CHAPTER 1

INTRODUCTION
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Since the end of World War-II, there has been increased realisation on part of the nations about the need for programmes of economic development to improve socio-economic conditions of their people so as to provide better living standards. Both India and China started off with this motive more or less at similar point of time in the 1950s.

It may be noted that China in 1949 was a communist country with a closed economic system where the right of ownership of means of production was with the state. But, India was a democracy with a mixed economy model where private ownership would be possible. Yet, both India and China have opted for a planned economic development. A notable common feature in China and India is that of the state sector. This sector which has heavy and capital intensive industries makes these economies allocate more resources than the market economies. The notable difference between the two countries has been that, in China being a command economy prices are relatively less important than in India, where prices play important role not only in individual consumption decisions, but also in the investment decisions.

Relevance of Comparison:

China and India together represent nearly a third of the world’s population and about two-fifths of the population of the developing world. Development strategies in these countries have undergone very important, often qualitative changes. While the large size of both these nations limits the exact replicability of their development experience for most of the developing countries that are far smaller, a comparative analysis of their experiences may provide a great deal of useful insights into the process of development.
It is a known fact that without "Political Will" there cannot be any innovative economic activity. Hence, study of political policy issues concerning liberalisation becomes relevant. Study of economic issues without studying their political dimensions becomes incomplete. For a comprehensive analysis, inter-relations between economic and political issues and their overall impact on society need to be studied.

Hitherto, comparative studies conducted on both Indian and Chinese processes of liberalisation are done with an economic perspective, seldom they analyse socio-political implications of liberalisation. There is certain methodological validity in the audacious attempts carried out from time to time to compare the contemporary systems. To posit that one is the antecedent of the other that, in political economic matters too, as in nature, there is a space-time continuum and the past, present and future all exist simultaneously in different parts of the world. In fact, the whole logic of the methodology of comparative studies springs from this belief of the theory of relatively being as applicable to society as to nature.

This can be illustrated by a comparison of Chinese and Indian experiences of liberalisation. Both are large countries, having immense resources, fairly well developed industrial bases, vigorous agriculture sectors. Both have deeply fragmented societies and relatively large elites' contending with even larger segments of the poor and deprived for sharing political as well as economic power. Hence, comparison of both India and China in post-liberalisation period with reference to changes in industry as well as its socio-political dimensions would help understand the process of development and prospects for future of both nations.
Review of Comparative Literature:

Hereunder we present a brief review of comparative literature on liberalisation in India and China\textsuperscript{1}. It has been already noted that only some studies have studied Indian and Chinese systems and that too from "pure economics" standpoint. Not many studies have seen the socio-political implications of reform process in both nations.

Bagchi (1987) in his study Public Intervention and Industrial Restructuring in China, India and Republic of Korea enquires into the rationale of public intervention to bring about structural change in India, China and Korea. Ostensibly the three countries embody very different philosophies in the design of their political structures. However, the author points out an interesting phenomenon that all three have governments which intervene regularly in the economic process, though the interventions are not the same and the circumstances in which they enter are different.

The study also illustrates the relations between large and small enterprises, the functioning of the markets and shaping of the competitive environment which have been regarded as legitimate concerns of government activity.

The author argues that, policy makers trying to bring about structural changes need to be aware of conflicts between means to achieve several desirable ends. It also needs to be stressed that the pattern of income distribution and the state of employment have very significant implications for the prospects of bringing about structural change of a particular kind.
The study deals with industrial restructuring strategies adopted by China, India and Korea so as to help us better understand the power and limits of public intervention as well as efficacy and limitations of market process in bringing about structural changes in a world fraught with uncertainty and unpredictable change. The study also highlights the ill effects of structural changes on the economy in a comparative perspective.

Bhagawathi (1993) *India in Transition: Freeing the Economy*, discusses the effects of inward-oriented strategies followed by India. His overview of policies being pursued by India since Independence brings in to focus the pathetic performance of India in the past. The economic reforms started in 1991 are discussed in historical and analytical perspective. In his analysis of the model of development pursued by India, Bhagawathi puts an interesting comparison between India and China. Given the choice between the two, the western economists' perceived threat from China and hence, appealed for aid and assistance to the development model of India. Their perception was that India has all the qualifications to be a counterfoil to China². This support was visible until 1960s. However, since mid-1970s there has been marked shift in such viewing as there was a new generation of comparative analysts in US who perceived less threat from China to their nation.

Indeed, the economic reforms of China in late 1970s and early 1980s and their self-critical approach towards Cultural Revolution years paved way for Chinese gains. During this period, there is nothing in Indian pronouncements of this period, which compares with the unrestrained optimism and expectations of the Chinese leadership.
Bhagawathi points out that while “India was moving in the right direction in internal economic reform, China had moved in the wrong direction in internal political reform”. The Tiananmen Square massacre of June, 1989 set the Chinese image back to what it had been in yesteryears. Inspite of some positive spadework India also was unable to take advantage of the situation; it could not reduce the amount of poverty in the country. Its development model was constantly interfered by the government in production and investment, etc., which made it lose the scope for gains.

Thus, both India and China had fallen behind, trying to catch-up in the 1980s, with reforms whose inspiration came partly from the successes of their South-Asian counterparts. Rest of Bhagawathi’s analysis tries to explain the defective policies and mistakes of India and then goes on to provide a workable model for India’s development.

