Understanding China

Young-Chan Kim *Editor*

China-India Relations

Geo-political Competition, Economic Cooperation, Cultural Exchange and Business Ties

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Preface

From the outset of the '21st Century China—A New Perspective' project, launched by the China Research Centre at the University of Greenwich, it aimed to address a growing demand for research on Chinese regional strategy. Indeed, it was at a time when the academic society, across Western Europe especially, was growing increasingly sceptical and somewhat wary of the emergence of China and the ensuing ramifications for global business and the future trajectory of foreign investment.

The present 'China and India' publication is the fourth in the series, with each of the three preceding projects focusing on a designated area of contemporary Chinese development. Ardent support from academic institutions and public research bodies has been critical to the project's progress. Special mention goes to the International Institute for Asian Studies (IIAS) based in the Netherlands and Academia Sinica in Taiwan, whose endless support and encouragement was crucial in ensuring the progress of the series. The responses thus far have been remarkable, with academics from across the world offering their contributions. The procedure has been demanding, both academically and administratively; yet, after strenuous negotiations and a tough selection process, I believe that I have a strong team in place to continue on with the series up until 2025, concluding with the 'Made in China 2025' project.

Special thanks goes out to Dr Johannes Glaeser and his tremendous publishing team at Springer, research fellows from the University of London and my colleagues at the University of Greenwich—whose support has been unwavering.

I further extend my deepest gratitude to the Ye family in Meizhou who have been invaluable in assisting my research into China since 2010. Additionally, China will have a greater say in our future and, more so, in that of my two sons; they have been my fiercest critiques and my inspiration—contributing more to the project than I could have ever imagined.

Lastly, to all the young scholars reading this—the world does not stop for you; inspiration is drawn by those who so desire it. With the increasing digitalisation of society, the intrigue of the younger generation remains paramount to ensure intellectual progression; think longer, not harder, that is the one thing machines cannot do.

London, UK Young-Chan Kim

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Johannes Dragsbaek Schmidt

1.1 Critical Political Economy and the Study of Foreign Policy

Critical political economy (CPE) is a dynamic perspective focusing on the interplay between geo-political and geo-economic priorities in foreign policy. This approach recognizes a certain degree of nation state diversity, but equally insists that the focus of mainstream neo-realist and neo-liberal theories on national distinctiveness is ultimately misleading in that these established theories lose sight of essential similarities in national models of regulation that are substantially shaped by the external structural imperatives of capitalist accumulation (Radice 1999, 2000). Moreover, the diversity of forms taken by various states conceals a generalized shift away from Keynesianism and other interventionist or regulative models with alleged national/domestic rather than international/competitive orientations.

CPE goes beyond the perspective of the orthodoxies of neo-realism, neo-liberalism and some structural theories like world-system theory in which "historical change is assumed to follow a predetermined path regardless of historical context and human agency; with the result that theoretical argument dominates and displaces the complexity of history" (Amoore et al. 2000: 61). In this sense, CPE sees social change as a dynamic and historical process and as a continuing creation of new forms and asks how existing social or world orders came into being; how norms, values, institutions, or social practices have emerged, and are perpetually contested and subjected to change. In this way, CPE rests on historical dialectics trying to

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discern not only the past but with a continual process of historical change and with exploring the potential for alternative forms of state and world order (Cox 1981). CPE is closely linked to the ontology and methodology of Critical International Political Economy (CIPE) by seeing agents and institutions as historically and socially dynamic, constructed, and mutually constituted and by problematizing socioeconomic and political structures (Cafruny 2016).

The dissolution of the Soviet Union in 1989 spelled the end of the Cold War and thereby the dominance of politics in command turned into economics in command. An important post-1989 effect was the shift from the primacy of military power to a greater role for economic power in shaping global geopolitics. Economic structural change has become the epitomization of globalization and it challenges "deeply embedded socio-cultural and political structures in critical ways that cannot be ignored, provoking dynamic responses of promotion, accommodation, and resistance" (Cerny 1999: 190). The classical interplay and dynamics between exercise of 'political authority', security issues and 'the distribution of wealth and production' cannot be analyzed as exclusive domains but at the present stage of history it is manifested that geo-economics has a dominant position in international relations. The recent evolution and rise of elected charismatic and authoritarian leaders in the United States and India and re-introduction of protectionism, economic sanctions etc. may challenge this truism and geo-politics and even anti-multilateralism challenge the so-called liberal world order.

No continent benefited more than Asia, as has been manifested in its dramatic economic rise, the speed and scale of which has no parallel in world history. It may be that the United States is engaged in a number of wars in Asia and the Middle East but it also seems to be losing in the areas of finance, trade and competition and in its attempt to impose Western 'good governance' and human rights.

The concept of geo-economics thus came into prominence after the end of the Cold War and it suggests interconnectivity but also unevenness of the economic and commercial opportunities, broader political and international relations, and a blurring of the boundaries of the state to pursue its strategic interests, including through military capabilities. This concept is rooted in the growing importance of economic factors in international relations and in a wish to dig deeper than what various strands of neo-realism offer in order to provide an understanding of the nature and sources of power.

The CPE approach does not essentialize the state as a pre-constituted entity or a 'black box' of "national interests" interacting within anarchical international relations. Rather, CPE seeks to understand 'forms of states' as 'state/society complex' and asks how the prevailing order has come about and how it is changing. It is the interplay of particular configurations of contending social forces and alliances, including attempts at integration of a variety of class interests that defines "national interests" and characterize inherent contradictions in the historical structure. We have to explore the boundaries of the state in its current conjunctures, its historical dynamic and the process of social change (Cox 1981; Strange 1996). This way, we seek an understanding of the underlying and prevailing tensions between geo-politics and geo-economics in foreign policy. This makes it important to ask "who defines national interest" and who has the power to change it?

It is quite obvious then that India's and China's strategy of increasing presence in the global economy is actually the strategy of the dominant social groups, alliances, and class interests within these countries. Geo-economics emphasizes the importance of integrating China's and India's economic diplomacy in its multi-faceted relations with different countries and regions in the context of a rapidly changing world order. The essential question then is of the viability of the ability of the capitalist class to gather social consensus for achieving its ambition of greater global reach and whether this will happen despite the interests of the peasantry and the poor masses in rural and urban areas. The question is also whether it is possible to establish a social consensus in India and China regarding the expansion and drive towards a more aggressive foreign policy to become world players and whether that entails a fundamental shift away from pre-existing norms and values.

It is power itself which is becoming more diffuse, diffracted through an increasingly complex, prismatic structure of socio-economic forces and levels of governance. The result is a hollowing out of the state even if it maintains the monopoly over the means of violence over a given territory (Cerny 1999) and this gives space to a plethora of actors and institutions—not least financial capital—capable of influencing foreign policy and social change in Asia and the world. Transnational issues including climate change, terrorism, cyber-warfare, pandemics, rush to secure energy and resource supplies, and difficulties in sustaining multilateral focus in trade and on economic issues through the WTO. All open up the foreign policy field and would, ideally speaking, denote a myriad of actors and influences from formal organizations such as transnational corporations to advocacy networks and think tanks 'epistemic communities' (networks of individuals and/or organizations based on authoritative claims to consensual knowledge). In the end, this blurring of the levels of 'sovereignty' and 'non-intervention' sanctioned by socio-political conflicts—internal and external to the state—concerns the classic problem in international political economy: 'Who gets what, when, where, and how'. Indeed, the CPE approach accepts that sovereignty cannot be seen as a principle universally applied, but is rather performed in varying contexts by various actors and is subject to change and development (Aberg and Becker 2019).

The monumental changes in the global economy helped promote not only an economic boom in Asia, but also led to an eastward movement of global power and influence, signaled by Asia's ascent to the world system and the possible emergence of a new multi-polar order. Global power shifts are now being triggered not by military triumphs or geopolitical realignments but by one factor unique to our contemporary world—rapid economic growth.

The CPE approach to foreign policy has a normative commitment—seeking to analyze phenomena through empirical evidence with an explicit theoretical purpose—and focused on the actual interplay of domestic and international agents and structures. Foreign policy decisions are made by agency but always within a set of structural constraints. Critical accounts of foreign policy pursue a holistic view of politics and avoid the pitfall of seeing politics as only involving governments and state actors. It is furthermore necessary to understand the constitutive and purposive nature of knowledge and questioning whether they serve particular interests as Cox

(1981) remarks: "Theory is always *for* someone and *for* some purpose." Finally, CPE leaves room for alternative ideas and visions and includes a developmental and socio-economic perspective in foreign policy. Policymakers are constrained by societal contexts, but equally they do make decisions and are able to establish elaborate critique and policies against the current (Williams 2005; Hay 2002). This type of approach constitutes a more holistic and open 'state/society complex' conceptualization including other relational interests, private, corporate, military, and civil society which can potentially impact foreign policy outcomes (Cox 1987; Sen 2010). For instance, energy resources beyond borders may be accessed by trade, respectively by conquest, domination and changing property rights and in this way markets are not institutionally separated in international relations from states and the distribution of military capability. This is neatly illustrated partly in India but in particular in China where there is strategic political decision taken by Beijing "to integrate China into the global political economy. During this process, they have allowed Chinese sovereignty, in the economic sphere at least, to become 'perforated', and thus increasing the number of actors in the policy spheres" (Schmidt 2008: 22). This can also be seen in the pragmatic approach India has taken towards Myanmar and other non-democratic countries where commercial and geo-economic interests take precedence over ideology and idealism about human rights and democracy. This move away from democratic values is mirrored in the essentialization of culture in domestic affairs where the present BJP government led by PM Modi is copying the authoritarian style of Presedent Xi Jinping in China .

When it comes to the question about foreign policy in India and China these considerations lead to a number of inter-linked issues of strategic importance. For instance, what are the links between energy security (oil, gas and water), trade and FDI flows in relation to more traditional issues of military security, encirclement and containment? What explains the fact that both countries share mutual interests in a number of global policy areas while the same areas retain a degree of rivalry and competition at the regional level? What is India's reaction to China having the hands on leadership role when it comes to economic investment and respect for sovereignty?

1.2 Sino-India Relations and Foreign Policy in Comparative Perspective

China and India share a largely reactive relationship despite a long history of growing interdependence and brief occasional encounters. Neither of the two emerging economies has developed a grand strategy towards the other. Two observers describe the state of affairs as "an unshakeable and largely unprofitable preoccupation with the past on the Indian side, and an equally intense preoccupation with domestic consolidation on the Chinese side, has left the relationship under-tended" (Malone and Mukherjee 2010: 137).

Nevertheless, the relation between Asia's two great powers can best be characterized as one of global cooperation on transnational issues especially vis-à-vis the "West", geostrategic rivalry at the regional level in the form of growing commercial exchange and in some cases bilateral competition. These contradictory processes are complicated by some degree of asymmetry between them as China does not appear to feel threatened by India while the Indian political class seems to project a sense of insecurity in coming to grip with China's rise in the world system (Bajaj 2011).

While both nations' emergence in the world system is uncontestable they still suffer from inherent weakness. With some of the world's highest levels of inequality and weak prospects for reconciling growth with equity in both countries make their ascendancy fragile and filled with uncertainties. Seen in this light, it is indeed questionable whether they will be able to reconfigure the international order with their accumulating might (Jha 2010). In China the government's admission of growing problems caused by uneven and unequal development has been reflected in the call for a "socialist countryside" and more recently a gradual approach to equitable and balanced growth with several new social policies in the pipeline. Similar problems are also acknowledged by the BJP government despite the protracted downturn of the economy and PM Modi's promises of turning India into a $5 trillion economy by 2024.

The world's two most populous countries China and India, accounting for roughly 40% of the 6.5bn plus people on Planet Earth, are not merely the two fastest growing major economies in the world at present, but are among the few countries that have continued to expand at a time when the economies of most countries have contracted. They are defined by contrasting models of development, regime form, and competition not only for capital, resources and markets, but also for legitimacy in the global arena. As far as their interaction with the external world is concerned, they both believe in a "rigid defense of the Westphalian system of national sovereignty" and a certain degree of nationalism (Saul 2005: 207). The question is, however, whether there are cracks in the system as new signs show a shift away from traditional position such as supremacy of sovereignty, non-interventionism, Nehruvian non-alignment and autonomy of policy-makers in foreign policy.

Geo-economically, China's GDP is 4.78 times greater than India. On ppp basis, GDP of China is 2.38× of India. China crossed $1 trillion mark in 1998 while India crossed 9 year later in 2007 at exchange rate basis. China has been India's trading partner number-one with bilateral trade having increased from under $3 billion in 2000 to almost $52 billion in 2008, The US overtook China to once again become India's top goods trading partner in 2018–19, official data shows. Also, India's trade surplus with the US declined to $16.8 billion from $21.2 billion a year ago. India's exports are playing in a stronger position with its trade deficit with China dropping to $53 billion in 2018–19, down from $63 billion a year ago.

That China has become a global player is evident. Its growing influence has been prevalent in climate negotiations and in its response to the aftermath of the "Great Recession", as it poured multi-billions of dollars into domestic recovery projects, thereby avoiding a stagnating economy. It also spent many tens of billions more on raw materials and new investments in Africa, Latin America, and Southeast Asia helping to speed up recovery (Klare 2010). China has spearheaded FDI in Europe and the United States but with President Trump's America First strategy and the trade war between China and the US these trends are rapidly changing.

Driven by the need for raw materials, natural resources, energy and markets, China is using its economic leverage to acquire assets, secure long-term contracts and boost its political standing through loans and aid to countries around the world. Bloomberg data reveals that Chinese outbound mergers and acquisitions (M&A) totalled US$35 billion in the first half of 2019, representing a 75% decline since the 2016 peak in deals. This significant decrease could be attributed to a multitude of factors, including the ongoing trade war, increasing scrutiny of foreign investments in the US and Europe, compounded by domestic challenges such as a slowing economy and the tightening of Chinese banks' lending to local companies.

The global financial crisis which had its origin in failed market transactions in the United States in 2008 (Schmidt 2010) created unease in China about its enormous surplus and currency reserves. One idea with far reaching consequences for its foreign policy was the proposal of a Chinese "Marshall Plan" for Asia, Africa and Latin America. It was subsequently criticized by a number of observers for its narrow focus on exclusively selling more goods to emerging markets as a way to reduce China's overcapacity problems. Interestingly the critique was not so much against the plan but an attempt to increase attention to the need of jobs for locals and raising living standards internally. Otherwise the plan might fail asserted the argument.

This is but one signs that China's foreign policy has been changing, and not entirely by choice. Since 1996, the New Security Concept (NSC) has put emphasis on soft power diplomacy through dialogue and cooperation (Schmidt 2008). It is a concept established on the assumption of common interests and seen as conducive to social progress. Its focus lies on ideas of mutual trust, mutual benefit, equality, and coordination. The NSC aims to surmount differences, to increase mutual trust through dialogue, to resolve disputes through negotiations, and to promote cooperation through security. However, an opposing critical school in Beijing calls for a bolder and assertive foreign policy matching China's status as a world power (Xuetong 2011). These issues are becoming more pertinent in relation to the triangular relationship between the US, India and China (Schmidt 2014) and India's increasing domestic problems which are being projected to its foreign policy (Schmidt 2017).

1.3 Changes in Foreign Policy

The challenge for China is its policy of non-intervention. This prevents Beijing from taking positions on pertinent issues threatening China's national interests and legitimacy. The examples are many like those involving authoritarian regimes, rights and vested interests. The strategies of "peaceful rise" and non-intervention have so far enabled China to avoid entanglement in complex foreign internal political issues.

However, this is considered to be a handicap to the projection of power by international relations theories as "it also limits the country's policy options in trying to exert its weight in the emerging world" (Simpfendorfer 2009). As a matter of fact, it is exactly this principle of non-infringement on the sovereignty of other countries which seems to be changing in China's new foreign policy (Xuetong 2011).

A similar evolution can be seen to be taking place in India's foreign policy which made a U-turn after the dissolution of the Soviet Union and the end of the Cold War. India's support for the Non-Aligned Movement (NAM) and Third Worldism was exchanged with a more flexible and pragmatic but also self-confident posture. This change has been coupled with a gradual shift towards a more neo-liberal economic policy, both domestically and externally, with greater reliance on foreign trade. Shifting government statements clearly indicate a wish for global power status encompassing India as one pole in a multipolar world. The continuing quest of Indian decision-makers for hegemonic ascendancy has been supported by the country's expansion of its military, economic and technological capabilities as well as the continuing hostility with neighboring Pakistan. India's gradual rise is most evident in the field of security where strategies of co-optation and co-operation have been employed. As an advanced nuclear power with a military comprising more than one million men and being one of Asia's biggest weapons buyer, India is at the forefront of the Asian arms race facing serious problems with the surrounding environment.

According to one observer, not unlike the case of China there are two competing Indian approaches in the country's current foreign policy: 'post-Nehru' and 'India's ascendancy in the world system'. The first is Third World oriented and puts priority on the role of the United Nations and world unity as well as being highly critical towards the US. The second, "energized by India's rapid economic growth and higher visibility on the world stage, concentrates on New Delhi's triangular relations with Washington and Beijing with an eye toward increasing India's relative power, mainly through economic growth and innovation" (Kronstadt et al. 2011). The above-noted schools of thought correspond closely to, on the one hand, the 'traditional nationalist' approach and on the other, the "pragmatic" approach to foreign policy. Some analysts see Indian foreign policy-makers as attempting to "split the difference" by mouthing traditional nationalist rhetoric while pursuing a largely pragmatic course which is also illustrated in policy shifts at the regional level.

India's regional policy has moved into greater emphasis on soft power strategies. The 'Gujral doctrine' relies on the principle of non-reciprocity, stressing that India not only has a bigger responsibility, but should give more to the smaller neighbors than she should get back. This doctrine echoes domestic changes in India, especially the post-1991 economic liberalization. This shift towards soft power was not caused for altruistic reasons, but due to the fact that India's hard power approach of the 1970s and 1980s was seen as ineffective. The new doctrine also impacts the relationship with China as both countries share borders and regional and global power projections.

Barely hidden in the relationship with China is the growing military rivalry. Although India shares common security interests with China and both countries advocate a vision of a multipolar world as a counter weight to US hegemony (Wagner 2010: 67) the situation is at the same time fluid and unpredictable. The US-led wars in Iraq, Afghanistan, and Libya, its proxy wars in Pakistan and threats against Iran are determined by Washington's wish to dominate the key strategic regions of the Middle East and Asia, to the exclusion of its rivals, principally China. US overall strategic aim is to encircle China with a series of alliances and bases, stretching from Japan, South Korea, Singapore, Australia and India to Afghanistan and Central Asia.

China has responded by a moderate expansion of its own military capabilities, including the moves to launch a blue-water navy to secure shipping routes to the Middle East and Africa, and security ties with Russia to counter US influence in Central Asia. Although it seems that geopolitics remain the most important trigger of security relations in the region with the quest for oil and energy at its forefront, geo-economics and the present economic crisis are increasingly interacting with and in some cases replacing hard core realist goals and give space for more pragmatic solutions.

India's foreign policy perceives an upcoming Sino-US confrontation as China's rise as a global power continues, and shows awareness of Washington's needs for Delhi as ally against Beijing. Although this perspective plays a defining role, Indian foreign policy-makers are also worried about US policies in South and East Asia. American strategy in the region is seen as downplaying India's status as a pre-eminent power and counterweight to China and placing primacy on a withdrawal from the region. This evolution has led to the near-total isolation that India faces today in a region with surrounding countries facing state failure. At the same time powerful Indian lobbyists are trying to whip up war hysteria and xenophobia over China. "Retired generals and top bureaucrats take up residence in Delhi's suburbs and overnight transform themselves into" strategic thinkers "and begin networking with some American think-tank or the other, while probing a new lease on life as brokers or commission agents for arms manufacturers" (Bhadrakumar 2009). Others try to influence Delhi to be more proactive on key foreign policy issues, even those in India's own neighborhood such as in Burma and Sri Lanka. One such observer has criticized New Delhi for issuing "bland propositions" that "can convey indifference to the plight of subjugated people." She challenges India's leaders to either "stand with people or with dictators" (Ganguly 2011; cf. Kronstadt et al. 2011).

According to neo-realist hardliners in Delhi it is because of the tensions with China that the Indian ruling establishment still holds onto a vision about a showdown with the Chinese. Both states are populous nations competing with each other and with other countries for resources. Many lobbyists and policy-makers in New Delhi share the perception that it is far easier to reduce the side-effects of global resource competition by working to contain China's impact even if it compromises India's carefully constructed identity as the world' biggest democracy and a harbinger of human rights. Some of the reasons behind Indian animosity to Beijing are related to the tensions with Pakistan and the war in Afghanistan and Delhi's continued quest for a seat on the UN Security Council.

An encircling military ring that includes India has been created around China. New Delhi has been involved in the framework of military cooperation with the US and its allies aimed at containing China. Under this framework, India has joined Japan, the US, and Australia in forming a de facto “Quadrilateral Coalition” to neutralize China through the establishment of a cordon for its containment that could establish a naval blockade in the event of a war around China’s borders. In fact, some analysts see the Indian Ocean region as a geostrategic area for a future confrontation.

The China question has become an issue for students and scholars of international relations who have to differentiate between the real and imagined menaces behind the nation’s rise in the world. The projection and role of China on the international scene and world economy is related to the nature of its engagement which is based on a fundamental internal dilemma: i.e. the suppression of the population’s wage level in order to export to the North and make its entry in the global economy. This reflects an inferior position (with potential political disorder) rather than a state of strength for participating in the world economy. The trade-off between the wage level and becoming the workshop of the world is based on an unequal relationship both internally and internationally. It is also questionable whether certain conjunctural features like China funding large part of the US deficit can be considered as a sign of China’s increasing strength (Ghosh 2009). Or to put in other words: “It may be premature to crack open the champagne. The Asian century is hardly as preordained as most seem to believe” (Roach 2009).

