CHAPTER - VI

SUMMARY AND CONCLUSION

Transition Economics is a dynamic historical process that imposes change on almost every element of society (IMF, 1999). Since 1989, Central Eastern European (CEE) economies had been undergoing the transition from central planning to free market economy and capitalism (Haslach, 1992). The main intent for such an economy is to become market-oriented and more industrialised. During the transition in EU, FDI, as a substitute for trade, was an extremely essential part of the marketisation process, because it facilitated quick absorption and implementation of goods and services to fill the gaps in the transition economy. Similarly, in China and India, economic indicators such as FDI and Trade have been transforming the economic scenario. Though the FDI cycles theory explains the development and its applicability, in the case of the CEES countries the role of FDI particularly significant in trade sector (Richard, 2008).

Europe’s trade with India and China began during the time of Dutch Merchant and still continuing at a healthy pace. In fact, European countries were more fascinated with Asian cultures and aesthetics and remain the main trade partners of China and India. Since 1989, Central and Eastern European Countries including Poland, Hungary and Slovakia, have significant progressed in the process of transition. These countries joined the OECD before transition phase stated.

In the 21st century, both countries experience accelerated economic growth, which would make both of them major players in the global economic. In recent years economic development of both countries has been due to the diversified decisions taken by policy makers. This economic transformation has become an interesting subject for study by scholars, especially economists. The World’s two populous superpowers have long been fascinated the West, but till recently they were small players in the international economic scenario. Before 1980s, both the countries’ growth rates were relatively sluggish. But, since the 1990s, the world has witnessed rapid economic transformation and growth because of market-oriented and long-term, reform which led’s to on improved living standards of the people worldwide. In 1970s, the per capita GDP of both China and India’s was a similar level but the gap between the two has continued to widen. China’s growth has been much faster much than that of India. However, the virtue of sheer size,
the potential to be dominant players in the international economy exists. The competition between the two Asian giants’ ancient civilisations, and also the great economic race in the early 21st century is something that the Indian public watches with excitement and pride.

6.2. Importance of Study

Let’s now focus attention on comparison of both transition economies. India’s economic reforms commenced 1991 in the aftermath of the foreign exchange crisis and under pressure from the IMF/World Bank. On the other hand, China’s economy opened up under No foreign Pressure. It was a planned shift to market socialism for safeguarding its national interests. Moreover, with the integration of both countries, their companies are able to move up the value chain in their next stage of development. However, the approaches of both countries have been quite different. China was able to successfully achieve its ends on the basis of initial reform processes with a careful evolution and remove the obstacles ‘step by step’ to ensure a sustainable economic growth. As a result of transition, macro-economic policies are healthy in both countries. The “fordist model of growth” reveals how the growth occurred through vicious circles in both economies. China’s successful strategy in the past twenty years had been due to its ability to transfer its labour surplus from the agricultural to the manufacturing sector - from low-efficiency sectors to highly efficient sectors; while in India, the process of transferring cheap labour from low-value agriculture to higher-value manufacturing industry had been slow due to weak industrial growth and unfavourable labour laws. Both countries are facing almost similar challenges like social and environmental degradation and the upheavals caused by urbanisation and industrialisation. In addition, this study has conducted an empirical evaluation of structural changes in the three sectors and also growth and Inflation. As a result, in both countries after transition reforms, the role of the primary sector has been decreasing, and that of the secondary and tertiary sector’s has tremendously increased through gradual and phased reforms. It has explained that both countries’ components have a negative correlation. Of course both countries have different areas of specialisation. China’s major thrust is on its industrial sector, while in India, the major focus area in recent times has been the service sector. Both these sectors are, today, contributing more than half towards ensuring sustainable economic growth in the transition economic phase.
How important determinant factors are the FDI inflows into both countries? Foreign Direct Investment (FDI) is an internal part of an openness of effective international economic system and a major catalyst to development (OCED, 2002). Transitional economy involves structural or policy reforms such as currency or capital market changes. The investment is also a major issue for an emerging economy. In most cases, mobilising foreign investment is a sign that the economy has potential. China has far the greatest FDI potential among the BRICs, on account of its economic size and rapid economic growth. In addition, China has shown a phenomenal growth rate and the other transition countries, including India, are now trying to catch up with it but still lagging far behind. India can learn lessons from China and create a similar congenial business climate in the country. In China and India, macro-economic variables also have a crucial role to play in attracting large foreign investments. Empirical results reveal that in China, GDP and exchange rates are favourable for potential investors; while in India, GDP and exchange rates and Openness of trade are major influences to attract FDI inflows. In India, FDI inflows depend on the previous year’s FDI performance, while in China, these depend on the current year’s FDI performance. However, in fact, India has created economical freedom to facilitate increased private sector and Trans National Corporation (TNC) participation, introduced openness of trade to become more global in its outlook, and formulated flexible labour laws in its quest to become a major player in the global economy.