Bhalla’s (1992) work, Uneven Development in the Third World: A Study of China and India, is comprehensive study of comparative development experience of China and India. It makes distinction between the strategies adopted for the achievement of development and the outcome of development. In analysing strategies adopted by both nations Bhalla seeks to focus on the degree of their unevenness, that is the deviation from what may be considered balanced development of different entities such as production sectors, industries, geographical areas, etc.

Bhalla employs an index of dispersion of sectoral rates of growth and an index of dispersion of Incremental Capital Output Ratios (ICORs) and the “modified” Lardy index to measure the unevenness of growth in China and India. In China the index of dispersion in sectoral growth rates shows a steady decline, while the index of dispersion of sectoral
ICORs shows a decline in the earlier period that was reversed later. In India, there was an initial rise in the index of dispersion of sectoral growth rates, followed by a steady decline later. The course of the index of dispersion of sectoral ICORs was the same as that in China. The author concludes that overall there was reduction in the unevenness of growth in both countries.

The author compares development outcomes in the two countries with reference to growth, income distribution, technology and access to health and education. China achieved a much higher overall growth rate than did India. Throughout the author tried to relate differences in development outcome to differences in strategies. However, in the final chapter an interesting analysis is made to uncover the political economy behind the adoption of specific strategies in case of each country.

Dreze and Sen (1995) in their work entitled India: Economic Development and Social Opportunity, analysed the task of economic development in India in a broad perspective in which social as well as economic opportunities have central roles, tries to compare Indian experience with that of China. They outlined in particular what India can learn from other countries especially China. The study basically pays special attention to the role of basic education in social transformation as well as economic expansion.

They feel that comparing the successes and failures of India and China, one can judge the effects of economic reforms. The authors feel that both pre- and post-reform situations in the two countries are comparable. The Chinese successful liberalisation programmes and its massive entry into international trade has been projected as a model for India to act upon. The authors argue that, the accomplishments relating to education, health care, land
reforms and social change in the pre-reform period made significantly positive contributions to the achievements of the post-reform period in China when compared to its Indian counterpart. Hence, they argue that India had to take the lessons for the same.

The main purpose of Gupta and Others (1995) in their work Development Patterns and Institutional Structures in China and India, is to find out how India and China, with similar short and long term problems in steering their large economies (with a heavy public sector domination and an inefficient, highly protected production structures) through a reform process based on liberalisation and openness, are meeting the challenges that have arisen, given their different political systems and reforms strategies? They contend that both India and China can gain tremendously from comparing experiences.

This book, however, covers only few selected areas of their reform packages, consumer demands, exchange rate adjustments, export performance, etc., apart from general comparisons. The basic problem of the book is that the authors consider the Indian economic reforms to have started since 1991-92. Notwithstanding the official declaration of the same, we must know that in India also we had started our New Economic Policy (NEP) since early 1980s itself. If this premise were to be taken, such comparison as has been done in this study, would have been useful to see the relative merits or failures of both the systems. However, this study did not initiate the same.

This volume also identifies interesting, yet relevant problems pertaining to both nations. The Chinese economy is at present considered to be over heated and needs to contain inflation and prices. It has to streamline centre-state relations and institutional framework for the conducive use
of indirect market based instruments of economic development by government. Though India also faces the problem of inflation (incidentally, this weakness of India as against China is also our stand) unlike that of China, it is because of little growth it achieved. The problems of centre-states, with regard to the percolation of economic reforms need rethinking. While India needs decentralisation China is trying to regain its lost control over its provinces.

In the long run, China has the most challenging problem of establishing compatibility between its reform strategy and political structure and economic institutions. In this context, India is fortunate as its political institutions are closely geared to a democratic market-based system that would ensure proper economic activity.

Swamy (1973 & 1989) tries to compare the economic growth of India and China in both his works on Economic Growth: India and China. He tries to analyse the reasons as to why India and China (the developing countries) did not respond to the forces of industrial revolution and modern economic growth?

This he attributes to the lack of good leadership in two nations. He contends that, after 1940s both India and China more or less stable governments, which had tried to transform their economics into modern industrial ones. Swamy, after meticulous calculations in national income accountings reached a radical conclusion that, in the period of 1950-78 both countries progressed much faster than in the earlier ten decades and the overall growth rate in national income was about the same. However, in the past few years, though both countries accelerated their growth rates, China under Deng’s reforms outstripped India in all sectors of economy. His analysis shows, that the Chinese had used their resources inefficiently, than the Indians;
Notwithstanding their higher efficiency, Indians are backward in the indices of poverty elimination, illiteracy eradication ad health development, etc., where in Chinese had done decisively better.

His study contains most of the qualitative work on agriculture, industry and national income, the purpose of which is to establish a consistent series of value-added figures for agriculture and industry, establish the proper weights for addition of the net value-added figures, and estimate the growth rates of China and India on the basis of these consistent series.

Patel's (1994) work *Indian Economy: Towards the Twenty First Century*, traces the path of development in his analysis on planning. He argues that though India achieved economic progress domestic inequalities of income, wealth and economic power had widened. So is India's share in world economy. Its share in world income, industry, trades and agriculture has fallen sharply.

He points out that liberalisation of the economy involves reliance on the market and the individual capitalists. These changes also underline that the management of the Indian economy in the future will be very different from that of the past. In his analysis of India's eclipse in the world economy, he presents the sharp contrast between India and China. By way of empirical evidence he proves that between 1950-80 China had gone far ahead of India in many areas of economic performance. These gains he attributes to:

i. Universal education in China as against education as a welfare policy in India (though policy pronouncements are there India could not achieve success).
ii. Enrollment of more number of female students and less dropouts than in India. And

iii. The Cultural Revolution period with its emphasis on better red than expert had decimated its intellectual and technological skill development.