This is illustrated in China’s reluctance to engage more actively in debates and actual reforms concerning the global governance and financial system. China’s enormous possession of US Treasuries shows a dependence on exports and potential overcapacity and the need to recycle foreign currency reserves out of China because of the fear for the appreciation of the renminbi. Between 2001 and 2007, the export share of China’s output rose from 20 to 36%, an increase that coincided with a rise in the global export share of world output from 24 to 31% (Roach 2009). The impact of China’s over-reliance on exports and dependence on foreign markets is a factor with huge ramifications on foreign policy.

Given the perceived competitive and in some cases even adversarial potential of Sino-Indian relations, China expects to find itself pitted against India’s national interests, possibly even in concert with the US. For India on the other hand, it is critically important to balance China’s rising power. By not doing so, India’s own increasing role as a regional power would be reduced. This would also have serious ramifications for India’s interests in South Asia but also other parts of world like Southeast Asia where there is increasing rivalry and competition between Delhi and Beijing. Reinforcing India’s contradictory engagement with the region is the fact that while India has got a seat at the table, it has yet to shape the rules of the regional architecture of which it is a member. Underlying New Delhi’s inability to be a proactive shaper of regional security is the fact that it lacks a strategic vision of its regional role. On the other hand, the very diverse set of challenges confronting India in South Asia make it very difficult to adopt overall consistent, universal strategies.

1.4 Conclusion

Seen from India's point of view it has been complicated to engage more geo-economically and pragmatic with the rest of the world although this strategic shift reflects growing influence and impact of neo-liberal ethos and the financial and industrial elite interests in the private sector. Despite the fact that many developing countries can choose between many competing interests namely the United States, Japan, South Korea, Thailand, China, it has so far not been possible for India so far to seize the moment.

Seen from China's point of view there are several pitfalls in the near future. Although successful in its engagement there is always a latent danger of an anti-Sino wave against Chinese national interests. The question is furthermore whether Beijing can control those actors and institutions that have penetrated the foreign policy-making field—traditionally the sovereign domain of the central government.

The evolution of the Sino-Indian relationship does not take place in a geopolitical and geo-economic vacuum. In this respect, it logically seems that Washington is encouraging India to become a hedge against China's rise in an act of "old-school-of-balance-of-power politics" (Roughneen 2010). Seen from the perspective of Realpolitik, it can be deducted that even authoritarian regimes like Myanmar for instance would welcome Washington in order to counterbalance the Chinese and other dominant powers' influence. This is also the case in the rest of South and East Asia which sees India's growing influence as a welcoming bulwark against China. As the Financial Times elegantly formulates it: "Both the rise of China and renewed US interests are altering the balance of an entente asiatique that has broadly held since the end of the Vietnam War" (FT 28 January 2010). In this context, the question is where does India fit in? Can India afford to rely on a largely pragmatic and re-active foreign policy in the region and wait and see or collaborate more with China or follow the American lead? These are unresolved issues and as the Myanmar case clearly shows India is slowly increasing its engagement and even collaborating with other commercial and trading nations in order to seek influence.

On the other hand, a more pragmatic and less confrontational relationship between India and China seems to be emerging not least due to their increasing economic exchanges. Delhi "prioritizes" its functional relations with Beijing including efforts to build confidence-building measures and military-to-military trust and bilateral defense interactions. These links are further deepened through increasing investment and trade and attempts to promote more people-to-people contacts as a way to increase incentives for cooperation. India would benefit tremendously by harmonizing its 'Act East policy' with China's Belt and Road initiative and by avoiding strategic competition that could potentially escalate into armed conflict (Baumik 2019).

It is safe to say that the Sino-Indian relationship oscillate between policies of containment and engagement although rivalries and competition in South Asia and Southeast Asia and in particular Myanmar illustrate that energy security and the emphasis on oil and gas remain very contentious. Both India and China seem to acknowledge the need for a multipolar Asia and they show an increasing interest in providing collective goods in the global arena and sharing responsibilities. The important mutual relationship between China and India does not by definition need to be based on a zero-sum game if the political elites of both countries show enough sophistication in their ascendency in the world system.

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Part I
Analysing the Historical Backdrop of Sino-Indian Relations

Chapter 2
Coming to Terms with the People's Republic of China: Jawaharlal Nehru in the Early 1950s

Brian Tsui

By June 1949, Indian prime minister Jawaharlal Nehru (1889–1964) had already reconciled himself to the imminent rise of a potentially destabilizing government in neighbouring China. The vast but war-ravaged country to India's east, Nehru (1982–2020: vol. 11, 378) told his Nepalese counterpart, "has long been in the throes of a revolution and a new regime is emerging under communist auspices." The leader of the fledging republic, however, was keen to inject ambiguity to his assessment of China's developments. In addition to subtly characterizing the ongoing Chinese revolution as communist-led instead of being simply communist, he expressed his concern in terms of his rivalry with Indian communists rather than fear of global communism. "Your Highness knows that we have combated the Communist Party's violent and subversive activities in India and we propose to continue to do so, because we feel that their programme and objective is injurious to India." In the same month, Nehru (1982–2020: vol. 11, 389) rebuked the US ambassador to China J. Leighton Stuart's (1876–1962) suggestion that India could cooperate with Washington on China, stressing that New Delhi remained unaligned. The nuances Nehru displayed in relation to his government's stance on what would become the People's Republic of China (PRC), though no doubt informed by geostrategic concerns, mirrored a wider challenge over how the Indian establishment understood the nature of the new government led by Mao Zedong (1893–1976). This chapter reconstructs Nehru's ruminations on China and how they were shaped by the two interlocked contexts of the 1950s—the evolving Cold War order and a decolonizing Asia. It also compares Nehruvian India's advocacy of Asian independence and Maoist China's, arguing that while there were important differences between the two states, shared anticolonial internationalism provided enough ideological

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common ground to pave the way for the famous Bandung Conference and the Third World Movement's challenge, however ephemeral, to the Cold War system.

It bears stressing that the revolutionary movement against the Nationalist or Guomindang government, while undoubtedly led by the Chinese Communist Party (CCP), had, at least until 1953, styled itself not as a class revolution but one that represented the broad, popular will of the nation. New Democracy, which Mao Zedong articulated in January 1940, envisioned a united front of patriotic Chinese engaged in the War of Resistance against Japan. As Mao (1965: vol. 2, 350) explained,

> the proletariat, the peasantry, the intelligentsia and the other sections of the petty bourgeoisie undoubtedly constitute the basic forces determining China's fate. These classes, some already awakened and others in the process of awakening, will necessarily become the basic components of the state and governmental structure in the democratic republic of China, with the proletariat as the leading force. The Chinese democratic republic which we desire to establish now must be a democratic republic under the joint dictatorship of all anti-imperialist and anti-feudal people led by the proletariat, that is, a new-democratic republic, a republic of the genuinely revolutionary new Three People's Principles with their Three Great Policies.

This ideal was given institutional expression in the CCP-led government which ran the border regions of three provinces in northwestern China. The Yan'an Way, as historian Mark Selden (1995: 125–31) famously calls the wartime formula, entailed two-third of government positions reserved for non-Communists, moderate socioeconomic reforms, and conscious efforts to recruit landlords, merchants and rich peasants to defeat foreign aggression. The broad class basis of the movement the CCP led was a matter of consternation for Joseph Stalin (1878–1953), who saw the Chinese revolution as a nationalist rather than a communist one (Westad 2017: 143). The coalition ideal persisted into the very early years of the PRC. Two major non-communist parties occupied seats at the People's Political Consultative Conference that elected the first government as the CCP, while half of the state's vice-chairpersons, vice-premiers and cabinet ministers were non-Communists. The preponderance of politicians from outside the CCP indicated that they played an important symbolic role in the new order. In Mao's (1965: vol. 2, 350) words, the "new-democratic republic will be different from the old European-American form of capitalist republic under bourgeois dictatorship. . .it will also be different from the socialist republic of the Soviet type under the dictatorship of the proletariat which is already flourishing in the U.S.S.R." The cross-class identity of the early PRC formed the background with which Indian politicians had to contemplate insofar as New Delhi's relationships with Beijing and a decolonizing Asia were concerned.

The Nehru government, in recognizing the new Chinese government, took two distinct but intertwined positions. One of them derived from realism—the realization or anticipation that the Communist-led government in China was not going anywhere. As he explained to the British, American, Canadian, Burmese and Sri Lankan governments in 20 November 1949, "[t]here is no doubt that this regime is well established, stable and likely to endure." With less than 2 months since the People's Republic was founded and the Chinese civil war still raging on, Nehru was already convinced that "[t]here is no real opposition left, and there is no alternative in China to the new regime. It follows that the fact should be recognised so that normal dealings can take place with this government." (1982–2020: vol. 14.1, 513). A month later, he told fellow-parliamentarians that India's recognition of the PRC was "inevitable" and in line with international trend. Nehru was at pains to stress that diplomatic recognition did not imply endorsement of Beijing's policy and ideology. It was simply a pragmatic decision imperative on nation-states defending their respective interests to take. He even suggested that while India must not drag on its feet, it should not appear "eager" to recognize the PRC (1982–2020: vol. 14.1, 518–9). New Delhi duly established diplomatic relations with Beijing on 1 January 1950, becoming the first state outside the Eastern bloc to do so.

Concurrent with this pragmatism was the palpable sense of excitement over the emergence "for the first time, a strong and stable Government" (1982–2020: vol. 14.1, 518) in India's eastern neighbour. If realpolitik concerns led India to recognize the PRC as a legitimate state, Nehru's identification of India with the rest of Asia informed his enthusiasm for Communist China. This much more radical dimension to Nehru recalls the fact that the Indian National Congress, settled into the Edwin Lutyens-designed Secretariat Building, led an extended anticolonial struggle against the British. India, Nehru explained to US ambassador Loy W. Henderson (1892–1986), respected the nationalist aspirations of other Asian peoples. Instead of being obsessed with the threat of communism, Indians shared with "the approach of the eastern peoples ... governed by the instinct of broad sympathy for the underdog" (1982–2020: vol. 14.1, 562–3). Unlike Americans, who looked on anxiously over the possible expansion of communism from China to Southeast Asia, Indians were far more likely to react against Western interventions than to what Western powers caricatured as a global threat emanating from Moscow. Nehru told Henderson that Indians had a much more nuanced understanding of Soviet Russia, whose popularity among his compatriots and in other Asian societies depended on the extent to which it was perceived to embody progressive causes. Nehru concluded his conversation with the envoy from the world's predominant power by accusing Washington of issuing "threats of consequences" against New Delhi over Kashmir, reminding Henderson of the ruling party's long resistance against British coercion and that his government would not succumb to foreign pressure. Such defiance stems from the staunch nationalism which Nehru identified as the crux of India's and—as to a larger extent—Asia's shared aversion against Euro-American intervention.

Nehru's defiance against US containment policy vis-à-vis communism stemmed from his anticolonial internationalism, a strain that he brought into government from his activist days. Despite his well-advertised aversion to the global communist movement, the 1927 Brussels conference of the League against Imperialism, attended by communist, socialist parties and radical nationalist movements left a strong impression on Nehru. Sharing the same stage with anticolonial activists from South Africa, Indonesia, Palestine, Iran and elsewhere allowed the young Indian freedom fighter to understand colonialism in global terms (Prashad 2007: 21–2). *The Discovery of India*, which the future prime minister penned in colonial prison in

1944 and first published 2 years later, provided not only a sweeping survey of India's intermingled past with China and the rest Asia but also prognosis of its near future. Looking boldly ahead at the post-Second World War order, Nehru asserted that Asians and Africans "ha[d] become increasingly conscious of themselves and their destiny." Major world powers—the Soviet Union, on one hand, and the United States and Britain, on the other—were ostensibly working together to create the United Nations, but in reality they were rallying other nations behind in a zero-sum contention for global dominance. Potentially sandwiched between two rival camps, peoples long subjugated by colonial powers were not to be chess pieces in what eventually became the Cold War. They would ask themselves the following questions as they negotiated between great powers and decide on their next step:

> Does it help towards our liberation? Does it end the domination of one country over another? Will it enable us to live freely the life of our choice in co-operation with others? Does it bring equality and equal opportunity for nations as well as groups within each nation? Does it hold forth the promise of an early liquidation of poverty and illiteracy and bring better conditions (Nehru 2004: 609)

Asians and Africans were, Nehru declared, nationalistic and would not tolerate domination by foreign powers any longer. This nationalism was noticeably progressive, hinging on equalitarianism within nations and internationally. Nehru's idealism, expressed most eloquently in the Bandung Conference of 1955, was a reminder that independent India, at least in aspirational terms, challenged a world order forged by Euro-American prowess.

Attendant to Nehru's anticolonialism was his support for the Chinese nationalist project, another feature he also brought into government from the Congress's prolonged struggle against the British. As I have traced elsewhere (Tsui 2018: 217–8), Nehru identified with the anti-imperialist sentiments of the Chinese nationalist revolution. He admired Song Qingling (1893–1981), the widow of the Guomindang leader Sun Yat-sen (1866–1925), and the left-leaning sentiments with which she sympathized. Nehru met Song in Brussels, where she attended the League against Imperialism conference as a member of the Guomindang delegation. The party then was in a Comintern-supported united front with the Chinese Communist Party, forming a nationalist movement that mobilized students, workers and peasants. The coalition, which displayed the capacity of nationalists and communists to work with one another, must have impressed Nehru. The united front, which ended with Chiang Kai-shek's (1887–1975) purge of communists, was cited by Mao Zedong as his formulation of a New Democratic order. "Dictatorship of all the revolutionary classes," Mao (1965: 351–52) asserted, was an expression of coalition's ideal of progressive cross-class cooperation, embodying Sun's ideal of favoring the "common people" over the few. Nehru, however, was much more ambivalent about Sun's eventual successor, whose career in the Guomindang was built upon violent expulsion of communist elements within the Guomindang. Nonetheless, the Indian anti-colonialist gradually lent his support to Chiang in the late 1930s, when the Guomindang-led government was seen as embodying China's collective defiance against Japanese imperialism. Nehru's sympathy for Chiang and his Guomindang government was contingent on the latter's ability to further China's nationalist agenda. By 1949, Nehru had arrived at the conclusion that the Guomindang had lost such ability. "The Nationalist Government," he told the India-based Chinese scholar Tan Yunshan (1898–1983) in December 1949, "has completely collapsed" (1982–2020: vol. 14.1, 514–5). One month later, Nehru wrote to his Burmese counterpart U Nu (1907–1995), observing that the Guomindang had committed "a succession of mistakes" which result in its "fading out of the picture even before the communists took possession of a good part of China" (1982–2020: vol. 14.1, 503–7).

Nehru's discussion with U Nu, the leader of another recently independent Asian country, on the Chinese situation was remarkable as it suggests that the Indian prime minister placed developments in China under the context of not only India-China or normal state-to-state relations but also an emerging pan-Asian or postcolonial order. Long before independence from Britain, Nehru had already embedded an internationalist perspective in his nationalist project, seeing a future Indian state as the leader of an Asia opposed to Eurocentrism. Over time, the "Asia" Nehru's India championed concretized into a host of Asian and African nations that were once colonized and now navigating in an increasingly bipolar international system (Mazower 2009: 167–78). This imagination of a constellation of formerly colonized nation-states, defying the expectations of both the Eastern and Western Blocs, underscored the Nehru government's understanding of the Chinese revolution. As Nehru continued in his January 1950 letter to U Nu, Asian countries should "avoid building up of any kind of anti-China and anti-communist bloc" (1982–2020: vol. 14.1, 505). Again, Nehru's judgement was informed by both geostrategic concerns and affinities with the Chinese nationalist project. Unlike the Burmese prime minister, Nehru did not believe that China present a threat to the Indian frontier. He also saw any military alliance against Communist China as counterproductive. These views, of course, came under heavy criticism after India's humiliating defeat in the 1962 border war. Yet, misguided as they allegedly were, these assessments were based on cool-headed strategic considerations.

On the other hand, there was a palpable sense of identification with—admiration for even—the Chinese Communist Party. Despite his vague association with Fabianism, a reformist form of socialism, much of his career as an anticolonialist was defined by his resistance to communism. His relationships with the Communist International and Indian communists, if ambiguous at first, ended up being acrimonious (Haithcox 1971: 151–3). Nehru regularly expressed his suspicion of communism in general and in particular national contexts. *The Discovery of India* slams communists outside of the Soviet Union for not appreciating nationalist sentiments and unable to work with the non-communist left, of which he very much belonged. Worse, like those who held uncritical admiration for the West, communists' cavalier attitude toward their nation's historical legacies was self-defeating. "I cannot speak with much knowledge of what happened elsewhere, but I know that in India the Communist Party is completely divorced from, and is ignorant of, the national traditions that fills the minds of the people." (Nehru 2004: 575–6). Nehru's animosity against communists did, momentarily, underscore his assessment of the Chinese situation. "The communists have said some very hard things about me," he told Tan Yunshan, citing the mistrust between himself and the global communist movement as a reason why it was inadvisable for him to intervene in the Chinese civil war. He only lamented that doctrinaire communist attitude "produces wrong results anywhere." (1982–2020: vol. 14.1, 515). Yet, by the time he wrote to U Nu, the Chinese Communists had become "exceedingly able and experienced men." What, one might ask, had changed?

One major reason why Nehru had warmed to the Chinese Communists was that he began to see the People's Republic as a nationalist rather than a communist state. Respect for national traditions and inclusivity were two recurrent themes in Nehru's thoughts. Through history, China and India supposedly shared a common love for their respective traditions while remaining flexible and tolerant to new changes. China, even more than India, had the good sense to maintain balance and equilibrium between the new and the old (Nehru 2004: 577). If Indian communists were intransigent and indifferent to local context, their Chinese comrades were fully acclimatized to their national context. "There is no doubt," Nehru (1982–2020: vol. 14.1, 504) explained to U Nu, "that these leaders are hundred per cent communists. At the same time they have never forgotten the Chinese background and the social environment which surrounds them." In fact, Nehru could perhaps have even seen in Chinese Communists something akin to his own brand of socialism. "While they talk in terms of full communism, in practice they have a relatively moderate programme. Their Government is some kind of a coalition Government thought the control is entirely that of the communists. The fact that they have got Madame Sun Yat-sen as a senior Vice-President strengthens them considerably". Nehru spelt out his position more explicitly at the Commonwealth Conference in Colombo on January 10, 1950. Speaking as India's external minister, he assured counterparts that "the Chinese people welcomed the new regime, not because it was communist, but because anything was better than the old." Mao Zedong and his premier Zhou Enlai (1898–1976) "were no doubt orthodox communists but they had precluded cautiously and had established a coalition Government with Madam Sun Yat-sen, ... he could not conceive of China as being a camp follower of Russia." (Nehru 1982–2020: vol. 14.1, 526–7). The Indian leader was alluding to another key concept in Maoist political thought. In a report delivered at a Communist Party congress in August 1945, Mao demanded that Guomindang put an end to one-party rule. Subsequently published as "On Coalition Government" (Mao 1965: vol. 3, 242) the report called for the creation of "a coalition government in which the representatives of all classes and political parties willing to take part are united on a democratic common programme in the fight against Japan today and for national construction tomorrow." The "tomorrow" Mao envisioned became reality, albeit in a much modified form, after Communist triumph in the Chinese Civil War. A multiparty edifice with the Chinese Communist Party as its leader showed how the People's Republic was distinct from the Soviet Union.

Inclusion of the national bourgeoisie, capitalists who accepted the Communists' leading role in political life, endeared Nehru to the New Democracy experiment in Maoist China. That Song Qingling joined the government lent it further credibility, suggesting continuity between Sun Yat-sen's nationalist project and the People's Republic. Nehru identified with Song as a fellow nationalist activist, whom, as a letter dated 29 April 1950 suggested, he remembered meeting back in 1928 when Song was in self-imposed exile in Moscow. Song's presence in the new order had strong symbolic value for Nehru, indicating for the Indian prime minister that the People's Republic of China was not some imposition from Soviet Russia but the same country that had maintained "friendly and cooperative" relationship with India for "thousands of years" (1982–2020: vol. 14.2, 363) The Indian National Congress had long been negotiating its position vis-à-vis both labor and capital. Nehru, who led the Congress Left, was tempted to tilt the party in favour of workers and peasants but eventually conceded to his conservative colleagues whose attitude towards labour was one of paternalistic statism. As prime minister, he placed the state at the helm of industrial relations, avoiding the despotism of capital but also tempering the demands of labour (Chibber 2003: 115–22). China's New Democracy settlement, which Nehru understood as facilitating the flourishing of capital under state supervision, struck a chord with independent India's developmental paradigm.

Moderation in the People's Republic, inasmuch as it pertained to class relations, also affirmed for Nehru the Asianness of the new Chinese government. If communists elsewhere were but deracinated enthusiasts for Soviet Russia, the Chinese variants were unmistakably Asian. Rather than dancing to the whims of Moscow, Beijing exemplified the best of an independent Asia. It transcended the bipolar dichotomy of communism and anticommunism, basking in the glory of social rejuvenation. China, rather than latching on the coattails of Western-dominated trends, "had a mood of her own." At a 1951 meeting of Commonwealth prime ministers, Nehru told his counterparts that Asian peoples had concerns that were distinct from Westerners. Adopting a strident tone insofar as his British hosts were concerned, the Indian leader observed that "unhappy memories and unhappy present experiences"—European colonization and the ongoing struggle for national liberation—exercised Asian minds much more than the skirmishes between communists and anticommunists. China, gaining "new-found strength and self-respect" after decades of turmoil, was part and parcel of Asia's reemergence onto the global stage (Nehru 1982–2020: vol. 15.2, 470–1). It mattered little if the People's Republic of China was governed by a Communist-led government, an abomination if it were to occur in India.

