government has sought to stabilise the increasingly deregulated foreign exchange market, discouraging speculation while encouraging the flow of foreign capital in the form of non-portfolio joint venture investments in liberalised sectors of the economy, especially key infrastructure projects in power and transport (Asian Development Bank, 1997: 126-7).

From a low $148 million in 1991/92, the economic reforms boosted total foreign investment to over $5 billion in 1993/94 and $4.8 billion in 1994/95. By 1994/95 foreign direct investment (FDI), most of it going to joint ventures, exceeded $1 billion, about one-quarter of which was by foreign partners seeking to increase their investment in existing ventures. However, just over $2 million of the $6 billion of approved FDI over the 1991-95 period, actually materialised owing to abnormal time lags in progressing projects but also bureaucratic and legal delays, as well as political interference (Collyns, 1995:42-3; Chopra et al., 1995: 61-2). Also, owing to administrative delays and the public's ambivalence towards FDI in public sector infrastructure very little FDI has gone into privatisation initiatives. Furthermore, India's growing foreign capital inflows are still very low compared with China's, which exceeded $155 billion over the 1990-96 period (Asia Pacific Economics Group, 1997: 11).

Asian Business (June.1996:4) pointed out that India's then new 14 Party Coalition Government was sending confusing signals to the international financial community on India's attitude towards foreign investment. Jaswant Singh, Finance Minister of Bharatiya Janata Party (BJP) was reported as stating:

> "I think this country can absorb another two billion dollars of foreign investment, apart from the two billion dollars already coming in"

The position of the National Front-Left Front (NF-LF) group was less enthusiastic - even ideologically hostile - on the issue of foreign investment and this group then held some 180 of the 534 seats in the new Parliament.

The Party's policy was one of opposition to "giving foreign investors priority in the infrastructure sector. At best, the role of multinationals should be supplementary and should not supplant the State's leading role. It favours preparing a list of terms for the entry of multinationals into India and opposes indiscriminate globalisation"

Again, this is not the kind of message that attracts foreign investment into heavy industrial infrastructure desperately in need of refurbishing and vital in supporting the growth effort. Worse still, the necessary funds are not available on the domestic capital market.

If a sustained high rate of foreign investment is necessary to achieve growth rates of 7 - 8 percent per annum, (and this would appear to be the case given the low domestic saving ratio), then a major problem exists due to the entrenched hostility towards FDI.

(Jalan.1996:110) observes:

> "---that large scale foreign ownership of industrial assets could pose a threat to national sovereignty or mortgage the national interest to foreigners (as indeed was the case during the colonial period)".

The prevalence of this brand of xenophobia will not assist the trade liberalisation process, nor will it encourage foreign investment inflow. India's interests should be put above Party interests.

In 1992-93 the USA provided 66.4% of Indian FDI. The bulk of FDI goes into the engineering, electronics and chemical industries. (Statistical Outline of India. 1996-97. p.148). United States investors are sensitive to hostile host country investment environments.

The *Oil and Gas Journal* (June,1996:54) raised concerns about the prevalent political confusion acting as a inhibitor or deterrent on the reform process and "---the apparent shift of power towards India's States", that is, political power decentralisation, which "could make investing and working in India more complicated--". As if it was not a formidable challenge already!

Unless the central government takes strong and decisive action this State-focus phenomenon will inhibit foreign investment and retard economic growth and cause destabilising interstate competition in loan markets.

So although India appeared to be on the high economic growth track in the wake of the reform-led recovery from the disastrous 1990-91 slump, it is not yet in the same league as China, nor as well-positioned to sustain its recent robust performance. The entrenched, inward-looking bureaucratic system, with its powerful special interest groups of rent-seekers, is difficult to dismantle without strong political leadership. The ties between prominent politicians and the 'license raj' are still strong, and the recent corruption scandals have diluted international business confidence in India's present day leaders.

As noted previously, another difficult problem area is that of the 'Black Economy'.

Ray (1991:19) asserts:

" Black money has far-reaching and disastrous repercussions. It affects public revenues, degenerates investible surplus, drains the balance of payments, distorts equity and equity concepts of economic redistribution, and halts and stagnates planned programmes for economic progress".

India can sustain growth rates of 6 - 7% per annum using foreign-sourced investment funds only if it continues relentlessly with the implementation of the reform program. Any performance beyond this, say real GDP growth rates of 8 to 10 percent per annum, could not be supported by the low domestic savings ratio, nor is it likely that foreign investment, direct or portfolio, will be forthcoming in sufficient amounts to make up the gap, given the present confused and unstable political environment. It would require an extraordinary congruence of favourable circumstances for the Indian economy, over the next decade, to be in a position to match the high, self-sustaining growth rates of the HPAEs. On balance, this would seem to be a most unlikely outcome.