Apart from analysing Indian planned economic development, Patel tries to explain that the reasons for liberalisation were wrongly timed. He points out several options which the government had in its hand but eventually the government failed to adopt them and had approached International Monetary Fund (IMF) for Structural Adjustment Programme (SAP). While exploring the future of economic policies and the leap towards globalisation, Patel argues that this would only accentuate further the domestic inequalities.

Srinivasan (1988) in his work entitled *Economic Liberalisation in India and China: Issues in an Analytical Framework*, points out that both nations have similar rates of growth when they initiated planned economic development. He says that the success of liberalisation in both nations depends on the moderation of protectionist tendencies that are fast emerging in industrialised economies. Further, economic liberalisation in China may lead to generation of forces clamoring for political liberalisation (this is also another important issue that we would try to analyse as part of our study). In India, though the mixed economy has given institutional framework particularly a functioning market, building political support for liberalisation is more difficult. However, in China, though such structures are to be built, it can carry forward economic liberalisation with less fear of opposition. Where as the same is not the case in India.
Srinivasan points out that in order to count on the external liberalisation, internal liberalisation is a must. This is because of the fact that the economic controls in these countries had made those persons in-charge of these economic affairs more powerful. Hence, in order to break from such non-advantageous position, both nations have turned to economic development. The success or failure of this policy depends upon short or medium run, on the structure of the economy and determined by its evolution during long period of economic controls. He then tries to present an analytical framework to sort out the issues involved.

Understanding Terms and Concepts:

The terms and concepts involved in the study are:

Political Economy:

From a broader epistemological viewpoint, political economy accommodates political, economic, sociological, historical and other related influences in the phenomenological explanation of the comprehensive interdisciplinary subject. The rise of political economy was evident during the pre-classical period, marked by the philosophies of mercantilism and physiocracy. And it further expanded in a very systematic way during the period of classical political economy. Marxian political economy is essentially an extension of the system of classical political economy, but in many respects, is also different from the former. Marx gave Political economy as subjects discipline a new direction and dimension.

The basic thrust of political economy from classical to Marx has centered on the question of production. Accordingly, the process of production can be regarded as a contradictory unity of two relations: (1) the relation
between man and nature, and (2) the relations of production. Of these two, the second point forms true subject matter of radical political economy. Hence, it can be defined as the study of production relations in terms of their interconnections with the contemporary development of productive forces as directed by history.

Like its classical counterpart, radical political economy analysed production, distribution and the question of surplus. According to Popov (1984), Riskin (1987), and Chatopadhyaya (1994) the study of political economy observes that while surplus is originating in production, it could be realised through circulation. Hence, the form and manner in which surplus is generated, appropriated and distributed under different modes of production becomes basic for analysis. In this framework, political economy analyses the genesis of social conflict that arises between production relations and the forces of production and the consequences of such conflicts in the analysis of capitalism. Radical political economy analyses in detail the growth and decay of capitalism. It focuses more on the competitive capitalist mode of production and the class conflict between labour and capital and comes to the conclusion that owing to inherent contradictions in capitalism, it will ultimately breakdown.

Ghosh (1997) says that the present day "political economy cannot wholly accept classical political economy for many reasons, it would be essential to develop a theoretical paradigm or structure that integrates analytical sophistication with empirical rigour and policy orientation. In analysing empirical issues, a political economist should use quantitative tools of analysis, if necessary. Any softness in this regard may prove to be detrimental to the growth of scientifigicity in the discipline. A positivist political economy will, indeed, be healthy for the subject."
Political economy does not necessarily have to be always normative; normative prescriptions can be based on positive analysis" (Ghosh, 1997:46 and See also Ghosh, 1990 for details on political economy).

Globalisation:

Globalisation means coming of national economies of the world closer. Trade is primarily the vehicle for the circulation of capital which nations claim including those of various currencies. According to Haque (1997), this has very little to do with the transfer of goods among national economies. The principle of globalisation is based on the Ricardian theory of comparative advantage. Key concepts involved in the subtle use of theory to canvas support for these processes of globalisation, liberalisation, etc., are competition, efficiency and growth, all shown to be related to markets. These concepts belong to a theoretical system that claims to express the essence of the capitalist economy, showing it as promoting efficiency and growth through competition.

Theorists such as Gupta (1993) argue that, globalisation of markets under the aegis of capitalism are theoretically sound and move in the right direction. As it is generally perceived that capitalism promotes growth, globalisation of markets will promote efficiency and growth globally. However, such hypothetical representations of capitalism that it promotes growth globally needs to be critically examined as its real life features are distorted (See endnote.4 for details).

Liberalisation:

Economic liberalisation refers to changes in the relative price structure; domestic and foreign, by free
market operations. The basic rationale behind liberalisation was to reduce the discretionary role of government with respect to economic matters and thereby increase the space for market forces to operate. It is believed that through this process of deregulation, the economy will become an efficient producer leading to a higher rate of growth of output. Guha (1990), Gupta et al., (1993), Mani (1995), Bhaduri and Nayyar (1996) present basic concepts of liberalisation and their short and long term implications. Liberalisation programme has trade, fiscal, monetary, financial, price, incomes and industrial policy components. In the process of changes in the policy package it influences changes in the real activities in the economy and its production, consumption and distribution structure. Their effects come in short, medium and long term and there are trade-offs between different instruments used and their totality of effects undertaken by the governments concerned.