This is not to suggest that Nehru's understandings of the People's Republic were static. To the contrary, his enthusiasm for Beijing was contingent on its perceived distance from the Eastern Bloc and, by extension, its commitment to Asia. Military conflicts on the Korean peninsula and the Chinese incorporation of Tibet caused much alarm among Nehru and his diplomatic team. At a 16 October 1950 press conference, just as Beijing was about to join the Korean War, Nehru set out India's nuanced position vis-à-vis communism, China and the Asian regional order. First, the Indian leader emphatically stated his animosity against communism in general, which he branded, along with fascism, a form of totalitarianism at odds with "democratic nationalism." He even went further to complain that global communism was at its expansionist phase and thus a threat to peace and freedom. Yet, lest that those in attendance began to feel that India had jumped on the U.S. side of the Cold War bandwagon, Nehru accused the Truman administration for shutting the PRC out from the United Nations and hence compromising international cooperation. He stressed that "it was essential from the point of view of Asia and the world for the new China to be admitted to the United Nations." Admission, he stressed, entailed not approval of Beijing but simply "recognition of a stark reality." Washington, in this sense, was in denial continuing to recognize Chiang Kai-shek's (1887–1975) regime, then in exile on the island of Taiwan, as the legitimate Chinese government. By wishing away the reality of the PRC, the United States was jeopardizing peace in Northeast Asia as involvement of Beijing, and Soviet Russia, was critical in ending conflicts on the Korean peninsula (Nehru 1982–2020: vol. 15.1, 415–6). Nehru's assessment was geostrategic, informed by the belief that major powers in the Asia had a role to play in promoting peace in their own region.

Alongside this real-political approach was Nehru's conception of Asian commonness, against which the People's Republic was continuously compared. This pan-Asian ideal, with roots in India's late colonial period (Sen 2017: 303–5; Tsui 2018: 204–8), continued to inform Nehruvian India's idea of China. As Nehru wrote to his ambassador to China K. M. Panikkar (1895–1963) on 19 August 1950, "you have informed us that President Mao has strong feeling for Asia" (Nehru 1982–2020: vol. 15.1, 431) and Delhi's relationship with China would be based on this insight. Yet, solidarity with China, as Nehru told Panikkar, was conditional on its government's independence from European powers. This included Soviet Russia, which Nehru detested. As Beijing began, as least as it was reported, to resemble Moscow in its domestic practices, the People's Republic was seen as less Asian in ideological terms. For domestic policies were seen as indications on the extent to which China was independent from Euro-American powers. Nehru had long held that while India and China had to learn from the West, the latter was no panacea of human achievements. The West's modern dynamism was coupled with an annihilatory tendency, which *The Discovery of India* (2004: 564) deemed could use some tempering from the "deeper lessons of life" that India and China brought. Nehru believed that each culture, even as it evolved in its own unique way, had much to learn from one another. "Static" India and China had to emulate the West in one way or another, even if the latter's growth "function[ed] through self-destruction and periodical human sacrifice" (Nehru 2004: 625). Independence from Western paradigms was the mark of Asianness. It was therefore highly disturbing for Nehru to learn that "the Chinese Government have adopted the techniques and methods of the Soviets." "Identity in foreign policy between China and the U.S.S.R." (Nehru 1982–2020: vol. 15.1, 441) and deployment of Soviet statecraft—Nehru was alluding to the observations of the Indian ambassador to China that the PRC had emulated Stalinist practices such as control of print and broadcast media, widespread state propaganda and secrecy in public life—were two sides of the same coin. Attachment to Soviet communism went against what Nehru (2004: 577) deemed as the defining features of Chinese civilization—"flexibility and essential tolerance."

Indeed, the Korean War laid bare the differences between Nehru's ideas of Asia, peace and global communism and Mao's, even though both leaders were no doubt stridently supportive of Asian nations' independence and self-determination. The Korean peninsula, having been freed from 35 years of Japanese colonialism in 1945, was forcibly divided by the United States along the 38th parallel with Soviet agreement. The Washington-sponsored government of South Korea, in terms of personnel, institutions and hostility to anticolonial activism, was very much a continuation of Japanese rule (Cumings 2010: 104–10). The military showdown between the Soviet-supported North and the Washington-backed South thus presented to both New Delhi and Beijing the first major test insofar as their policies towards Asian independence were concerned. Of course, developments in Korea were much closer to heart for the Chinese, who shared an extended land border with the peninsula and fought a bitter war against Japan in 1894 over it. Indeed, as Nehru (1982–2020: vol. 15.1, 333–48) confessed at the Indian parliament on 3 August 1950, "perhaps many of us do not know very much about Korea." He felt compelled to give his fellow parliamentarians a crash course on Korean history, building a connection between the Non-Cooperation Movement Mohandas K. Gandhi (1869–1948) launched in 1920 and the 1919 March 1st Movement in Korea due to their common anticolonial aspirations. The Indian prime minister then explained that while India, deviating from the US-dominated United Nations General Assembly, recognized neither the North nor the South as the sole government of the Korean nation, his government considered Kim Il-sung's (1912–1994) encroachment south of the 38th parallel on 25 June 1950 as an act of aggression. Nehru took pain to distinguish New Delhi's Korea policy from Washington's and Moscow's. It was at the United Nations that Nehru's India first flexed its muscle as the leader of Asia in 1946 by persuading the General Assembly to censure South Africa's racial segregation policy (Mazower 2009: 179–80). He lamented that this promising institution, sabotaged by full-blown superpower hostilities, was no longer able to broker peace between the two Koreas.

Nehru's definition of an independent policy vis-à-vis Korea centred on maintaining distance between the two rival superpowers. "It is not for me to criticise other countries," the Indian prime minister maintained. His very next sentence, however, did exactly that, in connection with the Soviet Union's boycott of the Security Council due to Taipei's presence on the body. Yet, greater blame was assigned to the United States, which refused to recognize "the People's Government" in China and bring it to the negotiating table. American intransigence, Nehru implied, led to the current mess on the Korean peninsula and disarray in the United Nations. While brushing aside the prospect of a "third force" answerable to neither bloc and the suggestion that India would make an ideal mediator between the two, Nehru was far from being an onlooker. He concluded his speech to parliament with a long digression on Asia and colonialism. Undoubtedly, this is the framework under which Nehru's ruminations on Korea are to be understood. This is also the context in which the Indian leader staked his authority. Westerners, he complained, did not understand Asia. To them, "Asia is a more distant continent, it is a troublesome place, it is a mysterious place, it is an unknown place. So their outlook becomes governed much more by Europe's problems than by Asia's problems". It was not only a matter of Westerners indulging in Orientalist fantasies of an exotic continent. Nehru's critique of Western incompetence vis-à-vis Asia concerned something much more specific, i.e. lingering colonial mentality. Asia's urge for independence was something which Nehru felt confident to speak on behalf of other Asians. "Asia is a very big continent," observed Nehru, and its various regions have very different histories and cultures that did not necessarily form basis for unity. In modern times, however, European domination introduced "common bonds" and "common reactions" in the form of colonialism and the struggle against it respectively. It is for this commonness that rendered the Indians, the Chinese, the Japanese, the Indonesians and the Arabs appreciative of one another's aspirations for independence.

It is this pan-Asian nationalist sentiment that Westerners failed to grasp. Without directly referring to the Korean crisis, Nehru observed in the same speech at the parliament that Western leaders continued to formulate their Asia policies with little regard to the peoples who were directly affected by them. "Old methods continue, old habits die hard." Colonial hubris—"trying to solve the problem without taking Asia into consideration"—could yield no good result. This is where India came into the picture. Indians were, due to the common colonial experience and shared nationalist sentiment, intuitively capable of understanding better what "the people of Korea might want or might not want, or the people of China or the people of Indo-China or of Indonesia." This alleged ability to articulate the visions of Asia on the continent's behalf in ways that Western powers could not appreciate lent weight to India's role as an honest broker in Asian affairs and its particular vision of Asian independence. It is this unique context which allowed Nehru to proclaim that the "future of Korea must be decided entirely by the Koreans themselves." Exact details of what this Asian commonness under which China and other Asian peoples were subsumed were not fully spelt out. In any case, New Delhi touted itself as uniquely being able to express this pan-Asian spirit on the continent's own terms. India and Asia, inasmuch as it constituted an alternative sphere outside of Washington and Moscow, became one under Nehru's watch. The People's Republic of China was ensconced as one part, albeit a major one, of this sphere.

On surface, Nehru's assessment of the Korean crisis was not very different from Mao's. There were hard-headed geopolitical considerations. Beijing's participation in the Korean War, as Mao explained in December 1950, was to defend its northeastern frontier and dissuade the United States from propping up Chiang Kai-shek's government on Taiwan. China's intervention was necessary because developments on the Korean peninsula infringed on its national interests. Concern over Taiwan was understandable from the point of view of national independence, as the island, now governed separately from the rest of China, was just retroceded to the successor of the Qing empire in 1945 after 50 years of Japanese colonial rule. Domestically, the New Democratic doctrine of cross-class unity still drove Mao's mobilization strategy for China's intervention in Korea. One constituency whose support Mao was keen to secure was the national bourgeoisie. Historian Wang Hui (2016: 127–8) notes that at the beginning of the War to Resist U.S. Aggression and Aid Korea, as the Korean War was called in the People's Republic, Mao (1986: 149–50) sent a telegram to the Tianjin Municipal Federation of Industry and Commerce. The telegram congratulated industrialists and businesspeople who participated in a mass demonstration in support of the expedition of not being "duped by" US propaganda and implored them to "join with the broad masses of the people and knit themselves into a united front against imperialist aggression." The attention Mao gave to the national bourgeoisie and on minimizing the expedition's financial burden were in line with the New Democratic order under which private capital would not only exist or continue to develop.

Despite these similarities, there were crucial differences between Maoist China's position vis-à-vis Korea and Asia and Nehruvian India's. For China, participation in the Korean War was an extension of its social revolution. Nehru was, no doubt, sensitive to what he called the "social urge," which he characterized as the other dimension of Asia's quest for self-determination. "There is," in Nehru's (1982–2020: vol. 15.1, 346) own words, "this sense of social inequality, not only as between Asia and Europe or America, but social inequality in our own countries as between different classes." This progressive nationalism mirrored Nehru's rumination on political economy. Speaking to chemical industrialists in December 1950, Nehru (1982–2020: vol. 15.2, 55–60) brushed aside the Cold War dichotomy between free enterprise and democracy on one hand and nationalism and totalitarianism on the other. Ideological skirmishes were distractions from the state's task of delivering social provisions; the "real test" of any polity was not "on the battlefield" but "results which are not the accumulation of private fortunes but the advancement of the public generally." For Nehru, while state planning and social uplift were intertwined, neither had much to do with war mobilization. For Maoist China, however, the War to Resist US Aggression and Aid Korea was a continuation of its nationalist and social revolution. Insofar as Beijing was concerned, war on the Korean peninsula was inseparable from the two concurrent domestic campaigns, which Mao (1986: 217) discussed at the Chinese People's Political Consultative Conference (CPPCC) in October 1951. Land reform, the movement to suppress counterrevolutionaries and the War to Resist US Aggression and Aid Korea were "three large-scale movements" that not only ensured the nation's "unprecedented unification" but also transformed social relations. The tripartite mass enterprise was designed to energize the proletariat and peasantry, enhance industrial and agricultural productivity, and reorganize the everyday life of the masses. The people's war was a hallmark of the Chinese Communist movement under Mao. Experimented and having taken shape in the isolated Jiangxi Soviet, where mass mobilization for war, land reform and a self-conscious political subject proceeded simultaneously. This interfusion between state-building, war-making, mass politics under the Communist Party was extended beyond 1949 and on display in China's intervention in Korea (Wang 2016: 138–9).

On China's involvement in Korea as a continuation of the Chinese revolution, Song, whom Nehru admired as a non-Communist leader of the People's Republic, was on the same page as Mao. On the second anniversary of the founding of the People's Republic of China, Song (1992: 662–72) contributed an essay to *People's China*, a multilingual magazine catered to foreigners. The October 1, 1951 article echoed Mao's CPPCC piece on the three large-scale movements of land reform, suppression of counterrevolutionaries and the War to Resist U.S. Aggression and Aid Korea. It hailed land reforms for "protecting [the Chinese revolution's] own strength" because the latter rested upon endowing the peasantry with land, inspiring their political consciousness and familiarizing them with modern agricultural techniques. The two mass initiatives Song portrayed with more vividness, however, were the movement to suppress counterrevolutionaries and the War to Resist US Aggression and Aid Korea. Betraying her own urban upbringing—Song was born and raised in Shanghai and spent much of her adult life in China's most cosmopolitan metropolis—the Chinese vice-president described how the movement to suppress counterrevolutionaries represented a fundamental realignment of life in the cities. "Peasants and workers, students and professors, the industrial and commercial sector, housewives, cultural workers, and the religious sector,"—most of which urban constituents—acted as the jury purging malcontents among factory and dock workers such that urban dwellers could enjoy "genuine liberation." The theme of urban mobilization featured even more prominently in Song's discussion of China's Korea engagement. The "Safeguard Our Homes and Defend the Nation" part of the "War to Resist US Aggression and Aid Korea" program was put to further relief in Song's assessment, which suggested that the movement had "penetrated into the Chinese people's everyday life." Workers at home took to heart that like war trenches, "the factory floor was also a battlefield" as they competed with one another to raise productivity and lower costs. In futuristic language, Song paid tribute to workers for being the "creators of the new century." The Chinese industrial proletariat explored new methods so that, rather than operating under the machinery, they "subverted the old order so that they became the masters of the machinery. They "relied on scientific and revolutionary attitude in considering how to raise productivity. They retained what was good about the old things and worked assiduously to discover new methods." These auspicious developments were attributable to China's involvement in Korea and its imperative that workers participated in the patriotic and internationalist project through their labour and participation in the nation's quest for the nation's and Asia's defense. The urban proletariat's subjectivity was interwoven with their contribution as producers to the Chinese engagement on the Korean peninsula.

The Korean situation also highlighted the differences between China's internationalism and India's. The keyword of Nehru's foreign policy was non-alignment in relation to both the socialist and communist blocs. As Nehru (1982–2020: vol. 15.1, 356) explained to his fellow parliamentarians, "suppose there are two power blocs. If I am neutral that itself is a commitment that I will not do this or that; I refuse to bind myself. The whole essence of our policy is independence of action." In the case of Korea, for example, the Indian government recognized neither regimes as both the North and the South were considered very much products of great power rivalries in which Koreans had little say. This refusal of being pinned down in diplomacy, and indeed in his domestic policies, vis-à-vis the two rival camps led by Washington and Moscow was a hallmark of Indian independence and Nehru's vision for Asia. For Beijing, however, internationalism meant building a global front against what it deemed as US imperialist aggression. In Mao's (1986: 219) words,

> At home we relied on the consolidation and unity of all the nationalities, all the democratic classes, all the democratic parties, all the people's organizations, and all the patriotic democratic personages under the leadership of the working class and the Communist Party. In the international sphere we relied on the consolidation and unity of the camp for

> peace and democracy led by the Soviet Union and on the profound sympathy of the peace-loving people of all the countries in the world.

The Korean crisis allowed Maoist China to stand in solidarity with other "people's democracies," thus reaffirming the Chinese revolution's global dimension. In an October 1950 article Song (1992: 561–7) wrote for *Guangming Daily*, a newspaper run by one of the "democratic parties," she left no doubt which side China had to be on. Confronted with the onslaught of the "imperialist camp," China must side with the Soviet Union and "People's Korea." Rather than a foreign imposition, North Korea embodied a mass revolutionary subject. "The Korean masses," Song wrote of the government Kim Il-sung led, "had already come to the realization that they held political power and that they were determined to liberate their motherland from foreign invaders and their collaborators. They knew that imperialists saw the principle of national self-determination as a joke." Koreans up and down the peninsula desired "people's ownership of land and industries, democratic rights, democratic procedures and the right to be represented." These goals were on course of being realities on the North with Soviet help, in spite of hostilities from the United States and the regime Rhee Syngman (1875–1965) headed.

This mix of anticolonial nationalism, spurred by U.S. President Woodrow Wilson (1856–1924) after the Great War (Manela 2007: 220), and the idealism of social revolution constituted what Song, in the very first sentence of her article, hailed as the "universal and absolute truth that permeated throughout the Asian continent." Asia, in this sense, was no isolated third force outside of the two rival camps. For Asians in China, Korea and Vietnam was given the stark choice between "the pureness of people's revolution and the maliciousness of imperialist reactionaries." Asia's independence rested upon its peoples' struggle against imperialism as embodied by the U.S. and its Asian collaborators. Transformation of Asian peoples into a new political and military subject through mass mobilization, land reforms, campaigns to raise productivity and anti-counterrevolutionary movements formed the basis of Asia's independence. This vision of Asian independence was starkly different from Nehru's state developmentalist approach and non-alignment with the two antagonistic Cold War blocs.

The foregoing discussion is not to suggest that the bonhomie between India and China in the 1950s, encapsulated in the slogan *Hindi-Chini bhai bhai* (India and China are brothers), was misguided or doomed from the start. The advent of the PRC, the first major socialist state in Asia, forced upon leaders and intellectuals in the region, including the Chinese themselves, the task of coming to terms with a new regime the nature of which was hotly contested. Mao suggested, inheriting his formulations during the resistance war against Japan, that China was to be socially and politically distinct from the Soviet Union. This distinctiveness, as it turned out, did not mean that the PRC was being meek and cautious in its approach to affairs domestically and beyond. What it did—and this did indeed echo Nehru's vision for India and Asia—was to commit China to a path of nation-and-society building that was boldly anticolonial and anti-imperialistic in its international alignment and domestic social praxis. As the Korean crisis highlighted, China's persistence in mass revolutionary transformation was different from Nehru's prescription—parliamentary democracy, demobilization of labour, steady state-coordinated development—for India. Key Maoist concepts such as coalition government and New Democracy did, theoretically at least, commit China to a developmental path distinct from those of the capitalist West and the Soviet Union. But this path was way more radical than what Nehru had ever imagined for India. The core difference between Nehru and leaders like Mao and many of his Asian nationalist counterparts was, to borrow historian Sunil Khilani's (2017: 41) formulation, that the former, instead of embracing popular notions of national sovereignty, saw India as "abstract, historically durable 'people' or 'nation.'" Instead, the people were to exercise their sovereignty through indirect means, with careful and technocratic guidance from the state.

In terms of internationalist alignment and solidarity with other Asian nations, there were obvious differences between India's even-handed "independence" in relation to the two blocs and China's identification with mass revolutionary movements, as Song characterized "People's Korea," fighting for "independence" from US hegemony. These differences, while significant, did not necessarily stand in the way of Sino-Indian friendship. Intellectual historian Sun Ge (2015: 110) characterizes Cold War ideology—the stark binary between totalitarianism, a derogatory term attached to communism, and benign liberal democratic politics—and its mirror image as proffered by the capitalist and socialist blocs respectively as fossilized imaginations that did not correspond to realities on the ground. Binaries between capitalist and socialist systems, she argues, were often less helpful than categories such as the "Third World," "Asia-Africa-Latin America" and even "Asia" in helping us comprehend interactions between Asian societies from the late 1940s to the late 1980s. She mentions in particular Nehru's stands on the Korean War and the Bandung Conference as examples of how Asian nation-states defied Cold War strictures and forged opportunities, however fleeting, for solidarity under creative terms.

As far as Nehruvian Indian and Maoist China were concerned, Asian subjectivity, however broadly defined, presented the most promising ideological basis for unity in the early 1950s. There might well have been immediate geopolitical considerations—armistice on the Korean peninsula, Soviet desire for co-existence between the capitalist and socialist systems, appealing to Washington's European and Asian allies fed up with U.S. military overreach (Mark 2012: 33)—that led China to enter into the 1954 Panchsheel Treaty with India.[1] Yet, there is no doubt that the 1955 Afro-Asian conference in Bandang, Indonesia represented a tradition stretching back to the 1927 League against Imperialism conference (Prashad 2007), which both Nehru and Song attended. Characterizing Sino-Indian friendship as either China's

[1]Panscheel, a Sanskrit phrase meaning five virtues, preferred to Five Principles of Peaceful Coexistence—mutual respect for each other's territorial integrity and sovereignty, mutual non-aggression, mutual non-interference in each other's internal affairs, equality and mutual benefit, and peaceful coexistence.

geostrategic ploy or Nehru's naiveté (Khilani 2017: 40) does not do enough justice to this tradition. China's and India's different responses to the Korean crisis were divergences under the rubrics of anticolonial nationalism and Asianist solidarity. While Chinese and Indian leaders quarreled over manoeuvres as military conflicts unfolded in Korea, Asian independence remained the aspiration that provided the ground for China-India commonality. At the height of the Korean War, in June 1951, Song Qingling (1992: 639–40) congratulated the inauguration of the India-China Friendship Association in Bombay, observing that the two nations, while sharing common history, were confronted with circumstances that were of much greater contemporary circumstances. "At the present moment," Song declared after alluding to the ties between China and India going back hundreds of years, "our two great, young republics are facing a world situation which see the impending death of imperialism and the rise of the people as masters. Under this situation, our two great countries will face attacks from imperialism. ...We must further solidarity between the Indian and Chinese peoples so that we can defeat all enemies of the Asian peoples and contribute wholeheartedly to world peace." Five months later, Nehru (1982–2020: vol. 17, 567–71) told *The New York Times* that he "wanted a free Asia" and warned that "when there is any threat to freedom Asians react strongly." He further admonished Washington to avoid behaving like detested European colonizers, who dominated Asia through military and economic might. On China, Nehru maintained that the "communist government is effective and stable and it is foolish to ignore its existence in international councils." Remarkably for someone who was not accustomed to such rhetoric, he added that the People's Republic of China thrived "by the will of its people." Song and Nehru shared the same political vocabulary of republican sovereignty that had sustained solidarity among colonized peoples since Brussels, even though they had different ideas of what Asian independence meant under evolving Cold War circumstances.