Public Sector Performance

India's large public sector has impeded economic growth owing to its inefficient, loss-making enterprises (SOEs) in textiles, engineering, consumer goods, fertilisers and the provision of infrastructure services etc.. India's SOEs have achieved a low level of technical efficiency and capacity utilisation (Kalirajan and Shand, 1996). They have failed to become self-financing and profit-making, rather they have generated large recurrent trading deficits, and become a major cause of Central and State Government budget deficits. Besides technical inefficiencies, SOE losses have occurred owing to high costs (including excess staffing levels), administered prices, their frequent location in backward regions, government interference in their day-to-day operations and lack of an innovative environment. India has built up monumental assets in the public sector which are wasted away through leakages, inefficiencies, corruption and rent-seeking activities. The end of the 20th Century will see an increase in the growth rate of India's economy but little improvement in its relative position in the world economy, a continuation of the unequal distribution of income and wealth and worsening infrastructure bottlenecks, if the reform process is not sped up and extended.

Socio-economic comparisons: India versus China

Quite apart from its comparatively low domestic saving and investment ratios, and its poor international trading performance, India lags behind China in terms of a range of socio-economic indicators that are supportive of economic growth and indicative of international readiness in the globalisation context.

Although some of the statistics are somewhat dated, Table 3 provides a basis for comparison of India and China in socio-economic terms using seventeen socio-economic indicators. Overall, China ranks ahead of India but in terms of some indicators, poverty, for example, India is better placed than China.

Table 3

India and China
Socio – Economic Comparisons

	India	China
I. population 1997	952 million	1.25 billion
II. population growth rate 1997	1.7%	1.1%
III. GDP 1997 US$ bn	369.8	901
IV. per Capita GNP US$ 1997	388	722
V. Agricultural Sector 1997 (%GDP)	25.1%	16.9%
VI. Industry (Including Manufacturing) 1997 (%GDP)	31.5%	51.3%
VII. Services 1997 (%GDP)	43.4	34.3
VIII. FDI Inflows 1990 FDI Inflows 1996 FDI Inflows 1997	0.1 1.9 US $ 4.5 billion	3.5 40.4 US $ 28 billion
IX. Life expectancy 1990	51 years	64 years
X. Life expectancy at birth (1990) per thousand	59.1 years	70.1 years
XI. Daily Calorie intake 1990-91	94	111
XII. Adult Literacy female (90-91) male (90-91)	 39 64	 68 87
XIII. Primary Education Enrolment (1990-91)	64%	93%
XIV. Secondary Education 90-91	30%	50%
XV. Poverty (1990-91)	322 million 40%	700 million more than 50%
XVI. Human Development Index (1992) Ranking	135 absolute value 0.38	134 .64
XVII. Consumption / Welfare level (1990-91)	140	279

Comparing the historic economic performances of China and India, Patel (1995:33-34) observed:

"Both are large sub-continental countries. Both are birth-places of ancient cultures. Both attained independence or liberation at the same time - in the late 1940s. Both have gone through immense upheaval since then, without being sure whose woes were worst. Both adopted planning as an instrument for accelerating their development. Both are rivals in several senses - economic, political and perhaps even strategic. Both are looked upon as new aspirants entering the coveted club of the Industrial Centre. The experience of both these countries is therefore of considerable significance for the years ahead".

There are other similarities. The fact that China and India respectively have the two largest populations in the world is significant from an economic growth and development perspective. India is catching up with China in terms of population size but not in the growth-inducing activity of investing in human resources. Population growth in India has been associated with an increase in the numbers below the spartan poverty line, not increases in productive capacity as in the case of China.

Although on attaining independence in 1947, India was well-ahead of China in economic development terms, China steadily overhauled India and has continued to forge ahead. In 1996, China's GDP of US$ 901 bn was nearly three times India's GDP of US$ 315.2 bn; its per capita GNP of US$ 722 was nearly double India's US$ 388. (Asia Pacific Profiles. 1998). As countries proceed down the path of economic development the contribution of the agriculture sector tends to decline and that of the industrial/manufacturing sector to increase. In 1997 the agricultural sector contributed 25.9% of India's GDP compared with 16.9% for China, while industry/manufacturing accounted for 51.3% of China's GDP compared with 31.5% for India (Asia Pacific Profiles.1997).

