

The Himalayan Dialogue
Dec 5th & 6th, Beijing - China

Implementing Economic & Social Reforms:
A historic perspective – Concert or Conflict

Tobby Simon
Founder and President
Synergia Foundation, India



SYNERGIA FOUNDATION

Introduction

I have had the good fortune to interact with several people on a daily basis; through my work with companies, universities, foundations, and with entrepreneurs, politicians and activists in both the developed and developing world. I have silently listened to the rhythms of people talking about geopolitics in Beijing, Bruxelles, Tokyo, London, Boston and Delhi and have heard the chant of China and India being invoked with increasing frequency, to express dread, mystery and optimism. These experiences form the basis of my writing today. A decade of doing business and understanding how entrepreneurs in developed and emerging markets deal with each other has enhanced my ability to discern an interesting pattern in the current trend. I draw equally from history and current scholarship in Sino-Indian relations, though I make no pretence of being comprehensive.

As we speak, the Chinese are capitalizing on Indian opportunities and India on China's. Recognizing the availability of opportunities in China and India and the complementarities of their economic systems, Chinese President Xi Jinping urged both the countries to join hands and build what he called "Asian century of prosperity and renewal"

Xi quoted the iconic Chinese leader Deng Xiaoping as saying that no genuine Asian century would come without the development of China, India and other developing countries. China and India, Xi said, are "ready to shoulder this mission". The combination of the "world's factory" and the "world's back-office" will produce the most competitive production base and the most attractive consumer market, he said.

There is a coincidence of needs as well. Each of these economies needs to invest in new geographies. They need to generate wealth out of what are now stagnant reserves. These are countries that have successfully completed their industrialization projects and need to find outlets for investment in the industrialization of others

The decisions made in the past will script the future.

Reforms: A historic perspective

- At the birth of Christ, China and India between themselves held 59 per cent of the world's economy, of which India accounted for 33 per cent and China 26 per cent.
- India and China were a highly urban civilization by the 18th century. China was much advanced in science and technology, with gunpowder, printing, paper and



paper currency as its inventions. India was known for its mathematics and philosophy. The Chinese gave the world the wheelbarrow and bureaucracy; India gave the world the zero, decimals and Buddhism. Both were major exporters of fine textiles, silks and muslins; their ships sailed around the world and indeed dominated the seas till 1500.

- Bodhidharma is credited with bringing Zen Buddhism to China and he is the First Patriarch of Chinese Zen Lineage. He was born on Oct 5th. (Chinese Lunar Calendar) in Southern India and was the third son of an Indian King; Bodhidharma's Buddhist Master, Prajnatarā, was the 27th Patriarch of Indian Buddhism, taught Bodhidharma for many years, gave him Mind Transmission, made him the 28th Patriarch, and gave him the name Bodhidharma. Following the instruction of his Master to transmit Dharma to China, Bodhidharma traveled east to Southern China in 526 A.D. When he arrived in Kwang Chou, he was ceremoniously welcomed and greatly honored by the local military official named Shao Yan

- During his meeting with the then Defense Minister in April 2003, Premier Wen Jiabao said that for the past 2200 years, China had devoted 99.9 percent of their time to friendly cooperation between the two countries.

- Reviewing the history of China- India relations, people can see many moving events such as visits paid by revered Indian monks to China and visits by Chinese monks including Xuan Zhuang to India. Among China's neighbors, India was one of the very few countries, which did not wage a war with China in history. Especially in their struggle against Imperialism and Colonialism, people of both countries have sympathized with each other and supported each other, with fraternal friendships established.

- The heroic deeds of the Indian Medical Mission to China including Dr. Kotnis, dedicating themselves to the cause of liberalization of the Chinese people are still well remembered.

- During Premier Zhou Enlai's visit to India in 1954, both sides established the "five Principles of Peaceful Coexistence" as a guiding principle for China – India relationship



Reforms in India

- The reforms in India are usually attributed to the 1991 crisis, the ensuing reform programs and its impact on the Indian economy. But it does not quite answer some of the more pertinent questions. Why did the reforms take the form they did, marking such a radical change with past policies? Why did the implementation of the new policies proceed fairly smoothly? What led to their success in quickly generating good economic outcomes?