Though it is the long and medium term effects, which are of interest to the policy makers, the short-term effects are equally important especially for the acceptance and continuation of the reform programme. The social impact normally gets reflected in the changes in the purchasing power of currency, that is prices, changes in the real income of the different income groups and their impact on employment and occupational distribution.

While reviewing different economies under the economic reform programme, one should not equate 'liberalisation based on market orientation' with 'outward looking export incentive strategy'. Notwithstanding the combination of export led growth strategy and significant government control in Asia-Pacific region that brought growth and development, the most difficult part is the transition from initial imbalance to a phase of stabilisation. Common experience shows that in countries with low per capita
income and poverty, like that of India and China, where the initial process of these adjustments started from a balance of payment dis-equilibrium and large fiscal deficit, the transitional pain over the contracting period is likely be prolonged and more intense.

Privatisation:

Privatisation may be termed as the policy changes that reduce the controlling and regulating role of the state and remove other government interventions in the economic system. Though, economic reforms are based on the philosophy of the state acting as a facilitator and having faith in the market economy, privatisation generally is interpreted in the narrow context of public sector enterprises (PSEs). The twin forces, which aid privatisation, are deregulation and decontrol. The government withdrawal from regulation of market activity and introduction of new contractual ventures would bring more privatisation.

Field (1995), Gupta et al., (1993) says that, the perception of the term privatisation differs depending upon the characteristics of their existing private sectors. In Britain, a strong and competitive private sector defines privatisation as transfer of ownership of PSEs to private hands. On the contrary, in China, due to non-existence of private sector, privatisation was perceived as introduction of contractual management. In India, the private sector is non-competitive and is protected and supported by the government. It enjoys the privileges of sellers’ market and is exposed to very little risk.

Such type of environment offers little scope for initiative and has widespread sickness in private sector industries. The linkage between initiative and ownership is
not strong in these private industries. Hence, transfer of ownership per se need not be an essential pre-requisite of privatisation. Hence, promoting of private initiative with or without transfer of ownership and autonomy in the management of PSEs may be defined as privatisation.

**Industrialisation:**

The process of transformation from predominantly agricultural economy into the one where the manufacture of goods increasingly contributes to overall output and exports may be termed as industrialisation. According to Ghosh, et al., (1992) and Swamy (1994), throughout this process of transformation, the percentage share of agriculture to total Gross Domestic Product (GDP) declines and that of industry increases. Changes in the economic and social organisation of production and distribution are necessary precondition for industrialisation.

The relation between industrialisation and economic growth is a subject of continuing controversy. Early arguments for accelerated industrialisation were based largely on the assumed properties of technology in manufacturing and related sectors. The importance of economies of scale and growth of productivity in manufacturing and the cumulative benefits that shall be brought about in the form of external economies were stressed.

Industrialisation was advocated to offset the supposed disadvantages of specialisation in primary production and the associated secular deterioration in the terms of trade. There is a change in achieving industrial growth and industrialisation under the present context of globalisation. In this context, industrialisation is not
only a response to changing demand and supply conditions but also a principal means of acquiring modern technology.

The argument for shifting from an inward-oriented to an outward-oriented strategy was greatly strengthened by the success of newly industrialising economies thus characterising this export-led outward oriented policy as a model for rapid growth. However, as the present experience shows the South-east Asian economies on which such argument is based have collapsed giving rise to doubts on its validity.

According to Whynes (1983) the industrialisation model traces the rise of industry to shifts in domestic demand, the growing intermediate use of industrial products and the transformation of comparative advantage as factor proportions change. Although this phenomenon can be observed in virtually all developing countries, their relative importance varies according to each country's structure, natural resource endowment and development policies.

Class Formation:

Classes represent groups of people differing from each other by the place they occupy in a historically determined system of social production, by their relation to the means of production, by their role in the social organisation of labour and by the dimensions of the share of social wealth which they dispose and the mode of acquiring it.

The question of class formation had been discussed by many such as Wright (1978), PoulantzAs (1974), Alavi(1982), Chassudowsky (1986), Chatopadhyaya (1994) and Weil (1997). According to these theorists, the formation of class has certain objective positions within class structure, which
are torn between the basic contradictory class relations of capitalist society. Class formation is not simply a matter of economic relations, but involves the culture and politics growing out of them. It involves a process of self-creation on the part of production relations-defined groups. Thus, the formation of class may be emergence of a new class, reformation or deformation of an existing class or both due to polarisation of capitalist production relations.

Corporatism and the Concept of Welfare State:

The concept of corporate is profit motive. A corporate business house looks for enhancing its market and its base. This apart, its management shall be professional and would strive to achieve targets. According to King (1992), there is a linkage between the decay in pluralist policies and the decline of a competitive market economy. This establishes the point that interests in politics are similar to the development of a large stratified and concentrated business sector, on the one hand and a small & medium sized sector on the other. In the former case domination of markets is possible, while in the later company failures and mobility are clearly marked. Similarly, the political market reflects the unequal influence of some interest groups as oppressed to others. Large corporations exert economic power in the market and also influences political power to enable public policy discriminate in their favour.

The democratic political market begins to be eclipsed by power of interest groups, especially those of the economic producers (capital and labour), similar to the uneven development of corporatisation in the economy. As a consequence of uneven expansion of the role of the state, some interests become corporatised while the rest remains pluralistic.
Reinterpreting the growth of the welfare state in corporatist terms suggests that it results from the bargaining process between state and providers, rather than responsiveness to the needs of consumers and clients. Similarly, if the welfare state is successfully defended from a strategy of welfare expenditure cutting, it will be because it directly challenges the power of corporate groups. State recognises the importance of corporatism in some fields such as education, health, etc., where corporatism is not just related to 'production', but also incorporates social policy making.