Addressing readers of the Chinese translation of *The Discovery of India*, Nehru (1956: 1) hailed how India and China, after many years of peaceful exchanges, had "met once again as free nations in charge of their own destinies. There are lessons to be drawn to benefit one another." He homed in on Panchsheel, a principle increasing accepted by nations of the world and promised to put an end to armed conflicts. With the benefit of hindsight, we know that Nehru's dream would be dashed in 6 year and his country and China fought a bitter war over the Himalayan border. Yet, in a continent where the Cold War never seems to end, where nations like Korea and China seem to be perpetually divided, and where the United States remains the dominant military force, an earlier episode of anticolonial solidarity between India and China beyond simple calculation of national interests may well present resources for us to chart out alternative futures of China-India ties and those between Asian countries.

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Chapter 3
A Comparative Political Economy of China and India: A Critical Review

Kalim Siddiqui

3.1 Introduction

The aim of this study is to analyse these two 'population giants' and more recently described as emerging 'economic powerhouse' and try to see what they have in common as well as their differences.

By the mid-1940s their economic and demographic endowments were very similar. However, after independence in 1947, India opted for economic planning with state assigned a leading role to build key industries and infrastructure and on political side on the basis of elected democracy until 1991 when economic crisis deepened and the country decided to open its economy to the foreign corporations. China in 1949 began with Socialist Planning economy with strong state control on agriculture and industry. However, after a number of disastrous economic performances (i.e. Great Leap Forward and Cultural Revolution) decided to slowly open its market for foreign investors under the control of the Communist Party in 1978. This change of policy is known as state-managed capitalism (Davin and Harriss-White 2014).

However, if we look at more closely both countries industrial policies prior to neoliberal reforms were not different. India too had a regulation for industries through Foreign Exchange Regulation Act and Monopolies and Trade Restrictive Practices Act. In agriculture and small industries, India had massive informal economy which operated under private ownership. Despite pursuing electoral democracy in India, China was more successful in spreading primary education and especially participation of women in local governments than India had achieved.

In the post reform period, both countries seem to be different in the size of their economies and the rates of transformation. During the early 1980s both had similar

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GDP per capita but China's economy had risen from US$1.2 trillion in 2000 to US $6.4 trillion in 2016. While India's GDP grown to US$0.5 trillion to only US$1.8 trillion during the same period (World Bank 2017; Siddiqui 2018a). Both economies in the post-reform period increasingly integrated through the inflows of capital and trade compared to the pre-reform period. The inflow of foreign capital into China rose sharply with government incentives to foreign investors and also at the same time reforming of Town and Village Enterprises linking it to foreign markets. China relied on labour intensive manufacturing industries with low wages to drive investment and growth. It also led to diverting surplus agriculture labourers into expanding manufacturing industries. India relied on services including capital intensive IT, business process and telecom for its growth.

China's exports rose to 32% of GDP in 2016, while India's stood at 22% of the GDP, which rose from 7% in 1990 contributed largely by the IT and services of the country's exports (Siddiqui 2018b). China, on the other hand, large contribution within the exports was contributed by the manufacturing and currently China export is ten times larger than India.

However, the extent of global integration of both economies differ, India's inwards annual capital inflows was US$25 billion in 2016 and annual capital outwards flows was $15 billion. While for China capital inwards flow was US $116 and outward capital flows was $53 billion for the same period (Siddiqui 2018b). China's inwards investment was in manufacturing and high technology. In India the local industries were less dependent on inwards know-how and technology.

On supply-side both countries differ radically, in agriculture sector, at present China's land and labour productivity is more than double than India. This sector also witnessed huge transfer of labour towards manufacturing. In manufacturing too China's productivity exceeds by a median rate of 50% of India's. India has a huge informal sector, which accounts for nine out of every ten jobs, while China in the past had very small informal sector, but since the neoliberal reform it has risen sharply and now accounts for 30% of the total GDP and half of the urban workforce.

On the demand side also both countries differ markedly in areas of consumption, savings and investment. For instance, in 2016 the Indian economy consumes 59% of the GDP out of which 57% is households and rest is of government. China economy consumes 48% of GDP of which just 35% is by households and rest by the government. It means China's households consume less than India and its savings are higher than India (Siddiqui 2018b).

Deng Xiaoping led 1978 market reforms have led to a sharp reduction in social welfare provisions, especially state provision for education and health services, where in the pre-reform period were freely available, it was replaced by market led where individuals has to pay for these of services. In a situation where credit markets are underdeveloped, then it also meant increased pressures on households to save. In addition, the state enterprises were de-regulated in the 1980s and 1990s and were exposed to market competition, resulted in abandoning of lifelong employment guarantee. Naughton (2007) gives us a detailed picture about China's extraordinary growth in inflow of foreign capital and takeover by the foreign businesses. He argues that China became important destinations for foreign investors, accounted for nearly one-third of the total of the developing countries and moreover, large proportion of the capital inflows went to manufacturing, not in services as was the case in India in recent years. Certainly Chinese liberalisation policy along with favourable domestic policy, including investment protection agreements, moderate taxation, and repatriations of profits has played an important role in this process.

Since early 1980s Chinese average growth rates was 9.5%, which is more than three time higher than the US average for the same period. It is a very remarkable development. Most researchers agree that Chinese rapid transformation and development is associated with a number of policy decisions including decentralisation, privatisation and multinational corporations. The government established to set-up export processing zones with the permission to duty free import and minimum red tapes and administrative interferences. The government also subsidised foreign investors through access to land, tax holidays and utilities. And as a result in the beginning of the twenty-first century China became the largest recipient of the foreign capital inflows on the world.

Foreign companies in China are heavily import dependent as a result their growth will increase the import demands from other countries. Chinese and East Asian countries are jointly shaped by the multinational corporations, which has promoted greater trade dependence and the expansion of integrated cross-border production process, where China serving as a final destination of assembly of the manufactured products. As a result, there is a growing regional interdependence and trade activities is tied to a regionally structured accumulation process with final assembly destination China and huge dependent on sales in foreign markets in the North America and Europe (Hart-Landsberg and Burkett 2007).

For the last 20 years, the Indian economy has grown on average 7% per annum and it is one of the world's fastest growing economies. However, the Indian economy does show a skewed out-put employment structure, where services make up for the largest share of output of the economy, while most of the employment is in agriculture sector. And in this sector the employment is informal in nature. The structural transformation as generally predicted that transformation takes place, where surplus labour from agriculture sector is transferred to expanding manufacturing. However, it has not been realised in India so far. The income gap between agricultural and non-agricultural sectors has been widened in recent years. For instance, the ratio of agricultural to non-agricultural income was 1:3 in 1960, which widened to 1:6 in 2005. And also the ratio of agriculture to industrial income was 1:4, while that of agricultural to services income was 1:7 in per capita terms (Papola 2007).

India's reserve increased from US$4.3 billion in April 1991 to US$107.4 billion in April 2004 and to US$281.7 billion in January 2015 (Siddiqui 2019). This is quite different from China, where foreign reserves have been earned from trade surplus, while in India's case foreign reserves have risen largely from inflows of foreign capital. India has attracted a large amount of foreign capital, but largely they are pursuit for hot money and in short-term variety. The mainstream economists findings often suggest that China's early 1980s market reforms was the main factor that led to sustained growth and made the country one of the most successful development and economic transformation example in modern time. And by adopting such polices namely export-led growth, inflows of foreign capital and deregulation were led to this remarkable success. The governments in the developing countries were encouraged to promote greater market freedom and integrate with the international economies. It was said that only by capitalist growth model the only way out of the poverty destitutions.

Agriculture, the main source of incomes for the rural population, provides less than a fifth of the total GDP. Moreover, the highly technical services although have grown disproportionately at higher rates, but are incapable of generating the much needed employment and well-being of the rural population, in particular for unorganised 93% of the working population in the rural India. Job creation in informal sector in India is far below than expected, while formal employment has stagnated. The informal economy which employs more than three quarters of the working population, have been undermined due to demonetisation and GST (Goods and Services Tax). Demonetisation has severely affected farmers and small businesses. The lack of cash for several months meant that people could not withdraw cash from their account in the bank.

The mainstream economists' obsession with the GDP growth shows that India economy is world's top performing economy. However, if we analyse it carefully then we find that Indian economy does have a number of weaknesses such as external vulnerabilities, rising unemployment and inequalities and crisis in agriculture sector. The external vulnerabilities seems to be due to rising current account deficits, which is largely financed by inflows foreign capital attracted by the higher interest rates in India. The past experiences show that hot money will leave with a little sign of economic crisis, which could have disastrous consequences for the domestic economy and stability. Also the India's exports did not see any rise in recent years. Despite reasonably good monsoons, agriculture sector is facing deep crisis.

There has been debate among the researchers about whether India's growth did not lead to employment creation, also known as 'jobless growth'. If we look at the manufacturing sector, there has been hardly any expansion of employment in this sector. Most researchers agree that rising labour productivity is a reflection of increasing capital intensity in the economy in the post-reform period. But they disagree about the reason behind the rise in capital intensity. The data that capital intensity has risen with a corresponding rise in labour productivity, but still capital intensity in India is much lower than other emerging economies such as China and Malaysia.

The important factor behind this rapid labour productivity growth in India for some seems to be due to the relative factor cost being skewed in favour of capital and that was the reason for firms to choose more capital intensive techniques and also in order to dampen rising wages. While others emphasise that the composition of domestic and export demand has shifted in the favour of product and services and it requires greater use of technology (Patnaik 2015). There seems to be also an additional factor, namely the rising international competition due to trade liberalisation, is seen as a cause behind this rapid rise in labour productivity in

India, which is adversely impact employment growth. Moreover, India has experienced rapid growth in high-productivity in service sector and this seems to be a critical factor in the expansion of output in the post-reform period. There is a problem of estimation of services GDP in India due to huge informal segment of the tertiary sector.

The data shows that China's GDP growth rate declined from 10.6% in 2010 to 9.5% in 2011, and in the following years of 2012, 2013 and 2015 the growth rates declined to 7.7%, 7.3%, and 6.9% respectively. Yu and Jian (2017: 456–7) argue: "since 2012, the growth rate of service [s]... has outnumbered that of secondary industry and has been the fastest in development. The proportion of added value of service industry in the national GDP has increased to 46.1% and has exceeded that of secondary industry in 2013... In 2015, the proportion of service sector increased to 50.5%, which is 10% higher than that of the secondary industry. The proportion of high-tech industry is rising. In 2015, the proportion of the added value at current price of equipment manufacturing industry and high-tech industry in value added of large industrial enterprises reached 30.4% and 10.6%, respectively, 2.2% and 2.9% higher than in 2010."

This is abundantly clear from jobless growth, where GDP, but not employment, is rising. Many economists have concluded that inclusive growth cannot be achieved by simply focusing on growth alone and relying on market forces. They argue that there is a need for a redistribution of assets and state intervention in the market in order to create conditions for inclusive growth, and that this should be manifested in the growth process (Ghosh 2013).

India's infant and child mortality rate was three times worse than China. Similarly, India's achievement in primary education is also less than China. Despite increase in attainment of primary education in India, 5% children between ages 5 and 14 did not attend school in 2015, which is a huge increase from 2010, when 20% children did not attend primary school. The existence of malnutrition among children in India is worrisome and worse than in sub-Saharan Africa. For instance, India's 42% children are underweight, while in China the figure is only 3%. India's total expenditure on health per capita is less than half of China.

3.2 The Chinese Reform Policy

Commenting on the recent rapid socio-economic transformation, the London-based Economist (2015) notes, "In the first change in the world economic order since 1920–1945 when America overtook Britain, the dominance of the US is being eroded by China. Measured at Purchasing Power Parity (PPP) China has already become the number one economy, overtaking the US-measured thus, as a share of world GDP, the US and China are 16% and 17% respectively. Judged by its share of the world steel production and consumption, transport and commodities production and consumption, the US is going to the dogs. The number of countries for which

America is the biggest export market has dropped from 44 in 1999 to 32 now. Over the same period the figure for China has risen from 2 to 43" (Economist 2015).

In fact, for the first time in recent history an economy other than the United States has emerged as the largest contributor to global economic growth, as China has shown in recent years. China alone accounts for one-third of world growth compared to 17% by the US and less than 10% each for Europe and Japan. China, in 2016, had a US$600 billion annual trade surplus with the rest of the world and foreign exchange reserves of US$3.5 trillion. The huge growth in China is largely due to the expansion of its domestic market with increasing incomes and living conditions of its populace, and a rise in exports (Siddiqui 2016a). The United States has huge trade deficits, i.e., US$310 billion with China, in 2016, US$67 billion with Germany and US$56 billion with Japan. Furthermore, within the major economies of the G20, only China and Germany have had sizeable trade surpluses, while the remainder are running large deficits. In terms of domestic changes, between 1980 and 2010, China increased the income of around 600 million people living in poverty (US$2 per day), which is the biggest reduction in a single country in human history (Davin and Harriss-White 2014; Dreze and Sen 2013).

It seems that an important factor in China's rapid development over the last five decades is its ability to acquire new capabilities, as reflected in the diversification of its economy and exports. The country initially gained a comparative advantage in exports of labour-intensive products, later moving slowly towards higher value products. The higher growth rate was achieved through its ability to accumulate capital driven by high-investment-output ratios, the availability of export markets and increased industrialisation. It must involve the continual introduction of new products, not just a reliance on a fixed set of goods.

China's economic reforms in 1978 were crucial, as they led to the opening of its economy and provided incentives for private investors to develop, but even these would not have succeeded without the stock of capabilities that already existed in the country. As Jesus Felipe et al. (2013: 792) point out, "This shift is referred to as structural transformation and is what leads to fast and sustained growth. In other words, becoming a developed country requires achieving a sustained growth for a period of decades. In general, the only way to do this is through significant structural transformation... More precisely, structural transformation is the process by which countries change what they produce and how they do it, as well as how they move from low-productivity and low-wage activities to high productivity and high-wage activities". They further argue that, "China's high growth rates during the last five decades is the result of massive investment (reaching 40–50% of the GDP) and successful integration into the world economy through trade, only make sense in a context of high assimilation and absorption capabilities, increasing the capacity to employ new methods of production and new inputs and significant upgrading" (Felipe et al. 2013: 793).

With the launch of China's 1978 reforms, competition was increased, whilst inflows of foreign capital and technology also rose. Accordingly, the country witnessed the rapid transformation of its economy and society (Jacques 2009). Moreover, the reforms stimulated Chinese industry, and its development has since followed a traditional road of industrialisation in which manufacturing has become established as the most important sector, driving the development of other industries and eventually accelerating the overall development of the economy. It appears that opening the door to foreign capital brought extensive change; for instance, by 2010, capital inflows to China amounted to US$105.7 billion, ranking second in the world after the United States (Siddiqui 2015a; Sun 2007).

In recent years, the Chinese government has increased its efforts to raise productivity, and investment in scientific research and new technology has been increased. For instance, from 1998 to 2003, high-technology production was largely dependent on imported materials, and was also managed and controlled by foreign companies; Chinese companies dependent on foreign investment accounted for nearly 90% of Chinese exports of computers and 75% of electronics and telecommunications equipment exports. Since 2003, the Chinese government has been promoting domestic innovation in particular (Hart-Landsberg and Burkett 2007).

During the pre-reform period, the participation of Chinese women in local councils and administration was very impressive compared to India during the same period. India's social stratification was that of castes, religion and ethnicity, and its distinctive culture and political plurality added additional difficulties compared to the Chinese situation (Dreze and Sen 2013).

China's share of world exports is more than ten times larger than India's. However, China is now reducing the role of exports in driving its economy, which stood at 31% of the GDP in 2012, and is instead focussing on expanding domestic demand. China has also started huge infrastructure projects, involving several countries, in a project known as the Belt Road Initiative (BRI), earlier called One Belt One Road (OBOR), having earlier begun extensive development of its roads, rail and ports. For instance, in February 2016, the first train from China reached Tehran, having covered thousands of miles. In India, exports accounted for 22% of GDP in 2014 compared to 7% in 1990, where services contributed hugely to this increase.

While both countries are closely linked with the global economy, their degree of global engagement differs. In 2012, China had annual inward FDI of US$116 billion and outward of US$53 billion, compared to India's US$25 billion and US$15 billion, respectively. Moreover, Chinese inward foreign investments are largely associated with the transfer of cutting-edge technology, but spill-over of the same to domestic companies is weak. During the last decade, outward investments by Chinese state-owned enterprises (SOEs) backed by state finance have increased more than tenfold to more than US$300 billion, or 14% of total outward FDI (Mathews 2016). India's big companies have lately embarked on merger acquisitions overseas, particularly energy- and natural resources-related, largely by private companies; India's private capital investment abroad is greater than China's.

In the agricultural sector, cultivable land area in India is half that of China; moreover, average yields per hectare in China are twice as great as India's. Also, in contrast to India, many of the people engaged in agriculture in China have been absorbed into manufacturing over the last three decades. India's informal economy has been larger than China's and now accounts for nine out of every ten jobs.

China's per capita income is nearly five times greater than India. Income inequalities have widened, with India's top 20% receiving 46% of total income and the bottom 20% receiving only 8%; compared to China's 49% and 6%, respectively. India has high levels of inequality, with only sixty-six billionaires controlling more than 20% of GDP. India's Gini coefficient was 0.37 in 2010, while China's was at 0.48 (Dreze and Sen 2013).

3.3 India's Economic Policy

The task for independent India post-1947 was to accelerate the transition towards a modern economy dominated by industry, as at the time of independence, the agricultural sector accounted for half the country's GDP, with modern industry contributing only 6% to total GDP. At the time of independence, despite the development of a few industries during colonial rule, India remained predominantly an agrarian country with low productivity and widespread poverty and illiteracy.

After independence, the Indian government undertook agrarian reform—though uneven in its depth from state to state—restricting, though not removing, rent-based landlordism, encouraging rural capitalism. Rapid transformation was needed, and India's first Prime Minister, Jawaharlal Nehru, recognised that without the economic diversification and expansion of industries, the aims of modernisation would not be accomplished. It was hoped that such polices would increase productivity and generate employment, the latter required to absorb India's large number of unemployed and address the poverty and deprivation colonial rule left behind. The Second Five Year Plan was launched in 1956 with the target of increasing investment in industries, power and infrastructure (Patnaik 2015).

In the Second Five Year Plan (1956–61), protection was provided to domestic industries and the state itself took the initiative to set up heavy industries. As a result, the public sector share in total capital stock rose from 18% in 1951 to 33% in 1961. During the same period, electricity output went up 2.5 times and per capita availability of clothing doubled. The increased public spending in education led to a rise in school enrolment from 23.5 to 44.7 million, and university enrolment from 0.4 to 1.05 million, for the same period (Patnaik 2015).

In fact, in the late 1950s and 1960s, the industrial sector did see a sharp rise. For example, the share of manufacturing in GDP rose from 9% in 1951 to 16% in 1961, reaching 18% a decade later and finally peaking at 20% in 1996. However, the share industry was still less comparable with other developing economies, particularly in East Asia. For example, in 1971, the manufacturing share in GDP for South Korea was 25%, Malaysia 28%, Thailand 26%, China 35% and Brazil 29% (Nagaraj 2015).

India, while launching an ambitious plan for industry, overlooked the funding sources for such industrialisation and the government's failure to consider demand for industrial products. Land reform was not carried out in good faith, which could have raised incomes of the majority of the farmers, resulting in rural equality. The state was unable to mobilise resources by taxing the rich to finance the industrialisation.

Land reform measures, while benefitting some tenants, failed to break land concentration and the top 15% of landowners continued to hold the same percentage of land as before the measures were undertaken. Rural inequality persisted, which had obvious socio-economic implications as it restricted the domestic market, including demands for manufacturing goods. On the social front, few changes were witnessed; landlords' oppressive caste system remained largely intact and untouchables (also known Dalits), who constituted the core of the landless class and were denied land ownership under the old Hindu caste system, remained landless (Siddiqui 2014). As a result, land concentration left agricultural incomes unequally distributed among the rural population, and thus a stranglehold on the expansion of industrial sector into the home market. The inability to tax the propertied classes meant that the state had to rely on other forms of potentially inflationary finances such as indirect taxation and borrowing. Domestic industries were protected in the home market, meaning a less competitive environment and little threat to their profits. It also resulted in slow growth and little innovation.

After the mid-1960s, the rising prices and balance of payment crisis became unmanageable, leading to a rupee devaluation that forced India to seek a loan from the IMF. Moreover, in the late 1960s, the adoption of HYV (High Yielding Variety) seeds in certain crops, also known as the Green Revolution, raised agricultural output if HYV seeds were applied in the correct proportions along with water, fertilizers and pesticides. Initially it encouraged large landholders to undertake direct cultivation as additional investment was assured to bring higher profits due to availability of subsidised credits, irrigation, and fertilizers. Soon, the green revolution also spread to mid-level farmers (Siddiqui 2009a), and whilst it did manage to raise agricultural output and yields in certain crops, some of the negative effects are now becoming visible such as soil degradation, decline in water table and quality of water. But, overall, it did improve the incomes of certain sections of the rural inhabitants, which proved at least to be temporary relief (Kohli 2006).