Both countries share a common legacy of foreign influence or domination. Thereafter, Communism took roots in China and democratic socialism in India. In both countries, openness of trade and market-oriented reform has triggered faster and more sustainable economic growth. Openness of trade is an important subject of discussion in the field of economics. The main objective is to study the effect of the openness of trade on GDP growth in transition economies. Numerous studies made in this area have all concluded that the result is robust.

Recently, economists have again become interested in comparing the economies of the two developing economies largely due to their spectacular growth performance in the 1980s and 1990s and subsequently, there has been rising significance for the world economy and political affairs. The good performance in recent years shows that "India had the fastest export growth among the major traders in 2011, with shipments rising 16.1 per cent. Meanwhile, China had the second-fastest export growth of any major economy -
at 9.3 per cent” (World Trade Report, 2012). Regression results explain that domestic investment, Foreign Direct Investment and GDP growths cause trade growth in India. In the case of China, population growth, Gross Domestic Product and Real exchange rate have triggered trade growth in that country.

The Central Eastern European countries experienced a transitional recession in the early 1990s and also a phenomenal one time increase in inflation rates. Therefore, we can infer that the foreign aid, and development assistance are most necessary for poverty reduction and bring about a more sustainable economic development. In addition, the secret of successful economic growth is to adopt economic integration introduce economic reforms at the local, national and regional levels.

It can be seen that the story of the successes and failure of transition is not really the story of steady shock therapy and unsteady gradualism. The major plan of the post-socialist transformation ‘novel’ is the preservation of strong institutions in some countries and the collapse of these institutions in the other countries. Thus, the story of the successes and failure of transition depended on government failure (like strength of state institutions), not about the market failure (liberalisation).

**Lessons from European countries**

(i) Government regional policies must aim at supporting industrial restructuring, entrepreneurship, innovation and competitiveness;
(ii) The market policies should aim at elimination of barriers, adoption of transparent standards, and better regulation of markets, so as to provide better access to cross countries.
(iii) Policies should support the private players, social partners, the voluntary sector, research community and opinion makers, etc., including exploring the role of Public-Private-Partnerships;
(iv) Policies would be provide to regional and local governments, local communities and stakeholders;
(v) Policies regarding transferring responsibilities from national governments to the community level need to be put in place.

It can be seen that China’s overall performance has been extraordinary, even though the transition process in both countries is not complete yet. Still, in China several
reforms and other policies are lagging behind in the economics system due to internal inconsistencies.

The hypothesis assumption has concluded that both countries’ has experienced rapid economic growth rates due to their adopting transition economic policies and that other transition countries are also progressing effectively in the global economic scenario. Therefore, the hypothesis can be accepted. Both countries can learn lessons from each other. In the 21st century, both China and India have been playing a significant role towards bringing about market-orientation in the world economy.

6.3. Suggestions for further Research

This study has laid emphasis on comparison of China and India’s transition economies. The researcher has especially focused on FDI and trade in the transition perspective. There is need for studying the performance of other emerging countries, in terms of resources necessary for ensuring sustainable development, FDI inflows necessary for that and facilitative trade policies to bridge the gap at the national and international levels.

- Both countries reforms started different over the period of time. Even India, economic reforms initiate has taken place in 1980s. Here, certain data may not fully match that of China, because here the process began in 1978. Therefore, the researcher has considered the same periods in his study. Further scope exists for analysing the scenario after full-fledged reforms in both countries.

- Basically, this study is on macro-economic indicators. The researcher has focused on a macro-level study only. There is certainly scope for a detailed sectoral level analysis on this subject.

- The aim of a transition economy is to achieve economic stabilisation. The researcher has, therefore, I have examined the monetary and, fiscal variables. However, in addition to endogenous factors, exogenous factors can also help in stabilisation of the economy. Hence, there is need for a focused research on external and internal factors.