In a class approach to welfare corporatism, welfare institutions are seen much as integrated and largely dependent mechanisms subordinated to the process of wider emergent corporate industrial state. However, Ackoff (1994) says that, there are difficulties in such a class approach to welfare corporatism. The liberal form corporatism, does share features with pluralist form such as a certain distribution of power, the importance of interest groups and the relative absence of a dominating and increasingly all powerful centralised state, etc.

Capitalist Production Relations:

Many scholars depict exchange as a relationship between commodities or between commodities and cash. The societal angle of exchange seems to be missing. When it comes to production, it is seen usually in a technical combination of inputs to get output. These inputs are clubbed together into broader categories like, land, labour, capital, etc. Ghosh (1990), Chatopadhyaya (1994) and Kurien (1994) says that, it is important to consider production as a social activity with specific human relationships, which in turn gives rise to different forms of human relationships.
Capitalist production is not merely 'exchange', it becomes one, when the labour power works with it and adds 'value' to it.

According to Kurien (1994), historically, irrespective of the nature of organisation of production, people who were actually engaged in work have produced more than what is required for their survival. This 'surplus' which was generated in the process of production was appropriated and utilised. The progress of human society can be related to the manner of appropriation and utilisation of this surplus. In the simplest social organisations where practically every member had to be a worker, the surplus is utilised to support the old and to look after the infants. In more advanced situation a part of the same was utilised to maintain the 'chief'. In feudalism, a part of the surplus was appropriated and utilised by the landlord solely on the claim of ownership. Under capitalism the surplus generated by those who work being appropriated by owners, solely because they are the owners of capital. This is 'exploitation' per se.

Under capitalism form of surplus and the manner of its appropriation changes as there is a tendency to convert all that is produced into value (monetary one) through exchange. Since what is produced is value added, its surplus becomes surplus value^6. The capitalist owner after retaining his share passes on to the workers their share as wages.

Capitalists would find themselves at a monopolist status and enjoys surplus profits, until other capitalists come into the fray. In the ensuring imperfect competition, advertising of a product becomes crucial to promote particular type of good. However, as in the world of nature the bigger fish tend to swallow the smaller one, the general tendency will be for the larger capitalist to drive out his
smaller competitors or to take them over. Competition brings about major changes in the profile of capitalism and constant change is one of the basic tenets of capitalism. The wave of liberalisation as a global phenomenon has endowed legitimacy to different economic systems derived from capitalism, not withstanding the failures in developing countries.

State Capitalism:

Capitalism in general is where the capitalist exploits the labour and amasses wealth through appropriation of surplus value. However, in certain cases, state by virtue of being a regulator of market activity, itself acts as a capitalist producer with its product as a commodity to the extent it employs wage labour. Here, the salaried employees (both technocrats and bureaucrats) and all the agents of state become functionaries of capital.

They extract surplus value from the immediate producers who remain alienated from and opposed to their own products. Thus, state capital represents a form of direct social capital where all the contradictions between labour and capital becomes maximum. Production and property looses its earlier private character and would be recognised juridically as public property. Social exploitation of relations of production that was manifest in capital would come to the fore. State capital could be an individual capital as it forms a fraction of the social total capital although, it may be recognised juridically as belonging to public ownership. Other forms of capital would belong to private ownership. Alternatively, the state can also take over the entire social capital where the centralisation of capital occurs and would be under single juridical public ownership of the state (See King, 1992 and chatopadhyaya, 1994 for details).
Socialism:

Socialism is a transitional phase on the road to communism. Under socialism there still remains classes, occupational division of labour and also elements of market economy. According to Ghosh (1990), under socialism apart from being dictatorship of the proletariat, there also must be nationalisation of the means of production as obligatory. During this period of transition reforms like progressive taxation, social welfare, planning, workers' participation, universal free education, etc., will have to be introduced.

Socialist production is to be managed in a planned way to meet the needs of the society. Chatopadhyaya (1994) says that such a plan is to be formulated by an independent socialist state. Socialism is not only an economic system but also a political one. Hence, planned production based on social ownership of means of production must bring maximum social welfare. The principle of "each according to his ability, to each according to his work", shall be in operation as there will be limited goods and services. Hence, difference between mental and manual labour, skilled and unskilled labour shall remain under socialism. Here wage is a form of income distribution according to performance, on the basis of nature of work and the grading system. Incentives are also given for fulfilling the production targets.

Although socialism stands for classless society, classes such as workers, peasants and intelligentsia shall remain under socialism. However, there is no class contradiction amongst them inspite of the fact that there exists private property in this transitional phase. Socialism tries to establish equality in the sphere of production as far as possible. The class distinctions are
gradually abolished and fully obliterated during the higher phase of socialism (communism).

**State Socialism:**

Against the model of 'communes' to overcome alienation through transformation and dissolution of state authority through the creation of self-governing communities in which people would directly participate in decision making and implementation, the Russians conceived an alternative model with a strong state as necessary for the transformation of property relations, for overcoming material want and inequality and for defending the socialist revolution from its enemies.

The political system of state socialism rests on the assumption that the communist party expresses the political interests of the working class and as state ownership and control of production effectively eliminate class conflict no other parties are required. Based on this assumption, according to Field (1995), the liberal-democratic role of political institutions, which would articulate the demands and interests of the pressure groups are absent under state socialism. The communist party considers such institutions as forces, which would weaken the collective leadership of working class. The party becomes authoritative source of values and monopolises of political organisation.