The growth rates in the 1970s were slow, at around 4%, which was considered to be low and known as the "Hindu rate of growth", where India was seen to be trapped in low growth by the mainstream economists. In the post-1980s, easy access to international credit resulted in the rise of public and foreign debt. It also led to an increase in the current account deficit, which created concern among foreign lenders that India may not be able to meet its debt service obligations (Siddiqui 2012). As a result, the availability of foreign funds began to dry up, leading to a sharp reduction in reserves. Ultimately, in July 1991, India experienced a balance of payment crisis and turned to the IMF for a loan. In return, the IMF demanded the implementation of neoliberal economic reform involving trade liberalisation, a more favourable climate for foreign investors, and wide-ranging deregulation measures (Kohli 2006).

Another such short period of relief came in the 1980s in the form of availability foreign funds for borrowing. In fact, the huge funds from oil exporting countries found its way into the financial system. This private financial capital was now available for borrowing, and India took this opportunity to borrow from commercial banks and non-resident Indians. Access to such capital allowed the government to increase its debt-financed investment. This came as a huge relief for the government as this money could then be used to pay for imports that kept domestic inflation under control. As a result, the growth rates rose higher than in the previous decade.

In the 1980s, the Indian economy began to grow due to fiscal stimulus backed by a huge increase in government spending, which was itself backed by import liberalisation in capital goods and certain components of high technology and manufacturing, and also the government's acceptance of external commercial to finance the growing fiscal and current account deficits. India began to take advantage of the increase in international liquidity, the result of a sudden rise in surplus income among oil-exporting countries, a large proportion of which was deposited in western banks. As a result of external borrowing, India's foreign debt to GDP ratio doubled during the 1980s. Commenting on the rise in external borrowing, Jayati Ghosh (2013: 178) observed, "Domestically it sparked a retail credit boom and this (combined with fiscal concessions that encouraged more elite consumption) spurred consumption among the richest sections of the population. This led to rapid increases in aggregate GDP growth, even though compressed public spending on basic needs, poor employment generation and persistent agrarian crisis reduced wage shares in national income and kept mass consumption demand low. There was a substantial rise in profit shares in the economy and the proliferation of financial activities. As a result, by the end of the first decade of the twenty-first century, finance and real estate accounted for more than 15% of GDP. This combined with rising asset values to enable a credit-financed consumption splurge among the rich and the middle classes, especially in urban areas".

The Indian growth story is one of around 4% per annum from the 1950s through to 1981, and then 6.3% from 1982 to 2016. The source of recent high growth appears to be rooted in services such as real estate, construction, automobiles, IT, commercial centres, and financial sectors. Many of these new developments are taking place around urban and semi-urban centres. By contrast, India's rural economy has experienced very slow growth and near stagnation during the pro-market reform period (Dreze and Sen 2013).

However, for the last two decades the agriculture sector had been completely ignored, despite nearly two-thirds of the population relying on it for employment and income. Also, the majority of the India's poor live in rural areas, and rely heavily on the performance of the agriculture sector. The 1991 economic reforms package did not consider specific policy regarding agriculture, especially to help small and medium farmers. Moreover, it was presumed that freeing the agricultural markets and liberalising external trade in agricultural commodities would provide price incentives, leading to a rapid increase in the incomes of farmers and investment in agriculture. With the greater role of market forces leading to a sharp decline in the availability of institutional credits, subsides on fertilizer and electricity were also reduced drastically. All these developments increased difficulties for small and marginal farmers, who were forced into greater reliance on informal credit from money lenders and input suppliers cum merchants.

Since the 1991 economic reforms were adopted, capital inflows have surged. However, greater reliance on foreign capital pressurised India to implement fiscal reform through legislation in the form of the Fiscal Responsibility and Budgetary Management Act (FRBM), which was passed in 2003 to bring the fiscal deficit to GDP ratio down to 3%, restraining any attempt to increase growth based on debt-financed government spending. In the post-2003 capital inflows surge, this triggered a credit boom largely available to rich and upper-middle class consumers for housing loans, automobiles, and to government for infrastructure. This created optimism and spurred growth, but also increased vulnerability and potential defaulting. Soon after the boom began, non-performing assets in the banking system rose sharply and banks' profitability was potentially threatened; the problem was not just one of rapid growth, but reliance on unsustainable stimuli to growth. The current growth is not sustainable, as it is unable to address the problems of massive unemployment and other forms of social deprivation in India (Siddiqui 2019).

In 1991, with the sudden dramatic fall in remittances due to the Gulf War and the collapse of the Soviet Union, then India's biggest trading partner, added to India's growing economic difficulties. Faced with the balance of payment crisis and rising inflation, India's minority government introduced pro-market reforms including currency devaluation and trade and investment liberalisation. These reforms could be defined as a process of market-oriented policy with the aim of improving the balance of payments, reducing inflation and including a set of microeconomic institutional policy reforms (Rowthorn 2013).

The devaluation of Indian rupees was carried out in July 1991. With the introduction of the pro-market policy, the rise in GDP growth rates seems to be successful, with the size of the economy growing by a factor of 6.3 in 2016 compared to 1991; the current account deficit situation is certainly improved. Remittances from overseas have increased, as has the availability of modern consumer goods. Despite these developments and pro-market reforms over the last 25 years, about one-third of India's population remain poor, having not experienced any of the associated benefits. This is abundantly clear from jobless growth, where GDP, but not employment, is rising. Many economists have concluded that inclusive growth cannot be achieved by simply focusing on growth alone and relying on market forces. They argue that there is a need for a redistribution of assets and state intervention in the market in order to create conditions for inclusive growth, and that this should be manifested in the growth process (Siddiqui 2016a; Ghosh 2013).

Since the introduction of the reforms, the government's priority has changed from self-sufficiency in food production and consumption to production for export. The contribution of the agricultural and allied sectors to GDP has been steadily declining, and was only around 14% in 2016; the annual growth of the agriculture sector has been considerably lower than other sectors. Moreover, the policy of financial liberalisation means less institutional credit is available to farmers, leaving them at the mercy of money lenders. As a result, the suicides rates amongst farmers have risen dramatically in recent years. Since early 1990s, the expansion of area under irrigation has not increased. The government has slashed subsidies, and extension services to the rural sector have weakened.

The impact of reform and the high growth rates is being debated among economists. Some in support of the reform argue that the liberalisation of external trade and investment was the reason behind the sharp rise in the growth (Bhagwati and Panagariya 2013), while critics accept the role played by the reform, but note the short nature of the growth process. They further emphasise that, due to the lopsided nature of growth, the benefits to some groups are greater than to others, and as a result income and wealth inequality has risen sharply (Dreze and Sen 2013).

3.4 Comparative Performance of Chinese and Indian Economies

It would be interesting at this stage to compare Chinese and Indian economic performances and structural changes of the past decades. Figure 3.1 shows their annual growth rates between 1997 and 2019∗; China's growth rates are clearly higher than those of India. Growth rates in both economies feel sharply after the 2007 global financial crisis. In 2015, the growth rates of both economies were similar; since then, India's growth has been slightly higher, as shown in Fig. 3.1. Table 3.1 indicates the structural changes that have occurred in the Chinese and Indian economies between 1990 and 2010. We find that the 1990s agricultural sector's share for China as a percentage of GDP was 27.1%, while India's was 29.3%, which had declined to 10.1% and 19%, respectively, by 2010.

Conversely, industry's share of GDP rose for China from 41.3% in 1990 to 46.8% in 2010, while India's slightly declined from 26.9 to 26.3% for the same period. In terms of services, India showed stronger performance in comparison to China i.e., 43.8–54.7%, while China's was 31.5–43.1% for 1990–2010. India has a quite efficient and viable service sector, as indicated in Table 3.1.

Figure 3.2 indicates that China is the second highest manufacturing country, and between 2000 and 2012 rose sharply, while India, with its almost identical

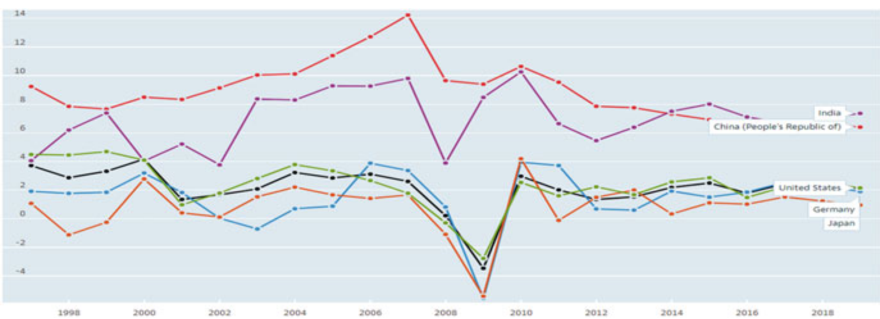

Fig. 3.1 Real GDP forecast total, annual growth rate (%), 1997–2019∗ (∗forecast). Source: OECD, 2018. https://data.oecd.org/gdp/real-gdp-forecast.htm#indicator-chart (accessed November 12, 2018)

Table 3.1 Structure of the economy (% of GDP)

	India			China		
	1990	2000	2010	1990	2000	2010
Agriculture	29.30	23.40	19.00	27.10	15.10	10.10
Industry	26.90	26.20	26.30	41.30	45.90	46.80
Manufacturing	16.70	16.70	14.20	32.70	32.10	29.60
Services	43.80	50.50	54.70	31.50	39.00	43.10

Source: World Bank (2012)
Note: The definition of manufacturing in the World Bank data set corresponds to standard international trade classification (SITCs revision 3) 5, 6, 7 and 8

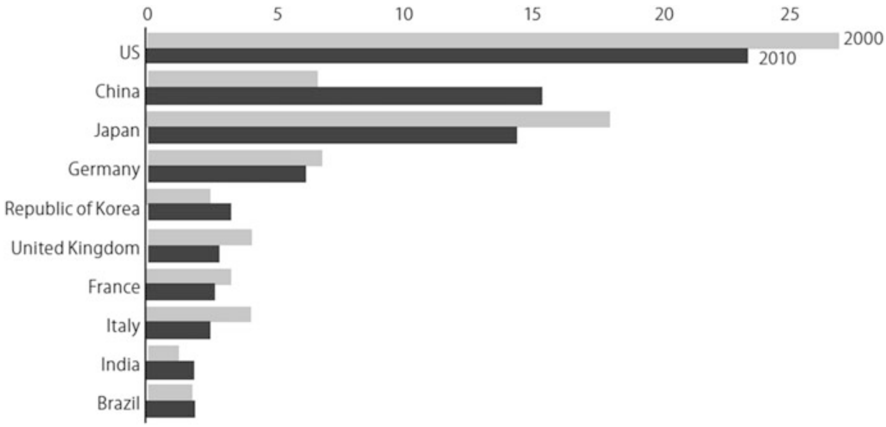

Fig. 3.2 World's top manufacturing nations in 2000 and 2012. Source: UNIDO's International Yearbook of Industrial Statistics, 2014

population and despite some modest improvement over the same period, is still at the bottom of the world's top manufactory countries, just above Brazil. For other important indicators, such as average cereal yields in 2014, India had almost half the cereal yield per hectare as China, as shown in Fig. 3.3. This is important for a developing country like India, because the agricultural sector employment consists of more than half the total work.

Figures 3.4 and 3.5 show annual growth of goods and services of exports and imports as a percentage of GDP; China's export growth was higher than India.

In the 1980s and 1990s a number of measures were undertaken by both countries towards pro-market reforms, including trade liberalisation and export promotions. However, in the Indian case, imports rose much higher than exports, and further not all countries experienced similar growth in international trade. As shown in Fig. 3.4, between 1990 and 2016, China's exports in goods and services as a percentage of GDP rose sharply, while India's exports rose at lower rate for the same period. The annual growth of imports for both countries rose from 2001 to 2005, but between 2005 and 2012, India's imports growth rates were higher than China's (see Fig. 3.5).

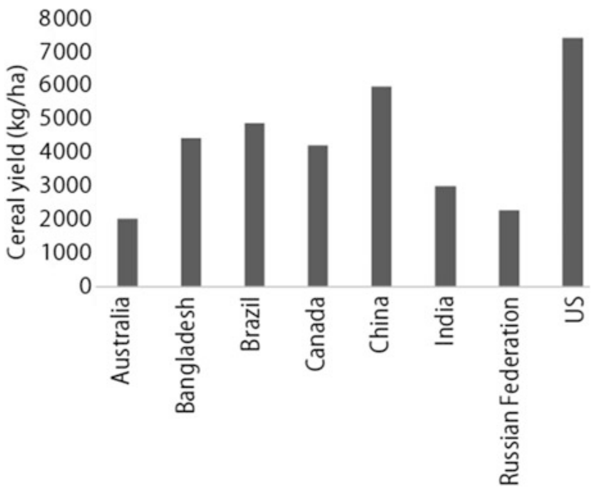

Fig. 3.3 Average cereal yields in selected countries, 2014. Source: Economic Survey, Government of India, New Delhi, cited in Nagaraj (2015, p. 66)

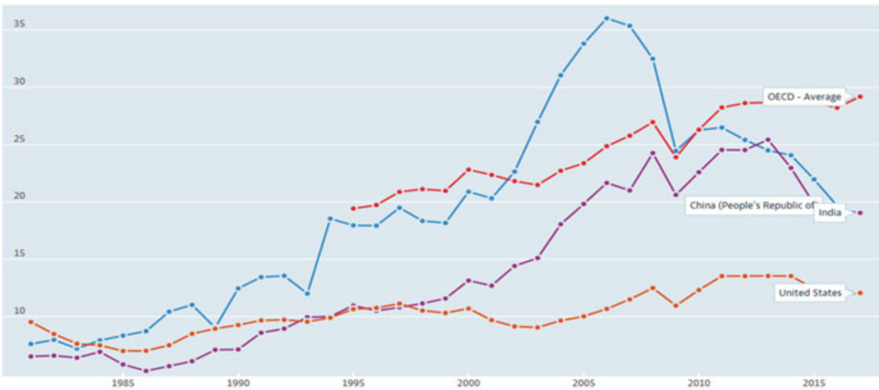

Fig. 3.4 Trade in goods and services, exports, % of GDP, 1981–2017. Source: https://data.oecd.org/trade/trade-in-goods-and-services.htm#indicator-chart (accessed on 18 December 2018)

The maximum recorded share of Indian manufacturing value added in GDP has never been more than 19%. This is in sharp contrast to other developing economies, such as Brazil where this peaked above 34%, in China at 40%, and 31% in Malaysia in 2015. The other important macroeconomic element is in terms of employment in the industrial sector relative to total employment. Here, too, India did not perform better; for instance, the proportion of industrial employment to total employment was 25% in India, 30% in China, and 34% in Malaysia in 2015.

In recent decades China has adopted similar strategic industrial polices, to post-war period Japan and, shortly afterwards, South Korea, who adopted it with the intention of transforming their fragmented industrial sectors into giants who could

Fig. 3.5 Trade in goods and services forecast imports, annual growth rate (%), 1990–2018. Source: https://data.oecd.org/trade/trade-in-goods-and-services.htm#indicator-chart (accessed 10 December, 2018). Note: US shown in green colour, India in blue, OECD in orange, China in red and Japan in violet. Source: OECD Economic Outlook: Statistics and Projections

ultimately become internationally competitive companies. For example, the Chinese government helped its steel sector to consolidate into large, competitive businesses. As Sun (2007: 601) notes: “Unlike the ‘shock therapy’ enforced in the former Soviet bloc, the Chinese state, whilst embracing the market economy, still plays a significant role in steering the general direction of industrial reform... Specifically, activist industrial policies have been adopted by the central government to nurture competitive big businesses in key strategic sectors, taking inspiration from the successful experiences of the East Asian developmental states, notably Japan and South Korea, in the 1960s and 1970s.... It is hoped that China can replay the ‘catch-up’ story by transforming indigenous large SOEs into globally powerful corporations”. Further, Sun (2007: 622) notes: “Despite similar ambitions and policy instruments, the different policy outcomes and performance derive from the inherent difference in the institutional configurations between East Asian developmental states and a transitional state characterised by ‘fragmented authoritarianism’...Thus, reform on the part of the state bureaucracy should take precedence over mere imitation at the policy level. . .Moreover, owing to pre-reform institutional legacies, variations in the fragmented and cross-cutting structure are significant within the Chinese manufacturing sector, which leads to a mixed performance in the state-orchestrated industrial restructuring”.

What caused the accelerated growth in India in the 1980s? This has provoked considerable debate amongst economists. Those in favour of market liberalisation argue that with the introduction of pro-market liberalisation in the early 1980s, and later in 1991 the adoption of a more comprehensive range of reforms, were primarily responsible for the accelerated growth in India (Panagariya 2008). The critics, however, have emphasised the role of the state in making it possible to achieve higher rates of growth (Kohli 2006; Evans 1995).

On the question of capital stock, during the pre-reform period the public sector was given the most capital-intensive projects, such as irrigation canals, dams, electricity, steel mills, and so on. This accounted for a growing share of the country’s capital stock. The public sector’s share in India’s domestic output has stagnated since the late 1980s. Its share in capital stock has declined since 1990, and employment has contracted by 10% since the mid-1990s (Nagaraj 2015). The public sector constituted 41% of the Indian economy's total capital stock in 1980. This rose to 53% in 1990, but began to fall in the 1990s and had ultimately declined to 30% by 2013 (Nagaraj 2015).

China exports more goods than imports and seems to be following a mercantilist policy of accumulation of wealth in the form of foreign reserves. For instance, in 2016, China recorded a trade surplus of US$361 billion and a current account surplus of US$390 billion. India, however, recorded a merchandise trade deficit of US$92.4 billion. If we take the net surplus from services export into account, then the deficit is still US$76.4 billion. China's share of world exports of goods and services rose from just 1.4% in 1978 to 8.5% in 2006. By contrast, India's share rose from 0.4% to just 1.1% of the world's export over the same period. China's success in the export sectors in global high-tech is impressive, and is greater than its output with its share in global high-tech exports of manufacturing products which rose from 6% to 20% between 1985 and 2008 (Chandrasekhar 2013).

The critics claim that considering recent rapid growth in India, it is perhaps too optimistic to conclude that India can become alternative growth for the global economy. Ghosh (2013) argues that rapid growth in India has been based on a relatively weak pattern of external dependency which may sustain over the short term, but would be difficult for longer periods. The economic boom, it seems, was due to the financial deregulation of capital and trade, which led to the rise in capital inflows that sparked a retail credit boom, which has encouraged consumption among the rich; however, this boom is not backed by steady expansion of employment and improvement in living conditions for the majority of people in India. Further, it has not led to any improvement in basic social and human development indicators. For instance, the agrarian crisis has deepened and resulted in an increased number of farmers' suicides, and social and political instability are already emerging as constraints to such patterns of growth.

Under the WTO, further adoption of trade liberalisation led to the removal of restrictions on exports for certain agricultural goods, particularly from rice and wheat; import tariffs were also removed from a number of agricultural commodities. India signing the WTO raised hopes that farmers would benefit from access to global markets. India agreed to zero tariffs for a wide range of crops. However, global uncertainties in prices and the nature of competition were ignored. Indian farmers operated in highly uncertain and volatile global markets, competing against highly subsidised and capital-intensive agribusiness in developed countries. When the global prices fell between 1996 and 2002, the adverse impact of imports were realised, and India was forced to renegotiate with the WTO (Siddiqui 2016b).

India's net invisible trade to GDP ratio rose significantly from 2001 onwards which included the rise in services export, largely due to software exports coupled with substantial net private transfer in the form of remittances. India's rapid economic growth is largely based on services. Since 1986, India has witnessed a rapid increase in its IT industry, and exports from this sector has risen sharply, accounts for more than 50% share of the GDP by 2015, and is presently 12% higher than China. Accordingly, the current account balance remained positive from 2001 to 2004, showing that external markets have helped stimulated growth during this period, with GDP growth rising from 4% in 2002 to above 6% in 2015 (Siddiqui 2019).

While the 2000s boom in India may have been initiated by trade liberalisation and exports, it was further boosted by private investment financed by increased credit flow. Such credit-financed investments, particularly in the infrastructure sector, played an important role in creating boosting economic activity, especially in the aftermath of the 2008 global financial crisis. Such a growth policy proved unsustainable when the expansionary phase came to an end in 2012, and bad loans began to pile up and became a concern for global finance. As Rajan, the RBI's ex-governor, pointed out, there are beneficiaries and victims of "riskless capitalism". "The bank's debt becomes junior debt and the promoter's equity becomes super equity. The promoters enjoy riskless capitalism—even in these times of very slow growth, how many large promoters have lost their homes or have had to curb their lifestyles despite offering personal guarantees to lenders?... Who pays for this one way bet large promoters enjoy? Clearly, the hard-working savers and taxpayers of this country! As just one measure, the total write-off loans made by the commercial banks in the last 5 years is 161,018 crore [Rupees], which is 1.27% of GDP" (Rajan 2014).

On the issue of debts, India's total public debt is far greater i.e., 68% of GDP, while China's is 26% of GDP, meaning China, due to its lower percentage of debts, has greater room for economic maundering in policy than India. China's rising internal debt, especially that of corporations, provinces and municipalities, is said to be unsustainable, having nearly doubled over the past decades and currently amounting to an estimated 280% of GDP. Such levels would be alarming for any developing country, but in the Chinese case, much of the internal debts is held by public sector banks and can be refinanced by the Chinese government.

3.5 Industrialisation and Structural Change

Here, the importance of the industrialisation is re-emphasised on the basis of the Kaldor model (1967). For the developing economies with persistent of high unemployment such as India and China, industrialisation is of particular importance both in terms of raising productivity and employment generation. The 'Turnpike Theorem' holds that the highest rate of economic growth in a closed economy can be achieved in the long term by concentrating resources, beginning by working towards the removal of that bottleneck (Dobb 1967). This strategy is also pursued to achieve self-reliance, removing the need to be reliant on world markets. Following such a strategy in India was based on two assumptions: it was assumed that export prospects for India in the 1950s was limited; and that a self-reliant economy could be built via the manufacturing sector. As Prabhat Patnaik (2015: 3) notes: "the strategy [Nehru's economic strategy] as emphasising the development of basic and heavy industries as a necessary step for accelerating economic growth, in a situation where the economy's export prospects are bleak. The rationale of the strategy is simple: the growth rate of an economy with a set of interdependent sectors is constrained ultimately by that sector which constitutes a bottleneck. Raising the growth rate for the economy as a whole therefore requires directing initially the bulk of the resources towards the removal of this bottleneck...which in India's case was identified as the basic and heavy industry (or the 'machine making sector'), becomes a matter of priority for lifting the constraint on overall growth".