Patel (1995:37) comments on the extraordinary progress made by China:

"---- China has forged ahead in the output of several items, not only in comparison with India and the developing countries, but even with several giants in the old-established industrial centre. In coal, it ranks first in the world, ahead of both the United States and the Soviet Union. In pig iron and steel, it follows the big three - the Soviet Union, Japan and the United States. In cement, it ranks fourth behind the Soviet Union, Japan and the United States. These are instances in which the late-comer, China, does seem to have done some fast running".

Patel (1995:40) notes that life expectancy in China is 64 years compared with India's 51 years; China's adult literacy is 66% of the population compared with India's 36%; primary education enrolment in China is 93% compared with India's 64%; and, secondary education enrolment in China is over 50% compared with India's 30%.

Only in tertiary education enrolment does India lead China and China is catching up (percentage not given). In addition, India loses a higher proportion of its tertiary graduates through 'brain drain' than does China.

A conscious policy of investment in people - that is adding value to human resources - was identified earlier as one of the hallmarks of HPAEs. The above education statistics place India in the underdeveloped economy category. But there is another human resource aspect where India's comparative backwardness is evident - the extent of poverty.

Sundharam (1996:23), sourcing from 1988 World Bank data, notes that at that time there was 322 million Indians living below the poverty line, that was approximately 40% of the population. In the State of Bihar, there was 60% of the population below the poverty line. For high rates of economic growth to be sustainable, as demonstrated by the HPAEs, the benefits from growth have to be shared, that is, translated into higher living standards. There is a big difference between the 'vicious circle' of poverty and the 'virtuous circle' of prosperity.

Adopting the internationally recognised Human Development Index (HDI) as a measure of socio-economic progress, Jalan (1996:134) points out that in 1992, India was ranked as 135 out of the 173 countries in the world with an absolute value of 0.38 which placed it in the company of Ghana, Haiti and Nigeria, and well behind China with 0.64.

Jalan (1996:135) asserts:

> "It is painful, but true, that India's performance in respect of socio-economic development was no better than her poor performances on growth. On any indicator of socio-economic well-being, be it adult literacy, infant mortality, maternal mortality, life expectancy, and gender bias between men and women, India ranked among the bottom one-third of countries in 1992. What is worse is that progress in all these areas in the past few decades was much slower than that of other developing countries (leaving aside the least developed and similarly disadvantaged countries".

Preliminary estimates for 1993-94 indicates that there was approximately 169 million people below the poverty line of which 141 million lived in rural areas and 28 million in urban areas. (Statistical Outline of India.1996-97. p.200).

In India, the 'vicious circle' of poverty is everywhere in evidence. There is chronic unemployment, underemployment, one of the world's highest poverty levels, and critical areas such as health, education, housing, infrastructure (transport and power) and the environment have been starved of adequate funding. India's public infrastructure is dilapidated and crumbling; the big cities are choked with traffic; power supply is erratic and inadequate to support industrial development. Corruption, hoarding and worker exploitation, including the exploitation of child-labour, are widespread. India, at present, despite the spurt of high growth in the wake of the Rao Government reforms, is not well-positioned, to achieve the HPAE-style, sustained, internationally-oriented growth.

Unemployment figures for India are notoriously unreliable. It is estimated that unemployment in rural India is 6% of the labour force for adult males (women are not counted) but if underemployment is taken into account the unemployment rate rises to 23%. (Government of India 1997 *Budget '97*).

Concluding Comments

In this paper we have provided a comparative, but selective, statistical overview of the recent macroeconomic performances of China and India and interpreted the revealed trends with a view to assessing the sustainability of the recent high economic growth performances achieved by both countries. Our emphasis has been on what the macroeconomic data reveal with some probing into the microeconomic issues underpinning macroeconomic performance. The cluster of high-growth inducing factors identified in HPAEs have been used as a yardstick in assessing the comparative performances of these two economies. This can provide policy-pointers towards identifying and removing impediments to economic growth. Policy prescriptions, in this context, are developed from actual experiences in roughly similar conditions and circumstances, and are not necessarily derived from economic growth theory or any set of heuristic principles.

The statistical comparison should dispel any premature speculation, based on the post-Rao Government reform spurt of accelerated economic growth, that India is an 'Emerging Tiger' on the Asian Scene. India's growth-retarding factors are legion.

The strength of China's economy is evident although there are numerous retarding factors, including cumbersome bureaucratic red tape, highly inefficient SOEs with massive inventory accumulations of unsaleable products, and, a slowly maturing but sub-standard international banking/financial system. Nevertheless, China, with the re-acquired province of Hong Kong and the prospect of closer economic integration with Taiwan, both HPAEs with remarkably successful economic growth records, has Promethean growth potential. Drawing on Hong Kong's expertise in strengthening China's rickety financial system will enhance China's economic growth prospects and accelerate its emergence as an economic giant on the Asian scene.

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