However, Chatopadhyaya (1994) writes that, the objective existence of value categories such as commodities, money, bank, credit, etc., in USSR could ideologically be accepted for a transitional economy which would be eliminated in the future form of socialism. However, this argument of soviets clearly shows that they deviated from Marxian form of socialism.
Market Socialism:

Market Socialism seeks to combine the recognised advantages of markets with respect to efficiency and a system of social property rights, which would contribute, to the achievement of the objectives associated with socialism.

For attaining socialism, according to market socialists, the role of markets needs to be diminished in an economic system and it must be replaced by mechanisms of economic planning. It also requires having predominance of social property rights rather than private property rights. Advocates of market socialism such as Hayek (1935), Kornai (1992), Bardhan & Roemer (1993) and others while arguing it as a third way between capitalism and socialism accept many theoretical and empirical arguments that have been raised over the years against primary reliance on planning rather than the markets\textsuperscript{10}. They therefore seek to change capitalist institutions primarily by embedding within a competitive market structure, a system of enterprise ownership characterised by some form of social property rights.

In the context of liberalisation and opening of the economies of India and China, this concept of market socialism becomes extremely relevant. This makes us to critically analyse the process of liberalisation in both India and China from a theoretical standpoint\textsuperscript{11}.

The Process of Liberalisation:

In 1978, economic reforms in China were initiated when Deng took over power after the demise of Mao. Since, then, the "Four Modernisations" policy of China in Agriculture, Defence, Industry and Science & Technology are in operation. The Chinese resentment for misallocation of funds and also
the bias against foreign technology and capital during the Mao regime provided a basis for the Chinese liberalisation.

In India, economic reforms began in a small way as early as late 1960s with the devaluation of its currency and had brought visible changes during the 1980s when it opened for massive technological collaborations to develop domestic industry. But, the real thrust for reforms came in 1991. The Balance of Payments (BoP) crisis during the early 1990s was only a catalyst that had unleashed the hitherto closed economy of India to the outside world.

Unlike China, India faced problems on both the domestic and external fronts due to the shortage of capital resources and low exports, widening thus the Terms of Trade (ToT). In order to overcome this crisis India was led to liberalise its economy.

Thus, we can say, while China has liberalised its economy from certain strength, India has done it because of a financial crisis in its system. However, unlike in India where there are experienced entrepreneurs, who are capable to carry the groundwork for the success of reforms, China needed a total restructuring of its economy (de-collectivisation of rural and urban land, breaking of co-operatives, etc.). Thus, the structural shift of India and China from a centralised command economy to that of a market-oriented economy and from import substitution to export led growth strategy is broadly meant to achieve rapid progress and development. But, while the objectives and ideological deviations are similar, there is great deal of difference in terms of strength and potentialities.

During the course of working of the new policy in 1980s the hitherto dominant sector agriculture was taken over by industry. Subsequently, investments in both nations were
targeted towards industry. Agriculture shrunk in size, but ironically labour force displaced by agriculture could not be accommodated by industry. Hence, unemployment, pressure on land for food, etc., increased in both nations.

In such a backdrop, it is timely and relevant to study the policy changes during the decade of 1980s and its impact on industrial sector of both the economies. This study will focus on the political and economic conditions of industrialisation led by foreign investment. It will also examine the emerging new industrial relations and political issues, which are natural outcomes of the policy of liberalisation of industry.

In China, the post-Mao development strategy has departed significantly from the earlier goal of egalitarian development. Their emphasis is on rapid economic growth. Emphasis was on light industry rather than heavy industry; on increased consumption rather than increased investment and command economy led by the state rather than market responsive socialism. Furthermore, an open door policy of liberalising imports of foreign technology as well as investments has replaced the earlier policy of national self-reliance.

Liberalisation of Indian economy started as a response to the inherent weaknesses in the state capitalist system where private entrepreneurs had flourished under the state controls. The business elite had explored the protected and assured market in India by 1980s. The technology was obsolete and Indian consumers were striving to have new brands of goods. In such backdrop, the Indian industry, which is starving of foreign capital and technology had asked for liberalisation. Thus, during 1980s there was emphasis on deregulation and decontrol, which we shall observe in detail in the chapters to come.
In 1991, the government has introduced new economic reforms that had unleashed new political as well as economic forces. There was liberalisation of import of foreign technology and capital flow. The previous Nehru-Mehlanobis model of import-substitution was replaced by the export led growth strategy. Limit for foreign equity participation has been raised between 40 per cent to 100 per cent depending on the type of industry. Industrial licensing was abolished. Monopoly and Restrictive Trade Practices (MRTP) Act and Foreign Exchange Regulation (FERA) Act were withdrawn. New programmes for poverty alleviation and development such as Jawahar Rozgar Yojana (JRY), Prime Minister Rozgar Yojana (PMRY), etc., were given thrust. This apart, a new social security package for the workers under the New Pension Scheme (NPS) of 1995 was initiated as also the component of National Renewal Fund (NRF) which is specifically made for reviving sick industries as also to provide training and redeployment of workers.

Thus, both India and China had started with similar development strategies—heavy industrialisation and growth maximisation during 1950s till the late 1970s and market liberalisation in the 1980s. In China unlike in India, even after the growth of private enterprises and capital formation, public ownership of means of production remains intact\textsuperscript{12}. Private enterprises and allied activities still form small part of the total economy. During early 1980s central control and planning were reintroduced to control the business activities for development and growth instead of capital accumulation.