However, mainstream economists and the World Bank criticised India for ignoring the then prevalent export options. They argued that the real constraint on economic growth regarding exports was not due to the demand side but rather the supply side, mainly due to the government's inward-looking policy; whereas East Asian economies linked successfully with global markets, India singularly failed in this regard (Bhagwati and Desai 1970). Such arguments, however, ignore the in fact that India followed such a policy during the colonial period. The outcome was not only that it experienced stagnation in per capita income, and was exacerbated by the occurrence of famines. India was drawn into an international division of labour by being subject to British colonial and metropolitan control. Its production was dominated by agriculture and agro-based industries, as were its exports. Under such circumstances, increasing agro-based export would have meant diverting more land from food grains to cash crops, as no additional investment was available to increase yields, thus jeopardising food security.

During the post-independent period, India has been unsuccessful in economic diversification, i.e., shifting labour away from agriculture in terms of value added and employment in favour of manufacturing and modernisation, as emphasised by Simon Kuznets. Kuznets proposed a different concept of development which, according to him, was a single unique historical phenomenon—gradual and cumulative diffusion of industrial capitalism from its birthplace in England to the rest of the world (Kuznets 1973). Therefore, development comprised more than mere higher growth rates; it involved a much wider set of process of structural change, i.e., agricultural transition, industrialisation, economic diversification and structural change (Kuznets 1973). W. Arthur Lewis (1978) put forward an explanation that implies the division of the world into industrial and agriculture countries. According to Lewis, the problem lies with the backward agricultural sector. To address this problem, these countries need to raise labour productivity in food, ultimately raising wages, improving terms of trade, expanding their markets for industrial goods and assisting the process of industrialisation. Lewis' model shows logical inconsistencies, however, and ignores the role of international and political forces. The flaws are obvious, as Lewis ignores the connection between colonialism and deindustrialisation and the building-up of a new international division of labour. Similarly, Rostow attempted to explain the factors behind successful industrialisation in England and other West European countries soon thereafter, which is known as Rostow's (1978) stages-of-growth theory. Gerschenkron (1962) criticised Rostow's model and has argued that the late-industrialising countries such as France and Germany in the nineteenth century had to 'invent' different paths to industrialisation by establishing investment banks to substitute for primitive accumulation. Moreover, in countries like Russia and Japan this task was given to the state itself (Maddison 2007). It seems clear that both Lewis and Rostow underlying motive was one of absolving the major European powers of their responsibility for mass poverty, famines and underdevelopment in their colonies.

Alice Amsden (2001) attempted to apply the Gerschenkron framework to the East Asian experience. As she emphasises: "The later a country industrialises in chronological history, the greater the economic interventions of its government" (Amsden 2001: 284). She argued that late industrialisation required greater state intervention, but intervention of a different kind. In the case of China, for example, Mathews (2016: 621) notes: "…the use of exports as a performance standard in Korean and Taiwanese industrialization, whereby government support for firms entering new industries … had to be validated through the firms achieving designated export performance target: failure to meet the targets would lead withdrawal of the favoured status. This proved to be a powerful means of disciplining both sides on relationship, involving government and firms".

The role of institutional factors in successful industrialisation is clearly found in the recent examples of China and South Korea. No matter how much such an approach seems logical and convincing, mainstream economists are against it (Ahluwalia 2002). The success of East Asian economies has little to do with neo-classical orthodoxy. The prescriptions of the World Bank and IMF (also known as Washington Consensus) are against pursuing an active role of industrial policy and development towards the industrialisation of developing countries. In 1997, the East Asian financial crisis did not affect China, as the country ignored the 'Washington Consensus' and maintained state controls over its exchange rate (Siddiqui and Armstrong 2017), and helped to expand industrial sector exports based on labour-intensive manufactured goods, while steadily driving the restructuring and upgrading of industries with developmental state institutions as Japan, South Korea, Taiwan and Singapore undertook some decades ago. When China joined the WTO in 2001, its economy really took off (Siddiqui 2015b).

Adam Szirmai (2012) analysed the data from 67 developing countries regarding the growth of manufacturing from 1950 to 2005. He found that despite the statistical ambiguity regarding the manufacturing sectors' contribution to overall economic growth, there is strong theoretical and historical evidence in favour of the hypothesis for industrialisation. Maddison (2007) argued that the emergence of modern manufacturing led to dramatic changes in the structure of the world economy, and furthermore contributed to sustained increases in growth of labour productivity and economic development. Historically, manufacturing became the main engine of accelerating growth in the twentieth century. The late-industrialised countries like Germany, Russia and Japan saw the role of state policy and large financial conglomerates as being more crucial than the early industrialised countries such as Britain. Financial institutions and government undertook this role and invested directly in industries and infrastructure, mobilising resources for investment and becoming active in promoting education and technology. Szirmai (2012: 407) notes: "[in the 19th century] industrial growth in the West created an increasing demand for primary products from developing countries. Technological advances in transport, infrastructure and communication expanded the opportunities for trade. Thus, the colonial division of labour came into being. Developing countries exported primary agricultural and mining products to the advance economies. Industrial economies exported their finished manufactured goods to the developing countries. Industrialisation became synonymous with wealth...political power and international dominance... Industrialisation was rightly seen as the main engine of growth and development."

Erik Reinert (2007: 99), for example, also emphasises the importance of industrialisation states that "in the late 1600s, Ireland—a British colony—was about to take lead in the most important industry of the time, the production of woollen cloth. A flow of skilled Catholic immigrants from the continent had contributed to this development. English producers of woollen cloth—who in their turn were fighting a winning battle with the wool industry of Florence—could not afford to lose her comparative edge to the Irish. They successfully petitioned the English King at prohibit all exports of woollen cloth from Ireland from 1699. . .killing the manufacturing sector and forcing the Irish to send their raw wool to England was tantamount to reducing the country to poverty". As, in 1776, America's fight for independence was as colonial occupiers have always done, meaning that England had prohibited the build-up if manufacturing industries in the American colonies. The prohibition of manufacturing industries, i.e., whether explicit or de facto, is the key element in any colonial and neo-colonial policy (Gerschenkron 1962).

With few exceptions, developing countries were bypassed by industrialisation in the nineteenth and early twentieth centuries. India and China saw some limited development of modern industries in the first-half of the twentieth century, particularly after the First World War. In fact, industrialisation was launched only once they became independent. In the 1950s, large proportions of most developing countries exports consisted of primary commodities, while more successful developing countries were those who had been able to industrialise (Siddiqui 2015c). Dani Rodrik (1997) also finds that rapid growth is associated with transfer of resources from agriculture to manufacturing. For instance, in 1950, 41% of developing countries had a disproportionate dependence on the agriculture sector; this sharply declined to 16% in 2005. Increasingly, manufacturing is seen as an engine of growth. There is an empirical correlation between the degree of industrialisation and per capita income in developing countries. Productivity is higher in the manufacturing than the agriculture sector. There is a strong linkage and spill-over effects towards manufacturing than agriculture (Rodrik 1997).

The importance of manufacturing was also explained by Serra (1613): "In manufacturing activities it is possible to achieve a multiplication of products, and therefore in earnings. The same cannot be done with agriculture produce, which is not subject to multiplication. If a given piece of land is only large enough to sow a hundred tomoli of wheat, it is impossible to sow hundred and fifty there. In manufacturing, by contrast, production can be multiplied not merely twofold but a hundredfold, and at a proportionately lower cost" (Serra cited in Reinert 2016: 50).

In China, economic reform was introduced with the aim of promoting industrialisation, to diversify its economy and to improve living conditions. As

Wen Zhou (2014: 456) notes: "Chinese economic development has experienced a process of enhancing domestic manufacturing industry and accordingly the general industrialization of the economy by considerably expanding investment demand (by domestic investment and foreign direct investment (FDI) entry and export demand (with huge trade surplus). The developing mode adjusts to the global shifting trend of international industry (especially of manufacturing industry) and domestic conditions. McKinsey & Company claims that the development of manufacturing industry has made Chinese mainland a "world factory" within a short period of 20 years, and China has found a sustainable developing pattern for manufacturing industry".

Foreign capital inflows provide additional money for investments and increase foreign exchange to import goods, including new technology, which are seen as critical to higher growth rates. Capital inflows can also boost economic growth and structural transformation due to technological spill-overs, linkages and competition. However, optimists ignore the effects of various types of foreign capital inflows. For example, mergers and acquisitions (M&A) do not add new capacities and focus on market powers, whereas greenfield investments tend to be more beneficial. Capital inflows in capital intensive sectors have little beneficial effect on employment, whereas TRIPs may possibly impede transfer of technology to developing countries.

From the early 1980s, China has followed an export-oriented policy, but under strict government oversight. The government set strict requirements on foreign investors regarding local content, foreign exchange earnings and joint ventures. Such policies were only relaxed in 2001 after China joined the WTO. In China, nearly 80% of foreign capital inflows involve Greenfield investments, mostly in manufacturing, which constitutes more than two-thirds of foreign capital investments in 2015. By contrast despite the rise of FDI in recent years, the Indian share in manufacturing declined from 48 to 29% between 2014 and 2016, a large proportion of which was in M&As.

The post-1991 Indian economic reforms have induced remarkably high growth rates in services, but very sluggish ones in the industrial and agricultural sectors. In 1950, nearly 60% of GDP came from agriculture, 15% from industry and 30% from the service sector. However, by 2012, the corresponding figures were 15.5%, 28.5% and 56%, respectively. In 2015, industry grew by 2.8%, while the service sector grew by 10.2%, so that the size of the industrial sector relative to services was in fact contracting. In China, by contrasts, the industrial sector accounted for 48.5% of GDP in 2010, whiles the services share of GDP was estimated to be 40%. In India, the key industrial and communication industries are dominated semi-monopolistic companies which continue to have close links to global financial capital.

The shift of labour from agriculture to the manufacturing and services sector has been slower in India than China. In fact, in 1980 the agricultural share of employment in China and India were identical at 68%, but by 2000 the Chinese share had declined to 50%, while in India it remained at 59.3%. Despite rapid growth in services, employment creation was too slow, and total employment rose from 20% in 1983 to 29% in 2005, while the manufacturing share of total employment has remained essentially identical (10.6% in 1983 to 11.7% in 2005).

However, despite more than quarter a century of reforms, a large proportion of the population has remained below the poverty line. According to official estimates in 2010, over 29.8% of India's population were living below the 'poverty line', while in China, with its far more spectacular economic growth, has managed a quite remarkable reduction in this regard. According to World Bank estimates, 65% of China's population lived below poverty line in 1981, compared to a mere 4% in 2010 (World Bank 2017).

The relationship between economic growth and improvements in living conditions depends on a number of factors for instance social and economic inequalities, including provision to health, education and employment. To achieve such targets calls for significant changes in domestic spheres such as increased allocation of funds to education and health, large-scale creation of employment e and an inclusive development.

In 1980, the Chinese government sharply reduced the public medical care entitlement (which was administered by communes) and people were required to buy their own health insurance. However, the adverse impact on people was soon realised and, in 2004, public provision and right to medical care was introduced. As a result, China again maintains a higher proportion of people with guaranteed health care than India. It seems that public health coverage is central to this difference. China's adult literacy was 94%, compared to India's 74% in 2015. Government expenditure on health care in China is five times greater than India, with the Chinese government spending nearly 2% of GNP on health care compared to India's 1.1% (Yokokawa et al. 2013).

In the 1950, India's per capita income was 40% higher than China's, rising to 6% between 1980 and 2002, increasing further between 2003 and 2012 to 7% annually, while China's growth reached 10% per annum between 1980 and 2012 (Zhou 2014). China's economy rose from 11.1 to 17.6% between 2000 and 2010, while India's share of global GDP rose from 5.4 to 6.2% during the same period (Zhou 2014). Since 1980, China's GDP has accelerated, and by 2000 per capita income was double that of India.

India's pattern of structural change has been quite different over the past 35 years than other East Asian countries such as Japan, South Korea, Singapore, Taiwan and, more recently, China. These countries followed an export-oriented strategy, relying on labour-intensive industries with a policy of active government support in achieving the stated polices. These economies also integrated with global markets. The structural changes resulted in a shift of labour from the agricultural sector into manufacturing. India did not follow this route, despite its clear comparative advantage in labour-intensive industries such as clothing, textiles and footwear industries. In fact, these labour-intensive industries did not see any increase in employment between 1980 and 2000. In India, there has been dismal employment expansion in the exports sector, in contrast to the growth of highly skilled intensive export-oriented services, which shows a different pattern of structural change has taken place in India.

3.6 India, China and International Economy

China's worldwide share in GDP has increased sharply in recent decades, its proportion rising to 9.5% in 2010 from 5% in 2005. China replaced Japan as the world's second-largest economy for the first time in 2010. The gap between China and United States is also slowly being reduced (Zhou 2014).

At present, the Indian economy is only the tenth largest in the world, at a value of about US$1.7 trillion, while the Chinese economy is the second largest, valued at US $10 trillion (IMF 2017). China is economically nearly six times larger than India. India has a current account deficit of $22.6 billion, while China has a current account surplus of US$330.5 billion in 2016. In terms of industrial growth, India's industrial output growth is 2% and ranked 15th out of 42 countries, while China's industrial growth rate is 5.4%, and ranked 7th. India's increased global integration can be seen from the fact of its trade with the US quadrupling over the last 15 years to US$100 billion, and with China rising from merely US$3 billion in 2000 to more than US $100 billion in 2015 (Siddiqui 2016a).

The question arises as to what prospects and challenges the current industrialisation process in India and China will generate? And how will this impact the international economy? Chandrasekhar (2013) emphasises that China has increased exports of high technology manufacturing and India has increased in exports of software and IT services. The recent expansion of these sectors has created the impression that 'knowledge capital' played a crucial role in enhancing the global presence of both countries. In contrast to some perceptions, Chandrasekhar emphasises that this is necessary between the generation and control of knowledge and the production of goods and services. He stresses that a new international division of labour is emerging where knowledge is controlled by companies based in developed countries, while production is carried out in knowledge-based industries in developing countries like India and China.

The acceleration of India's growth since 2003 also coincided with the global economic boom and India's share in the world merchandise and services exports rose from 0.6% in 1999 to 1% to 2003. The merchandise exports-GDP ratio, which grew on average from 4.4% in the 1980s to 7.6% in the 1990s, rose further to 9.3% in 2001 and 15% in 2009. It seems that export stimulated the economic boom in the 2000s. Moreover, imports have grown at an even faster rate, from an average of 9% in the 1990s to 10.6% in 2001, and 24.4% in 2009. The merchandise trade deficit, which stayed positive through the 1980s and 1990s, rose massively in the 2000s, reaching 9.5% of GDP in 2009. Rowthorn (2013: 12) argues that, "In the case of India, at least, the export ratio is likely to increase for a time, but in neither country is this ratio likely to reach anything like the level of a small, open economy such as Korea, whose exports of goods and services made up 53% of GDP in 2008. In the long run, the trade ratios of China and India should eventually converge to levels similar to those observed in other very large economies, such as the United States and the European Union. If we exclude internal trade within the European Union, total exports of goods and services in these economies are around 12–15% of GDP".

There is no doubt that high tech production and exports of ‘knowledge capital’ from the manufacturing sector and India’s IT services have risen rapidly, and these high-value items could play a crucial role in the growing presence of these countries. However, there are significant differences in their economies; not only has China seen a much higher growth rate than India, but its export success has been more pronounced. In 1978, when China launched its reform, the ratio of exports of goods and services were almost identical for India and China at 6.5%. Thereafter, for China, this rose to 40% in 2007, but only 21% for India. Also, it is crucial to note that the Chinese increase was largely driven by manufacturing exports, while India’s was largely due to services (Chandrasekhar 2013).

Within manufacturing, five industries are seen as high-tech, namely aerospace, communications, computers and office machinery, pharmaceuticals, and scientific instruments; since 2000, China has recorded an increase in value in all these industries (Siddiqui 2009b). Whilst it is still not a global major producer and exporter in these areas, the remarkable thing is that the Chinese share has increased in these important areas. If we examine this more closely, the share of exports in high-tech manufacturing, we do not find India to be a major contributor in this area. As Chandrasekhar (2013: 68) noted: “the 23-year period from 1985 to 2007, the combined share of China’s and Hong Kong’s high-tech manufacturing industries in global value added in the high-technology manufacturing sectors fluctuated between 2.3 and 3.4% over the period 1985–99 and subsequently shot up to 13.7% by 2007... On the other hand, over the 23-year period as a whole, India’s share in the global high-technology manufacturing value added stagnated at below 0.4 of a percentage point up to 2001 and then rose marginally to 0.66% by 2007”.

3.7 Conclusion

In the case of both China and India, there is various evidence to indicate that growth is dependent on unsustainable credit boom, which makes both these countries financially vulnerable and makes growth difficult to sustain. In India, the banks began providing credit to retail sectors such as mortgages for housing, automobile, infrastructure projects, and also the corporate sector. In China, according to the Financial Times (April 24, 2017): “China’s total debt rose to a record 237% of gross domestic product (GDP) in the first quarter, far above emerging-market counterparts, raising the risk of a financial crisis or a prolonged slowdown in growth”. Between 2007 and 2016, the debt-GDP ratio increased from 148% to 237%, which clearly shows how credit has been crucial to China bypassing the effects of the global financial crisis.

China witnessed enormous growth for nearly four decades, as based on an increase in domestic investment and also on the growth of exports. India, too, recorded a significant increase in the service sector, both in terms of output and exports. Growth in the post-reform period has been impressive compared to the lower growth rates of the pre-reform period (also known as the dirigiste regime).

However, the growth rates of both economies have slowed down remarkably in recent years. The study found China began economic reforms more than a decade earlier than India, when international relations were dominated by the Cold War; as a result, China was able to strike a better bargain in favour of their domestic businesses. China also had a better equipped administration and centralised party to take advantage of the western markets. India adopted economic reforms in 1991, when an increasing number of developing countries had joined a consequently increasingly competitive international market, and India's bureaucracy was far less enthusiastic and often confused as to what it could achieve from these pro-market reforms.

The neoliberal reforms of 1991 in India removed tariffs and barriers to foreign trade and investment. It reduced the role of the state and public sector, and dismantled controls, while increasing the role of the market and the private sector in the economy. As a result, foreign capital investment and foreign exchange reserves have improved. However, job expansion has not taken place and there has been no corresponding decline in the share of agricultural employment. Even the much heralded IT sector's dramatic expansion for the last two decades provided jobs directly to less than a million people. There has often been talk in recent years of making India a base for labour intensive manufacturing, as Chinese wages are rising. It would be misleading to think a large country like India could industrialise and modernise its economy with the existing unequal distribution of land and rural assets, with such low investment on education and health sector. This study has found that 25 years have passed since the neoliberal reforms were launched, but industrial growth has still not witnessed rapid expansion, especially in manufacturing areas. And it seems that neoliberal policies have failed to create jobs and thus improve the living conditions of significant proportion of the population, which will most likely impose ever greater constraints on the economic growth itself. Therefore, in India to combat these problems certainly requires effective government policy intervention, especially in areas such as education and health sectors, which could ultimately have very positive effects on industrial growth and productivity.

To conclude, India's rapid economic growth has been led by its services, which contributes nearly 60% of GDP, whereas manufacturing has been the driving force behind the success of the Chinese economy. There has been little increase in incomes and productivity for the people trapped in the agricultural and informal sectors, which continue to employ around 90% of India's entire workforce. Agricultural stagnation, poverty, and sectarian conflicts have caused social instability and political division, which may plague India in later years. In order to achieve sustainable growth in the future, India has to radically change the direction of its economic strategy towards a domestic wage-led growth and employment creation, and also employment diversification to shift workers away from the low productivity agricultural sector to activities with higher productivity and value added in manufacturing.

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Chapter 4
China and India's Global Integration in the Process of Economic Development

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4.1 Introduction

In the last decade, economic growth in China has slowed down, to yearly rates little above 6%, about half compared to the higher growth rates of the past. Despite these, almost physiological, trends, China has really become an economic power in the world. The current "Belt and Road Initiative", involving infrastructure development and investments in more than 150 countries in three continents (Asia, Europe and Africa), is the proof of China's vitality and potential. In a few decades, China will be the first economic power in terms of per capita GDP in PPP; even the gap versus the Western economies in terms of well-being is gradually fading. Of course there are still many imbalances and risks, for instance in income distribution, financial conditions, environmental issues, etc., but the Chinese government seems ready to face them.

India commenced its liberalisation and rapid economic growth some years later than China. Its per capita GDP is less than half compared to China. However, in the most recent years its economic growth has surpassed the Chinese one. Intensive trade opening and FDI processes are going on. Of course India, similarly to China, has shown some deceleration in its global integration trends, especially after 2012. Imbalances and inequities are even more evident in Indian society and economy.