Incidents that have to be factored in are that,

- The breakup of the erstwhile Soviet Union coincided with the Indian financial crisis of the early 1990s. The trade between the two countries had increased from less than \$ 440,548 in 1953 to about \$ 1.7 billion in 1990-91. In 1990-91, more than 16 per cent of Indian exports were to USSR and about 6 per cent imports came from it. Interestingly, the corresponding trade figures for 2006-07 are 0.7% for exports and 1.3 % for imports. After 1953 and till 1971, the trade between India and USSR was based on the Rupee - Rouble rate determined by the gold exchange standard. In 1971, the abandonment of the global gold exchange led to a devaluation of the Rupee against other western currencies (but not gold), thereby putting the Rouble at a disadvantage leading to a collapse of this mechanism with the dissolution of the USSR.
- The capitalist ideal was not a major motivator of reforms as economics was not part of the political rhetoric at the time. The general elections of June 1991 were not fought and won under the banner of economic liberalization.
- A reason for adopting a gradual approach is that reforms were not adopted due to a prolonged economic crisis or a system failure which would have needed radical restructuring. The reforms were introduced in June 1991 in the wake of a crisis on the balance of payments front. It led to several changes at both the micro and macro level through reduction of industrial licensing; rupee devaluation; import entitlements; phased reduction of customs duties; measures to reduce fiscal deficit; opening up of foreign investments; initiation of banking and capital market reforms; initial divestment of public enterprises and major tax reforms. The pace of reforms was recalibrated to the realities of India's highly pluralistic democratic nature.
- Most importantly, the reforms of 1991 had their beginning in the 1980's which saw India leaning towards a technocrat-oriented growth and undertaking incremental reforms. As this process of incremental liberalization proceeded and produced good results, many policy makers were convinced that deeper, more



systemic changes were needed. Committees were appointed to review various aspects of the economy and recommended further liberalization. Many of these recommendations were implemented in the 1990s.

China's reforms

- Traditionally, the Chinese have used rituals to achieve harmony. Arguably, the emphasis on rituals arose with Confucius (551-479 BC). The signature imprints of some of these rituals are discerned today. Chinese statecraft has always aimed for order, harmony and hierarchy. In 1949, after a civil war between the CCP and Kuomintang, in which Mao led the CCP to victory; he made it clear that a single party would rule China. The country's harmony and order would be interlinked by hierarchy, at the apex of which ruled Mao Zedong and a closed-knit group from CCP.
- In 1950 Mao unrolled his economic programs called collectivization, replacing the village economy and organizing the entire rural peasantry into agricultural communes. All activities in rural China transpired within this ordered framework. As a result of collectivization, the individual Chinese peasant was under six layers of state administration. However, the governments social reengineering and restriction on movement led to food scarcity in 1959 and 30 million people starved to death. This massive socioeconomic failure exposed the flip side of order, harmony, and hierarchy in the form of rigidity, censorship and state control.
- When Deng Xiaoping assumed power in 1978, he wished to create a distinct socialist market economy and opted for reforms to bring the country out of poverty. The "Household Responsibility System [HRS]" was introduced in 1978 under which the collective remained the owner of the land and other means of production, but members of the collective could lease portions of the land for as long as fifty years. The lessee could keep any surplus produce generated from the leased land. It was a great success and the scope of government run procurement and distribution was greatly reduced.
- In 1992 some local governments decided to fully liberalize local grain marketing. The agricultural reforms led to a boom that raised rural incomes, creating a huge rural market for consumer goods that in turn "generated a reservoir of savings that funded investment in rural enterprises". It freed up surplus labor, and Town and Village Enterprise [TVEs] emerged to absorb it. TVEs were owned, operated and regulated by local cadres motivated by the central government to raise local GDP. They were the Chinese entrepreneurs. Foreign firms doing joint ventures with TVEs found that despite being completely under party control, they carried their economic weight. In the mid-1990s, TVEs produced 30 percent of China's GDP; moreover, TVEs were responsible for one-quarter of China's tax revenue, one-third of total exports and 28 per cent of the total rural labor force.