In India also uncertainty prevails due to political instability. The dilemma of state control versus liberalisation also faces the Indian planners and policy makers. Although a shift from planned economy to free
market system brings in greater efficiency and higher growth, it tends to raise income inequalities and create social unrest. Another area of hindrance to market reforms that, the major subjects like agriculture, health, education, etc., are state responsibilities. Another feature of reform with respect to industry is that, in India industrial development was planned and was assisted by foreign agencies through constant capital and technology inflows. This had left deep-rooted linkages between Indian industry with foreign investors. Since liberalisation, these linkages are more aggressive and are now trying to dominate Indian markets.

However, this was not the case with China. In post-Mao China, a balance was achieved between light and heavy industry. But, a shift towards market oriented development and priority growth over equity seems to have led to greater income inequalities.

In both these nations, liberalised imports of foreign technology due to an import intensive production patterns (and shortfalls in food grain production leading to further imports) have contributed to fiscal imbalance. Thus, it would therefore be appropriate to examine the extent to which policy changes led to uneven and unbalanced growth in economic and social aspects in both countries.

Objectives and Scope of Study:

This study focuses on the structural changes brought about in India and China since 1980s and their impact on Industrial sector. It examines the similarities in the previous era and the changes brought in thereafter viz., trade liberalisation, inviting foreign investments, export led growth strategy, et al., and their impact on performance
and growth of industrial sector in both nations. The study also examines the emerging industrial relations.

A cursory look at both Chinese and Indian industry shows that before the policy of liberalisation the state control and finances were more in both nations. Industrial sector flourished with state protection. There is private oligarchy with respect to India. But, after decentralisation and the declaration of new industrial policies by both India as well as China, market is determining the prices. State withdrawal from regulating economy is evident. Creating serious imbalances and inequalities with respect to industrial production and distribution. Workers retrenchment and new industrial relations are common outcomes.

Although there were differences between India and China in the three decades of planning and developmental experience from 1950-80, they have been more distinct during and after liberalisation. It is also worthwhile to examine in what respect they are distinct and as to what factors are responsible for this notable distinction in the economy of both nations.

Furthermore, if we compare the general political and economic ideologies of the two countries, the Indian economic ideology and political system is having capitalist characteristics. According to theory, an economy with capitalist orientation should grow faster and efficient than an economy with strong socialist orientation. Indian economic ideology and political system has capitalist characteristics and the Chinese had strong socialist egalitarian policies although in the version of market socialism of Deng. However, by contrast, Indian economic growth rate always remained below that of China over the
years and in recent past the difference is progressively increasing. So, it would be pertinent to examine the same.

This study focuses on the process of liberalisation in both nations and its impact on industrial sector. We know that before the policy of liberalisation state control and finances were more for industry in both nations. Industrial sector flourished with state protection. But, since liberalisation state withdrawal from regulating economy and market determination is evident. Similarly, structural changes brought about by India and China under liberalisation makes it easy for mobility of both internal as well as external capital. Thus, this study would analyse the impact of liberalisation on foreign investments and their impact on industrial growth. However, cursory look at the issue points out that inspite of the fact that China is a totalitarian state, investments have been more there rather than a liberal democratic and market friendly state like India during the period 1980-till date\textsuperscript{14}. Hence, it would be pertinent to analyse the reasons for such differences in inflow of investments as well as its impact on industry in both nations.

Liberalisation often leads to heavy inflow of technology and capital, which would replace the existing production forces and alters the existing relations of production. This technology invasion replaces labour, best example being computers. This tendency would displace scores of people who were hitherto, employees and creates unemployment problem. In this context, it would be timely and relevant to examine the changes in industrial relations and present the emerging trends for workers vis-à-vis employers and the changing nature of the state.
Hypotheses:

1. Liberalisation has brought in visible changes in industry in India and China as opening up to foreign investments results in faster industrial growth.

2. Liberalisation has far-reaching adverse consequences for labour and industrial relations in both India and China.

Methodology:

The study will be with comparative political economy approach, which is suited for the theme. It is rather implicit while analysing the performance of industry and allied sectors in both India and China before and after the policies of deregulation and decontrol came into being. This study intends to look at the socio-political dimension of liberalisation in both these nations with special reference to emerging industrial relations.

The study is based on institutional publications such as reports, policy papers, etc., of the World Bank, the International Labour Organisation (ILO), United Nations Industrial Developing Organisation (UNIDO), Asian Development Bank (ADB), etc. Large number of other studies pertaining to the issues discussed above are also consulted.

Reasons that are influencing economic structure in the process of liberalisation can be inter-related. However, some of these reasons cannot be quantifiable. So, these qualitative reasons are examined and explained in theoretical presentation and economic tools such as regression analysis are used for quantifiable variables.
Limitations of the Study:

- Our study focuses on the changes in India and China during the period 1980-95. However, we tried to examine this scenario with substantial statistical evidence available from different sources. Some overlapping with respect to years may be because of the data taken from different sources.

- In this study industry connotes the whole of industry as a sector (that is the sectoral share of industry in all macro-economic parameters). Hence, we do not go into the details as to which specific sub-sector (such as manufacturing) of industry has benefited or is loosing as a result of liberalisation. However, wherever possible such issues are discussed subject to its relevance for this study.

- This study is not meant to discuss or analyse the other implications of liberalisation such as external debt, international trade, balance of payments, valuation of currency, etc., as these are quite economic in nature.