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Table 4.1 Chinese and Indian total GDP (in PPP) vs. United States (1870–2017)

	1870	1952	1973	1990	2008	2017
China	192.9	2.7	4.7	18.8	68.8	120.4
India	137.1	13.3	11.7	15.8	29.5	47.3
United States	100	100	100	100	100	100

Source: Conference Board (2018)

This chapter briefly reviews and discusses the distinctive features of economic development in India and China. Then it examines the different characteristics of their global integration into the world economy, by reviewing, first of all, the recent literature on the growth impact of trade openness (exports) and FDI. The degree of openness is analysed on the basis of the most recent data and specialisation is investigated through the computation of Balassa's indices. The geographical orientation of exports is also considered. A more specific analysis refers to the changing weight, over time, of internal demand vs. external demand, given the new policy strategies (clearer in the case of China) to rebalance aggregate demand in favour of the internal components. As for FDI, we focus on the increasing weight of both inflows and outflows.

Then, the chapter turns to the examination of the "ease of doing business", an essential element to attract foreign investors and maximize the potential benefits of global integration. The "business-friendly" environment of these two economies will be assessed by analyzing different variables of business regulation, such as: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts, resolving insolvency and labor market regulations.

The structure of this Chapter is as follows. Section 4.2 presents a general discussion on the distinctive features of economic development in China and India. Section 4.3 reviews recent literature on trade openness and FDI, focusing again on the two countries. An investigation on the key features of global integration of the two countries—trade opening (correlated to economic growth), role of exports in aggregate demand, FDI dynamics, export specialisation, geographical orientation—is provided in Sect. 4.4. Section 4.5 focuses on the "ease of doing business", focusing on specific variables and on the ranking of the two countries in the world, discussing also the recent economic reforms. Section 4.6 briefly concludes.

4.2 Economic Development in China and India

As well known (e.g. Valli 2015), until the second half of nineteenth century China and India were the first and the second economic powers according to total GDP (Table 4.1), but for almost a century they had a significant relative economic decline with respect to United States and several other countries. More recently, China, from 1978 onwards, and India, from 1992 onwards, have begun a long phase of very rapid

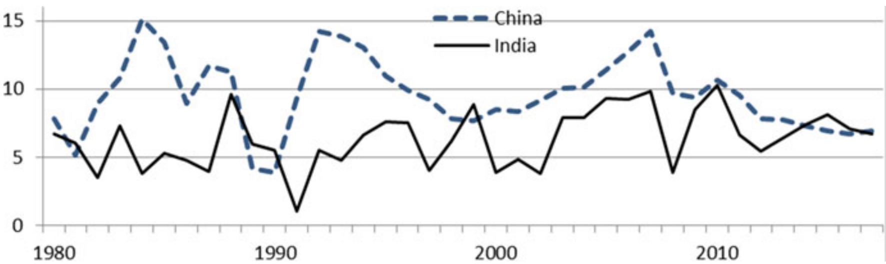

Fig. 4.1 China and India: GDP growth % rate (1980–2017). Source: Elaborations on World Bank (WDI) data

economic growth and today China is again the first world economy in terms of total GDP (at ppp).

As for China, since 1978 Deng Xiaoping proposed or allowed several important economic reforms, first concerning mainly agriculture and the rural areas, and only afterwards industry and the services. As analysed by Valli (2015), the economic reforms concerned several levels: (1) restructuring of state-owned enterprises, (2) promoting rapid growth of township and village enterprises, and then also of private businesses, (3) gradual liberalisation of the markets for various goods and services, (4) enhancement of domestic and international competition, (5) gradual liberalization of access to international trade, (6) establishment of special economic zones with a view to attracting foreign capital and technology. As well known, the great change in the Chinese economy after 1978 was the opening of its doors to international trade.

The history of India was quite different, also in the last decades. During the 1966–1984 period, for many years under the premiership of Indira Gandhi, there was a slight acceleration in the rate of growth that went up in the following period 1984–1991, when Rajiv Gandhi came to power. He switched to a more liberal economic policy, launching measures aimed at favouring the expansion of the software industry and reducing both the State intervention and the protectionist barriers. Since the early 1990s, several governments amplified the liberal economic policy both internally and externally, fostering a significant acceleration of economic growth. India entered WTO in 1995 followed by China in 2001.

In the last four decades, as showed in Fig. 4.1, GDP growth has been particularly high in both countries, especially in China.

It should be noted that, notwithstanding the extremely high GDP growth rates of the last decades, per capita GDP levels in both countries are still much lower than US, 28.5 and 12.1% respectively in China and India in 2017 (Table 4.2).

Regarding more recent decades, several authors realised comparative analyses of the key features of both the Chinese and Indian expansion and economic growth. First of all, Valli (2015) adopted a complex and complete long-run historical perspective, and also included the dynamics in the first years after the US financial crisis and the Great Recession. Basu (2009) compared the economic performance of China and India during the period of their ongoing reform policies by using a new

Table 4.2 China and India: Per capita GDP level (in PPP) vs. United States (1870–2017)

	1870	1950	1973	1990	2017
China	21.7	2.6	2.8	4.6	28.5
India	21.8	4.4	3.5	3.8	12.1
United States	100	100	100	100	100

Source: Conference Board (2018)

measure (development quality index); the results show that national-level development quality grew three times faster in China than in India; conversely, the health quality index grew three times as fast in India than China over the period 1980–2004, narrowing the gap in outcomes; the overall regional development quality level improved in both countries, but polarization widened in China. Holscher et al. (2010) presented the key structural features of the economic growth in China and India with a specific focus on their integration into the global economy and an emphasis on the reforms leading to the "opening" of the two economies. Valli and Saccone (2009, 2015) showed the structural changes and economic developments of the two giants in the context of growing globalisation: high level of export, import and FDI have been related not only to higher rates of economic growth, but also to a deeper reallocation of resources across sectors, modifying the comparative advantage and reorganizing the production. Bensidoun et al. (2009) showed how China and India have successfully integrated into the world economy; in particular, they argue that, once specialised in textiles, they have developed new export-oriented sectors linked to the information and communication technology, taking advantage of the globalisation process which has enlarged access to new technology, capital and markets. They have followed different paths of specialisation: China was heavily involved in the international segmentation of production processes in manufacturing, which is not the case of India. However, the global crisis has made clear that their long term growth will depend on their ability to build on their large domestic markets. Marelli and Signorelli (2011) estimated the causal relationship between economic growth and trade/openness, with the addition of some control variables (such as the gross fixed capital formation), and they found that the effects of Openness and FDI are positive and robust.

In more recent years, several books and articles focused, also from an interdisciplinary perspective, on the new development features and challenges, often considering a single country perspective, sometimes including it in a global perspective.

As for China, Beretta et al. (2017) adopted a multidisciplinary approach and analysed numerous areas and aspects of Chinese domestic and external politics and policies, the economy, society and culture, and also Chinese literature and history. Hong (2016) highlighted how China is now facing the challenge of switching the drivers of its economic growth; the author addressed the challenges involved in the transition and reform process and, in particular, discussed how to promote more consumer-driven Chinese economic development. Hu et al. (2014) provided predictions up to 2030 regarding the future major developments and trends of both China and the world in general from a historical and worldwide perspective. Liu and Jiang (2018) presented a new theory of economic growth and calculation methodology ("synergy theory") and, in particular, showed empirical comparative evidence on economic growth between China and 14 developed countries. Caporale et al. (2015) showed that the significant change in China's trading structure is associated with the fast growth of foreign trade; in particular, there has been a shift from resource- and labour-intensive to capital- and technology-intensive exports. In other terms, most recently China has also developed a comparative advantage in capital-intensive sectors such as office machines and telecommunications and sound recording equipment; massive technology transfer through intermediate goods has contributed significantly to the improvement in China's manufactured exports; the technological upgrading has led to highly internationalised and competitive industries (including the electrical machinery sector) being able to sell their value added exports to the developed economies. Finally, the authors showed that a convergence in the commodity compositions of exports and imports and the increase in trade in machinery parts and components indicate that intra-industry trade has become much more important in the most recent years; on the whole, there is evidence of both static and dynamic benefits of trade fostering Chinese economic growth.

As for India, Nayak (2015) presented an interesting collection of some of the key publications on Indian development, also considering issues such as the agriculture versus industry debate and the relative roles of the public and private sectors. Banerjee (2012) analysed key issues of economic development in India, especially focusing on international trade, technology, access to food, inequality and poverty. Mamgain (2019) examined the high growth trajectory in India with a particular focus on increasing inequality; the book suggested strategies for promoting high and sustainable economic growth, and highlighted the importance of broadening social inclusiveness through greater and more rapid access to economic and social opportunities, as well as building strong social safety nets to protect the chronically poor and mitigate their risks and vulnerabilities with the help of good governance and institutions. Sengupta (2005) examined the policies for accelerating India's economic growth, especially emphasizing the dynamic role of information technology and the New Economy. Mishra et al. (2018) highlighted the key features of Indian economy and finance, also considering a number of different aspects such as: inflation dynamics, information transmission, leverage effect and volatility asymmetry, structural change and economic growth and reforming tax systems. Dev and Babu (2016) also examined various aspects of the Indian development process, including poverty, caste networks, corruption, distribution, trade and information technology. De et al. (2017) investigated the complex interplay among development, inequality and poverty in relation to corruption, environmental resource management, agricultural adjustment to climate change and institutional arrangements, with a special focus on the North-eastern region of India, also highlighting the policy implications.

Kar and Sen (2016) provided an original perspective on the determinants of growth episodes in post-independence India, based on its political economy; in particular, they distinguished the following four periods: (1) from the 1950s to 1992, characterized by economic stagnation, with a nascent recovery in the eighties;

(2) from 1993 to 2001, witnessed the first growth acceleration in the economy; (3) a second acceleration ran from 2002 to 2010; (4) the fourth and final episode started with the slowdown after the global financial crisis. Finally, Tsujita (2014) highlighted how high economic growth is accompanied by social stratification and widening economic disparity between states; in particular, the book showed some important aspects of underdevelopment and the process by which the underclass is left behind by focusing on the Indian's most neglected regions.

As for the studies analysing jointly the two countries, we can mention—in addition to Valli (2015) and Valli and Saccone (2009, 2015)—that Holscher et al. (2010) focused on long-run developments and the key economic reforms; Marelli and Signorelli (2011) concentrated—as already specified—on their trade opening. Ghosh et al. (2009) not only added to the analysis more issues—such as education and infrastructure together with a deeper consideration of the opening process (focusing in particular on the relations with the EU)—but extended the comparison to all the BRICs.

To conclude this section, it should be highlighted—following also Davidson (2019)—that China isn't the only Asian country challenging the U.S. status as the world's largest economy. In fact, near 2030, the U.S. will probably fall to the third place, behind China and India, in a ranking of the leading global economies, according to a recent report realised by London-based Standard Chartered Bank; the study measures gross domestic product after adjusting for lower consumer prices and a lower standard of living in emerging markets. By that measure, known as purchasing power parity, China surpassed the U.S. as the world's biggest economy in 2014, according to the International Monetary Fund, and the IMF also predicts that China could overtake the U.S. even in terms of nominal GDP by 2030.

4.3 A Review of Previous Studies on Trade Openness and FDI

Most empirical studies investigated the links between trade openness and economic growth, while more recent empirical research focused on the relations between FDI and growth. The general conclusion of empirical research is that the causal link between trade openness and economic growth is positive, significant and robust, only with some exceptions concerning the less developed countries. In fact, emerging countries are sometimes unable to exploit the benefits of technology spill over and so trade openness is not beneficial to growth.

The sign and significance of the growth impact of Trade depends, however, on the specific countries examined, on the period investigated, on the choice of dependent, explanatory and control variables, as well as on the econometric methods. For a more general review, regarding also the dependent and explanatory variables as well as the key empirical analysis, see Marelli and Signorelli (2011) and Choudhry et al. (2017). We focus here on the empirical literature regarding China and India alone.

Sometimes some original approaches can be found. For instance, Milner et al. (2007), assessing the effects of liberalizations and institutional change in India, employed some specific indices of trade openness, based on tariffs, non-tariff barriers, degree of effective protection, etc. Xu and Wang (2007), differently from most studies, where panel data or GMM estimation techniques are used, utilised for China a time-series approach, estimating a system of four equations. On the other hand, Sun and Parikh (2001) employed cross-sections based on sub-national data, i.e. China's provinces. Ramjerdi (2007) explained Chinese growth in terms of capital and technical progress; the effect of trade opening was examined indirectly, by splitting the period into two sub-periods (before and after 1978, when the "open door" policy started). The studies on the Trade-Growth relation in case of India are fewer. However, Mercan et al. (2013) confirmed, for a group of five countries (BRIC plus Turkey) in the period 1989–2010, the positive and significant effect of opening on economic growth.

Turning now to the growth impact of FDI, the common belief suggests that FDI contributes to economic growth in developing countries through direct and indirect channels. In fact, FDI is not only a major source of technology and know-how (in particular multinational firms sustain through FDI the international knowledge diffusion) but also a key foreign financing source. The key channels of the positive impact of FDI on economic growth are, in general, the following: capital accumulation, technology transfer, know-how acquisition, innovative capacity and, ultimately, economic growth. FDI can promote economic development of the host country, also by favouring exports of the country (UNCTAD 2002). The control variables are of the utmost importance: in some studies, FDI reveals a stronger growth impact in countries with a higher level of education attainment or some other positive features of the economic environment.

Nevertheless, the empirical outcomes of research on FDI are rather mixed. Once more, emerging economies provide less certain evidence on the positive growth impact of FDI. A study considering the effects of both trade openness and FDI was made by Liu et al. (2002) in case of China. Yao (2006) argued—still in the case of China and consistently with the common belief—that FDI not only increases the supply of capital but it can also buttress technology transfer. Tang et al. (2008), analyzing data for China from 1988 to 2003 and using an integration (Granger causality) analysis, found causality running from FDI to GDP. Narayanamoorthy et al. (2009) also found, in a study concerning the BRICS, that FDI leads growth uni-directionally for both India and China.

Chakraborty and Nunnenkamp (2008) investigated the relationship between FDI and economic growth in India, by using industry-specific FDI and output data; the results confirmed the general view that economic reforms since 1991 attracted FDI into the country to foster growth. However, growth effects of FDI vary widely across sectors: while in the manufacturing sector the relationship is strong, the casual relationship is absent in the primary sector; moreover, FDI in the services promotes growth in the manufacturing sector through cross-sector spillovers.

A different outcome was obtained by Yalta (2013), who investigated the casual relationship between FDI and GDP for China in 1982–2008, both in bivariate and a multivariate framework, and found that a statistically significant relationship between FDI and GDP does not exist. Also some previous studies for India failed to find a significant positive growth impact of FDI (e.g., Agrawal 2005; Pradhan 2002). Another interesting study devoted to India, worth to be mentioned, is the one by Sahoo and Mathiyazhagan (2008).

4.4 Global Integration: Similarities and Differences Between the Two Countries

Globalization has characterised world economic developments, at least in the last half century. Emerging economies have been the key drivers of this process as well as the main beneficiaries. In economic literature, there has been a large debate on whether trade opening has been a chief cause of economic growth. While most empirical studies confirm the positive correlation between the two phenomena, there is great variation in the estimated intensity of effects as well as in the additional role played by other factors (capital accumulation, technical progress, human capital, etc.).

In the case of China and India, we just want to examine how the nexus between the two phenomena—trade opening and economic growth—has evolved over time. We don't want to obtain a precise estimation of the long-run relationship (also because trade opening can impact on economic growth with long lags), but rather to provide a description of the trends. Figure 4.2 shows, for China in the period 1980–2017, the correspondence between GDP per capita growth and Trade

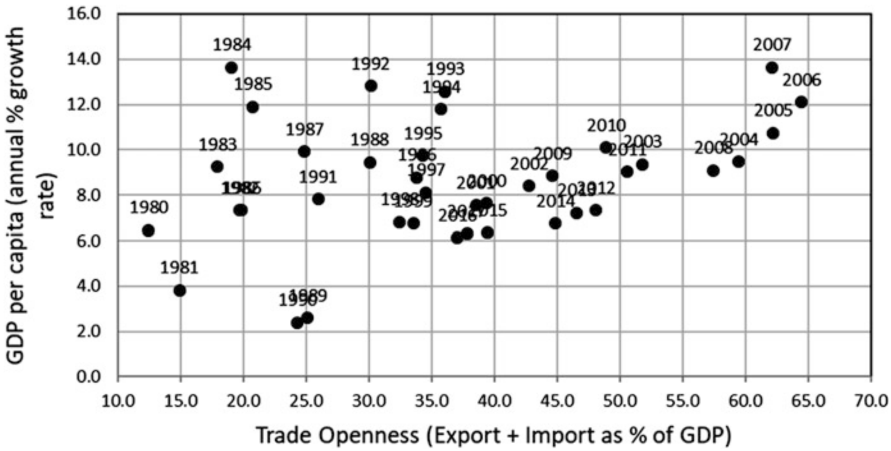

Fig. 4.2 China: growth and trade openness. Source: Elaborations on World Bank (WDI) data

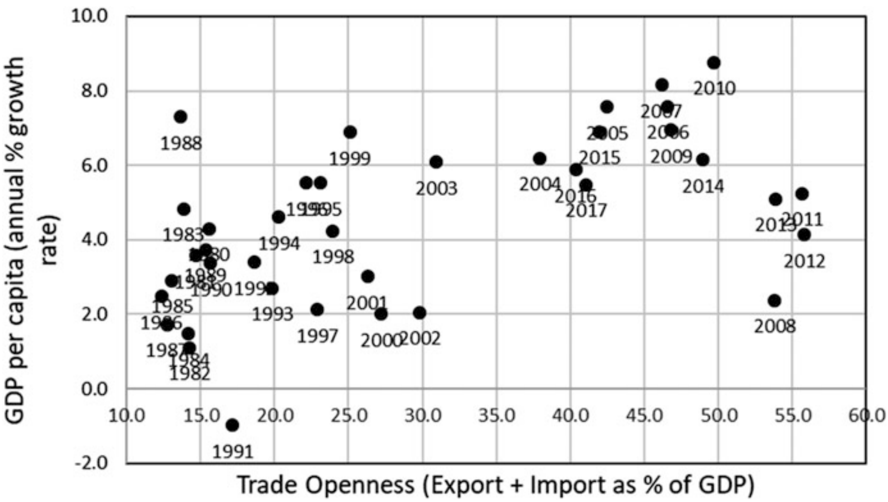

Fig. 4.3 India: growth and trade openness. Source: Elaborations on World Bank (WDI) data

Openness (TO, the sum of values of Exports and Imports as % of GDP). We can notice from the graph that in the 1980s and early 1990s there were already very high growth rates (in some years above 10%), despite the still reduced index of TO (between 20 and 30%); but the reason is that this index was rising rapidly (from the very low levels of early 1980s). Then, the TO index rose continuously, also in the new century until the crisis, with a top value of 65% in 2006; in the subsequent years, it partially retrenched, even below 40% in 2015–2017. It is interesting to note that also economic growth slowed down, to rates little above 6% in the most recent years.

The corresponding graph for India is presented in Fig. 4.3. The first thing to note is that economic growth of per capita GDP has generally been smaller compared to China; only in the most recent years the rates of growth of the two Asian countries have been similar. The second difference is that the increase in Trade Openness has been less continuous over time. For most of the 1980s, the TO index was less than 15%; in the 1990s and early 2000s it was between 20 and 30% (when in China it was at least 10 points higher); only after 2005 it reached higher levels, above 40%, similar to China's. Finally, the TO index increased also after the crisis, with a top value above in 55% in 2011–2012; only in 2016–2017, it retrenched—similarly to what happened in China—to around 40%.

The partial reduction in trade opening in the most recent years, found for both countries, is consistent with current trends in global trade. Even before the protectionist policy of President Trump, with rising duties on many products introduced in 2017 (and the consequent retaliation by other countries), the world trade elasticity to world GDP partially declined in the recent period, also because of structural reasons, for instance due to the different position of some emerging economies in the new global value chains (IMF 2019; OECD 2018).

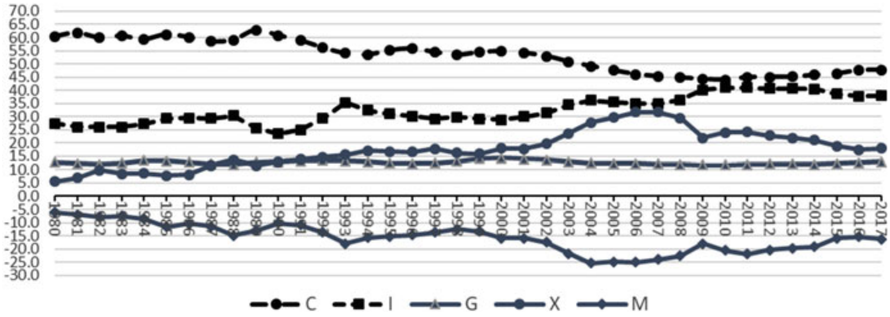

Fig. 4.4 China: Aggregate demand composition (%). Source: Elaborations on World Bank (WDI) data

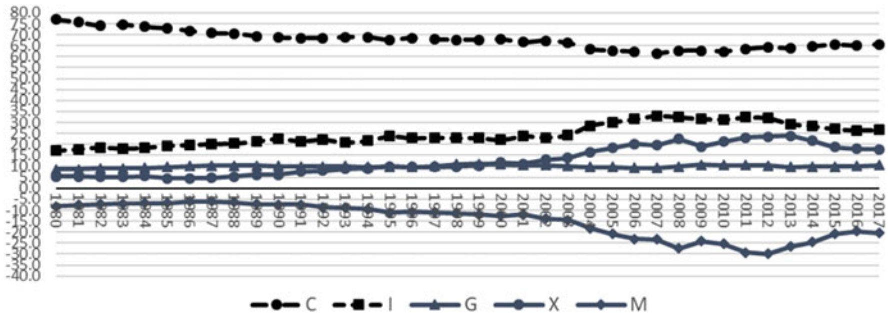

Fig. 4.5 India: Aggregate demand composition (%). Source: Elaborations on World Bank (WDI) data

Nevertheless, it is also possible that both countries have recently attached less weight to foreign demand, from a strategic economic policy approach. For example, in the economic programmes of the Chinese government it has been explicitly recognized that internal demand deserves greater consideration compared to previous decades.