- Deng also created Special Economic Zones [SEZs] on experimental basis, to attract foreign investments. TVEs, HRS and SEZs were dramatic breaks from the past. Parallel political and administrative changes were occurring in the countryside.
- Administrative reforms focused on professionalizing state bureaucracy, imposing a rule of law and regulating the market. Under the reforms, to qualify as party members applicants would go through a one-year probation period in which they have to prove that they are “red” (ideologically aligned to Deng) and “expert” (technically qualified). In August 1980 Deng abolished the bureaucracy practice of life tenure for senior positions and in 1981 proposed recruiting younger better educated leadership corps.

Concert

The tensions between China and India are real, but it may eventually prove to be aberrant. There are three good reasons for believing that they will evolve in concert: one historic, one economic, and one strategic.

- China and India sealed their borders in modern times, but in the 2,000 years preceding the conflict of 1962, the two countries enjoyed strong economic, religious, and cultural ties. By the second century BCE, the southern branch of the Silk Route - an interconnected series of ancient trade routes on land and sea -linked the cities of Xi’an in China and Pataliputra in India. Trade on the Tea and Horse Road, as the Chinese called it, was a significant factor in the growth of the Chinese and Indian civilizations. Seen in that light, the closing of the Sino–Indian border is an anomaly.
- In fact, Buddhism traveled from India to China in 67 AD along the Silk Route. In those days, the relationship between China and India was one of mutual respect and admiration. The monk Fa-hsien (337 to 422 AD), who traveled from China to India to study Buddhism, referred to the latter as *Madhyadesa* (Sanskrit for “Middle Kingdom”), which is similar in meaning to *Zhongguo*, the word the Chinese used to describe China. In the 1930s, Hu Shih, a scholar of the Beijing University said that the sixth century AD marked the “Indianization of China.”
- There was also much goodwill after the birth of the two modern states, India in 1947 and China in 1949. During the 1930s Jawaharlal Nehru frequently wrote about how India supported the struggles of fellow Asians under the foreign yoke. He organized marches in India in support of China’s freedom, organized a boycott of Japanese goods, and in 1937 sent a medical mission to help the Chinese. India was the second non-communist country, after Burma, to recognize the People’s Republic of China, in 1950. Five years later, India supported the idea that China should attend the Bandung Conference, in Indonesia, which led to the creation of the Non-Aligned Movement, an alliance of developing countries that supported neither the United States nor the Soviet Union. In those years, one slogan heard in India was *Hindi Chini Bhai Bhai*



("Indians and Chinese are Brothers"). The slogan hasn't been forgotten; China's premier, Wen Jiabao, repeated it in 2006 when he visited the Indian Institute of Technology in Delhi.

Conclusion

- **Albert Einstein** said, "We owe a lot to the Indians, who taught us how to count, without which no worthwhile scientific discovery could have been made!"
- India is the cradle of the human race, the birthplace of human speech, the mother of history, the grandmother of legend, and the great grandmother of tradition. Our most valuable and most astrictive materials in the history of man are treasured up in India only! - **Mark Twain**
- China and India's rise in today's world is changing the way we live and the balance of global economy and political power. Their prosperity has come from engaging the rest of the world, as they strive towards their rightful place in the global economy- a place they held two centuries ago. Looking at recent trends of cooperation, it is indicative of what will come in the near future as India and China strive to make the best use of their complementary strength. They form the perfect Yin and Yang, capitalizing on the resilient link between them through the centuries. China and India's rise is not only inevitable but will also be beneficial to the world. As **Confucius** said, "Everything has its beauty, but not everyone sees it", it is time for the world to see the great opportunity the rise of these two nations provide.