- Specific policies pursued by China during pre- and post-liberalisation periods are presented in an order as has been followed by the Chinese leadership. However, as regards India, periodisation was not possible as the policies pursued were more or less continuation of the previous ones albeit with little difference. Hence, there would certainly be some gap between both nations’ policies and practices.
Chapterisation:

Our study is divided into six chapters.

In Chapter-1 we present the problem and a brief review of comparative literature of both nations and setout research objectives and methodology adopted in this study. Here, a case is presented as to why we are comparing both India and China. This apart, certain theoretical and conceptual issues such as political economy, globalisation, liberalisation, privatisation, etc., have been presented.

Chapter-2 clarifies the context in which reform initiatives have been undertaken in both India and in China. It traces the basic tenets of the policies followed by both nations prior to liberalisation (1950-80 period). It deals with theoretical issues and practice of socialist egalitarian policies as also performance of industry in both nations during the three-decade period, prior to liberalisation. As it is worthwhile to look at the past policies before discussing changes brought about in both nations, this chapter, is a prelude to make a good ground to discuss the policy changes under liberalisation.

In Chapter-3 changes in policies pursued by both India and China as part of reform process are discussed. This forms the basis for understanding as to what were the changes brought about in India and China under liberalisation. The divisions of policy changes into specific periods as has been followed by both nations are presented.

In Chapter-4 industrial growth as well as performance during liberalisation period in both India and China is analysed based on certain macro-economic indicators.
pertaining to industry consulting data from latest ADB, The World Bank, ILO and UNIDO, publications.

In Chapter-5 we try to investigate as to what are the changes emerging in the industrial relations front as a consequence of liberalisation. Here, an attempt is made to comprehend the nature and course of changes in industrial relations in post-liberalisation period in the two countries with reference to the state and industrial classes.

Chapter-6 presents summary and a brief critique on inferences drawn from the study on the issues concerned.
NOTES

1 Please note that we are only reviewing those studies, which are looking at the process of liberalisation in both nations in a comparative perspective rather than reviewing individual studies pertaining to country analysis.

2 Excellent leadership, its size, resources and important of all it was the world's most populous democracy.

3 According to the author, the shift towards greater balance in both countries can be explained by changes in development strategies. Both China and India initially emphasised heavily on heavy industries. This emphasis was later reduced in both countries. In Maoist China, agriculture was deliberately subjected to a transfer of resources due to unfavourable terms of trade. The policy of local self-reliance and control over migration from rural to urban areas contributed to a widening of regional inequality. These policies were later relaxed. In India, there is no clear evidence of subjecting agriculture to unfavourable terms of trade though it was discriminated against in terms of its share of investment. The Indian federal structure also resulted in a bias against agriculture, education and certain other sectors in which the states had greater autonomy and responsibility. Overtime, both countries adopted policies and strategies for greater sectoral balance although the author finds in this regard that China's success was greater than that of India's.

4 Marx's methodology, which is based on dialectical materialism, suggests that contradictions ultimately arise in the system of capitalism and his basic objective was to focus on these unequal production relations that capitalism engenders. Marx adopted the labour theory of value from the classical political economy. However, for him it is the exchange value of the product that has social phenomenon. Under capitalism the worker is not paid for the total value of his labour in making a commodity and surplus value is thereby generated which the capitalist appropriates. However, in the long run, due to the rise of organic composition of capital, surplus value remaining constant, the rate of profit would fall. This apart, there would be spread of unemployment and low wages, which would along with disproportionate growth and falling rate of profit, and realisational problems would push the capitalist economy to the vortex of crisis.
Note that it is exactly this imbalance during the phase of consolidation, after initial high growth and development that the south-east Asian economies fumbled.

Under capitalism, there will be transformation of surplus (physical) into value (monetary). This would be possible largely because of the presence of market. Markets succeeds in completely hiding the vertical transfer of surplus value from worker to capitalist, through its ability to present all transfers as horizontal ones between two parties 'at the same level'. Market becomes crucial once when labour power is converted into commodity through exchange and for hiring of workers for production activity.

Such merger of existing capitals is what centralisation of capital refers to. Please note that in the recent past, in both India and China, mergers and acquisitions of companies by MNCs as well as native Big Businesses became common feature. This is because of the fact that the capitalists within these nations compromised for the role that they get as servicing agents to global capital.

This is evident in China during the GLF period workers were given to achieve higher production targets. See chapter-2 for details.

The conceptual and theoretical framework of soviet state socialism was complete inversion of Marx's concept of the emancipated union of producers. On the contrary, the soviet 'political economy of socialism' turns out to be a vast exercise of rationalising the policies pursued by it.

The question of reliance on market structure rather than planning might be to make a middle path by combining both market and planning. This juxtaposition of both is thought to be ideal combination to bring in growth and development as well as retain socialist egalitarianism.

Please note that our argument is not for the kind of market socialism which China promotes. However, it is for the sake of this analysis that we critique the premise rather than to prove whether so and so is the scientific way of achieving market socialism.

Please note that in China, though technically ownership of property is with the state, there is some similarity between Indian and Chinese post-reform situations regarding the ownership of property is concerned. This
is more pertinent after the introduction of new individual & household contract responsibility system in China. Hence, except for legal sanctity, ownership of means of production is for certain are with individual eversince reform process started in 1978.

This can be one of the important causes, which determines the large inflow of foreign capital investments, both direct as well as portfolio investments, into the Chinese economy.

We must note that one reason for this influx might be that China is a new market as far as consumer durables and non-durables are concerned. While India had access to these technologies ever since 1970s itself.