Figure 4.4 shows for China in the period 1980–2017 the changing composition of aggregate demand (AD). Consumption, that in the 1980s represented above 60% of AD, lost ground not only in favour of exports, because of the process of trade integration (this is particularly apparent in the period just before the crisis of 2008–2009, when Exports and Imports represent 32 and 25% of GDP respectively), but also as a consequence of capital accumulation. Investments in fixed capital rose from 25% of GDP up to around 40%.

The weight of government expenditure has been almost steady, a little above 10% of GDP. However, it is more interesting to note that Consumption expenditure, that reached a minimum of 44% of GDP in 2010, now it is slowly increasing, toward 48% in 2017 (while exports' weight decreased from 32% in 2007 to 18%).

Figure 4.5 shows the corresponding graph for India. At the beginning, in the 1980s, Consumption was even more important (than in China), with weights well

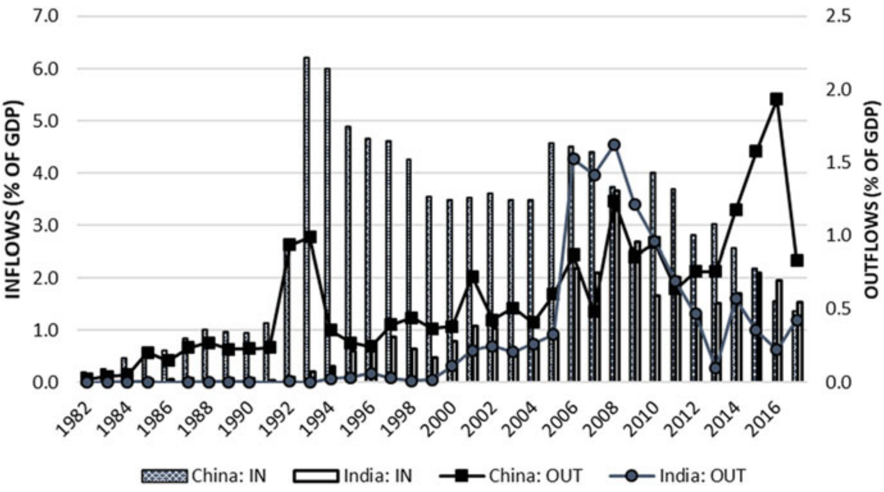

Fig. 4.6 China and India: Foreign Direct Investment (inflows and outflows). Source: Elaborations on World Bank (WDI) data

above 70%; it decreased up to a minimum of 61% in 2007; and then, also in India it increased a bit, up to almost 66%. Also in India capital accumulation has been important in the process of economic growth; however, the ratio of investment to GDP reached top values of 32–33% in 2007–2012 (compared to above 40% in China). The weights of exports and imports also grew starting in the 1980s, reaching the highest values (around 23 and 30% for the two variables) in 2012–2013, also in this case some years later compared to China's reversal. Finally, Government expenditure is rather low, even lower than in China (2–3% lower relative to GDP), and rather steady over time.

Before examining some detailed characteristics of exports, let us analyse the second important measure of globalisation: Foreign Direct Investment (FDI). It is well known fact that this process, although beginning also in the 1980s similarly to trade opening, reached a significant level more recently. Considering, first of all, FDI inflows, Fig. 4.6 shows that in China, while in the 1980s they represented less than 1% of GDP, after 1993 there was a real outbreak, with weights initially around 5–6% of GDP; then, there has been a slowdown, around more sustainable weights of 3–4%. After 2011, there has been a further deceleration, with weights between 1 and 2% in the last 2 years.

In the case of India, the same figure shows that there has been a lag of about one decade in the pattern of FDI (inflows) incidence on GDP: India's situation in the 1990s was similar to China's of the 1980s, after 2008 there were weights almost equal to the China's of the 1990s and after 2015 the incidence in the two countries became almost identical, mainly because of China's (already mentioned) deceleration.

Turning to FDI outflows, they are of course even more recent and their weight is still limited (see the different scale on the right panel of Fig. 4.5). In China they reached a significant incidence, around 1% of GDP, for the first time in 1992–1993 and again in 2006–2013; then, they jumped, up to values of 2%, in 2015–2016, as a consequence of the primary role played by Chinese firms as “global investors” in the world markets. In India, FDI outflows gained significance even more recently; it is however interesting that in 2006 they reached top values, up to 1.5% of GDP, surpassing China’s FDI and remaining at high levels for at least 5 years.

Now let’s go back to Trade, for some more detailed comments on the trade structure: the first one regarding trade specialisation and the second one the geographical orientation. In both cases we focus (because of space limits) on Exports, that in any case are more significant in the analysis of global integration of the two countries. Furthermore, we consider here only Merchandise trade, for which it is easier to obtain sectoral disaggregation.

Table 4.3 presents the so-called Balassa index (I_B), i.e. the sectoral shares of each country—China and India—divided by the sectoral shares in world exports. An index greater than one means that the country is (relatively) specialised in the given production—compared to the “world average”—and the opposite occurs if the index is smaller than one.

Thus, it is apparent that in 1980 the two countries were typical “emerging economies”, specialised in agricultural products, food, textiles and clothing. Then, not only had both countries undergone a clear process of structural change, but the specialisation patters modified even within the manufacturing sector. Although the two countries are still specialised in textiles and clothing ($I_B > 1$), the index decreased almost persistently over time. As for agricultural products and food, India is still relatively specialised, while China is clearly not specialised ($I_B = 0.3$) anymore. Another interesting evidence, a decreasing index in China and increasing in India, can be found in case of fuels and mining products.

The global index for manufactures is around unity, however recently increasing in China. In any case, it is more interesting to assess the internal composition of manufactures. Apart from textiles and clothing (already commented), in both countries there has been an increasing specialisation in “hard” sectors like iron and steel, more evident in India. Both countries continue to be under-specialised in transport equipment and automotive products. Nevertheless, the most clear difference between the two countries is the recent clear-cut specialisation of China in high-tech sectors, like telecommunications equipment (I_B above 3), electronic and office equipment, integrated circuits and electronic components, machinery and transport equipment; on the contrary, the weight of these sectors is very low in India. On the other hand, India partially compensate this disadvantage with a growing specialisation in the Chemicals and, more specifically, in pharmaceuticals. Moreover, it is well know that since the earliest economic reforms, while China tended to specialize in manufactured goods, India oriented its production and exports to services, including the advanced ones in the ICT branches (i.e. China producing hardware and India software).

Our final comments refer to the geographical orientation of exports. In Table 4.4, the top 20 destination countries, for both China and India, are listed for 3 years: 2000, 2008 and 2017.

Table 4.3 China and India: Balassa index for merchandise exports

	China					India				
	1980	1990	2000	2008	2017	1980	1990	2000	2008	2017
Agricultural products	1.7	1.4	0.8	0.4	0.3	2.3	1.6	1.6	1.3	1.3
Food	1.6	1.4	0.8	0.4	0.3	2.6	1.7	1.9	1.3	1.4
Fuels and mining products	1.0	0.8	0.4	0.2	0.2	0.3	0.6	0.5	1.0	1.1
Fuels		0.8	0.3	0.1	0.1		0.3	0.3	0.9	1.1
Manufactures	0.9	1.0	1.2	1.4	1.4	1.1	1.0	1.1	0.9	1.0
Iron and steel	0.3	0.7	0.8	1.4	1.1	0.3	0.4	1.4	1.6	2.0
Chemicals	0.9	0.7	0.5	0.5	0.6	0.6	0.9	1.1	1.0	1.2
Pharmaceuticals			0.4	0.2	0.2			1.6	1.1	1.5
Machinery and transport equipment	0.2	0.5	0.8	1.4	1.4	0.0	0.2	0.2	0.4	0.5
Office and telecom equipment	0.1	0.6	1.2	2.8	2.4	0.1	0.1	0.1	0.1	0.1
Electronic data processing and office equipment			1.3	3.6	2.6			0.1	0.1	0.1
Telecommunications equipment			1.8	3.0	3.3			0.1	0.1	0.1
Integrated circuits and electronic components			0.5	1.2	1.2			0.0	0.1	0.0
Transport equipment			0.3	0.5	0.4			0.2	0.5	0.7
Automotive products	0.1	0.0	0.1	0.3	0.3	0.0	0.1	0.2	0.3	0.6
Textiles	5.2	3.9	2.7	2.9	2.9	5.6	4.1	5.5	3.4	3.4
Clothing	4.5	5.0	4.7	3.7	2.6	3.9	4.5	4.6	2.5	2.3

Source: Elaborations on WTO data

Table 4.4 China and India: Top partners and export shares (%)

China						India					
2000		2008		2017		2000		2008		2017	
United States	20.93	United States	17.67	United States	19.01	United States	21.97	United States	11.77	United States	15.63
Hong Kong, China	17.86	Hong Kong, China	13.33	Hong Kong, China	12.34	Hong Kong, China	6.5	United Arab Emirates	10.5	United Arab Emirates	9.73
Japan	16.72	Japan	8.12	Japan	6.06	United Arab Emirates	5.75	China	5.55	Hong Kong, China	5.1
Korea, Rep.	4.53	Korea, Rep.	5.17	Korea, Rep.	4.54	United Kingdom	5.21	Singapore	4.87	China	4.24
Germany	3.72	Netherlands	3.21	Vietnam	3.16	Japan	4.31	Hong Kong, China	3.72	Singapore	3.93
Netherlands	2.68	United Kingdom	2.52	Germany	3.14	Germany	4.3	United Kingdom	3.63	United Kingdom	3.04
United Kingdom	2.53	Russia	2.31	India	3.01	Belgium	3.37	Netherlands	3.59	Germany	2.8
Singapore	2.31	Singapore	2.26	Netherlands	2.97	Italy	2.99	Germany	3.25	Vietnam	2.76
Italy	1.53	India	2.21	United Kingdom	2.51	France	2.3	Saudi Arabia	2.96	Bangladesh	2.45
France	1.49	Italy	1.86	Singapore	1.99	Russia	2.02	Belgium	2.59	Belgium	2.11
Australia	1.38	United Arab Emirates	1.65	Russia	1.89	Netherlands	2.02	Italy	2.2	Italy	1.92
Canada	1.27	France	1.64	Malaysia	1.84	Saudi Arabia	1.91	Korea, Rep.	2.07	Malaysia	1.88
Indonesia	1.23	Australia	1.55	Australia	1.83	Singapore	1.86	Japan	1.99	Nepal	1.87
Malaysia	1.03	Canada	1.52	Thailand	1.7	Bangladesh	1.83	Brazil	1.79	Netherlands	1.85

Belgium	0.92	Malaysia	1.5	Mexico	1.59	China	1.73	Bangladesh	1.78	Saudi Arabia	1.77
Thailand	0.9	Spain	1.46	Indonesia	1.54	Canada	1.52	France	1.7	France	1.71
Russia	0.9	Brazil	1.31	Philippines	1.42	Spain	1.44	Malaysia	1.67	Turkey	1.67
Spain	0.86	Indonesia	1.2	Canada	1.39	Sri Lanka	1.4	Sri Lanka	1.56	Japan	1.53
United Arab Emirates	0.83	Thailand	1.09	Italy	1.29	Malaysia	1.25	Spain	1.49	Sri Lanka	1.5
India	0.63	Vietnam	1.06	Brazil	1.28	Thailand	1.24	Indonesia	1.46	Korea, Rep.	1.49

Source: Elaborations on World Bank (WDI) data

For both countries, we can observe a rather high concentration of exports: the first 5 destinations account for 45% of total exports of China in 2017 (64% in 2000), 39% of total exports in India (44% in 2000). Considering the first 10 destinations, the total shares are 59% in China (74% in 2000), 52% in India (59% in 2000). Thus, not only the geographical concentration is somehow smaller in India, compared to China, but in both countries, there has been a greater diversification over time.

As for the individual countries, the United States are the first destination for both, with an overall weight around 20% in China (but the share is more unstable in India). Hong Kong, Japan and Korea (South) are in the subsequent three positions for China, while the United Arab Emirates are comprised in the top positions for India (in the latter case it is noticeable the decreasing weight of Japan). So, for both countries, apart from the role played by the US, the most important trading partners can be found in the surrounding area, i.e. in Asia. In the following positions (from the fourth place downward), we find many European countries: in particular Germany, the Netherlands, France, and Italy. Each of them represents less than 4% of total (Chinese and Indian) exports. Of course, many more Asian countries appear in the list, with weights around 2% or less (in addition to some countries from other continents: e.g. Russia, Australia, Brazil, and Mexico).

Regarding the reciprocal trade, it is interesting to remark that China is now an important destination for India's exports, reaching the third or fourth position (4–5% is the weight on total exports). On the other hand, India—although rising in importance over time—ranks lower in China's list of exports: it is now the seventh destination for China's exports (with a weight about 3%).

4.5 Ease of Doing Business: A Comparative Perspective

Business friendly environment is a key ingredient to attract FDI and promote global integration. Literature suggests that ease of doing business is very crucial for promoting growth in developing and emerging economies. Barriers to entry in market for new firms are a quantitatively important reason for the income gap between developing countries and the United States (Herrendorf and Teixeira 2011). Similarly Munemo (2014) study shows that FDI and domestic investment are dependent on regulations required to start a new domestically owned business in host countries.

Ease of doing business is measured by using different indicators. This section evaluates the performance of China and India on ease of doing business to attract more foreign investors and maximize the potential benefits of global integration by increasing exports and imports. Ease of doing business index is published by the World Bank (World Bank Doing Business Report). The index is calculated as the ranking on the simple average of country percentile rankings on different variables of business regulations. These regulations include: starting a business, dealing with construction permit, getting electricity, registering property, getting credit,

Table 4.5 Ease of doing business indicators

Variables	Definition
Starting a business	Procedures, time, cost and paid-in minimum capital to start a limited liability company
Dealing with construction permits	Procedures, time and cost to complete all formalities to build a warehouse and the quality control and safety mechanisms in the construction permitting system
Getting electricity	Procedures, time and cost to get connected to the electrical grid, and the reliability of the electricity supply and the transparency of tariffs
Registering property	Procedures, time and cost to transfer a property and the quality of the land administration system
Getting credit	Movable collateral laws and credit information systems
Protecting minority investors	Minority shareholders' rights in related-party transactions and in corporate governance
Paying taxes	Payments, time, total tax and contribution rate for a firm to comply with all tax regulations as well as post-filing processes
Trading across borders	Time and cost to export the product of comparative advantage and import auto parts
Enforcing contracts	Time and cost to resolve a commercial dispute and the quality of judicial processes
Resolving insolvency	Time, cost, outcome and recovery rate for a commercial insolvency and the strength of the legal framework for insolvency

Source: Ease of Doing Business Report 2019

protecting minority investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency.

These regulations variables are calculated by using further sub variables. The regulation indicators are defined below in Table 4.5. Ease of doing business score captures the gap of each economy from the best regulatory performance observed in these indicators across all countries. Ease of doing business score is reflected on a scale from 0 to 100, where 0 represents the lowest performer and 100 is the best. The ranking in ease of doing business ranges from 1 to 190.

The top three performer in ease of doing business are New Zealand, Singapore and Denmark. China and India also performed well in recent years and remained successful in introducing business friendly regulations. China ranked 46th and India ranked 77th out of 190 countries, with ease of doing business score of 73.64 and 66.23 respectively. Ease of doing business ranking in different regulatory indicators is presented in Fig. 4.7. China performed well in enforcing contracts and India's best business regulatory performance is in area of protecting investors, where it ranked 7 out of 190 countries. Figure 4.7 also offers a comparative perspective. Out of 10 business regulation indicators, China is performing better in 7 regulatory indicators. However, India out performed China in terms of dealing with construction permits, getting credit and protecting minority investors. Ease of doing business score is depicting a similar story (see bottom graph in Fig. 4.7). China's score is the highest in starting a business whereas India scores is highest in getting credit. Both countries got the lowest score in resolving insolvency.

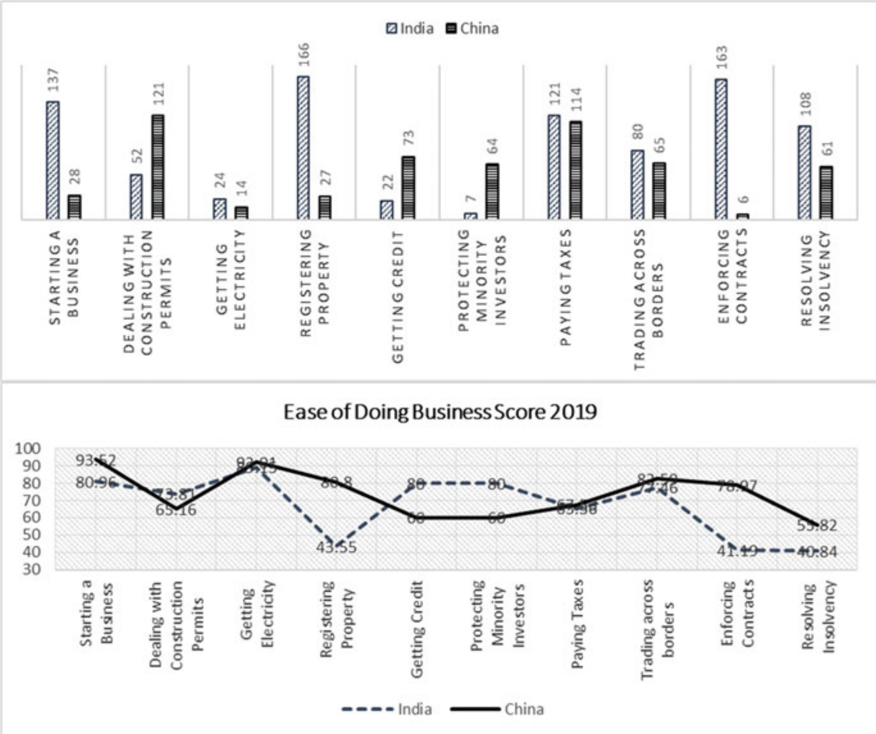

Fig. 4.7 Ease of doing business ranking (2019). Source: World Bank Doing Business

Both countries showed significant improvements in ease of doing business over the years. India's journey from 142 in 2014 to 77th in 2019 is quite impressive. Doing business 2019 report shows 23 points improvement in India's ranking from the last year. India has become top ranked country in South Asia for the first time and third among the BRICS. India showed the highest improvement in 2 years (53 ranks) by any large country since 2011. India is recognized among the top ten improvers for the second consecutive year.

Table 4.6 presents the indicator wise rank progress over the last year. For India, the biggest gain is in dealing with construction permits where it climbed 129 positions. Trading across borders also showed significant improvement in ranking (66 positions). These impressive improvements are the outcome of business reforms taken by India over the past few years. Registering property, paying taxes and resolving insolvency are the areas where India needs to focus for resolving business related issues. Overall 6 out of 10 business promoting indicators showed improvement in ranking for India, which conveys a positive message to business community.

China's performance is also very impressive and showed improvement in ranking in 7 business related regulations over the last year. The biggest gain in improvement is in getting electricity (84 positions), followed by starting a business (65 positions)

Table 4.6 Ease of doing business (2019): Indicator wise performance in rank

	India			China		
	2017	2018	Progress	2017	2018	Progress
Starting a business	156	137	19	93	28	65
Dealing with construction permits	181	52	129	172	121	51
Getting electricity	29	24	5	98	14	84
Registering property	154	166	−12	41	27	14
Getting credit	29	22	7	68	73	−5
Protecting minority investors	4	7	−3	119	64	55
Paying taxes	119	121	−2	130	114	16
Trading across borders	146	80	66	97	65	32
Enforcing contracts	164	163	1	5	6	−1
Resolving insolvency	103	108	−5	56	61	−5

Source: World Bank Doing Business

and protecting minority investors (55 positions up). China need to focus on resolving insolvency and providing credit for further promoting business in the economy.

The highlighted impressive performance of both countries owe, in particular, to the aggressive *business reforms* taken by these two economies.

India made "starting a business" easier by fully integrating multiple application forms into a general form, replacing the value added tax with the GST[1] and abolishing site inspections for registering companies (Mumbai). Moreover, India streamlined the process of obtaining building permits, made it faster and cost effective. In Delhi, electricity connection charges were reduced for low voltage connections. India strengthend access to credit by amending insolvency laws. India also reduced the time and cost to export and import by taking various initiatives which include implementation of electronic sealing of containers, port infrastructure improvement and acceptance of supporting documents with digital signatures.

China also introducted various business reforms to make business enviromrnt more conducive in the country. China made statring a business easier by launching online company registrations and social security registrations. China also streamlined the process of obtaining building permits and registering new buildings. China also improved the public access to related information. Access to electricity was made easy in China by expanding network capacity and by reducing the time to obatain new connection. Registering a property was improved by bringing more transperency in the land administration system. Minority investor protection was strenghthend by increasing shareholders rights and their role in major corporate decisions. China also reduced the time and cost to exports and imports by introducing single window operation, eliminating administrative charges, increasing transperancy and encouraging competition.

[1]As a part of business reforms, India has replaced the value added tax with the GST (Goods and Service tax) for which registration process is faster and that contributed towards improvement in starting a business.

Both of these economies have taken various initiatives to promte business conducive enviroment in their economies. More business friendly enviroment means more exports and imports and further increase in global integration.

4.6 Conclusions

Although economic growth has recently slowed down, especially in China, compared to the "golden age" of previous decades, economic development continues in both countries. In any case the two "giant" Asian countries proved to be the most dynamic and resilient in the world, even after the late 2000s global financial crisis and the "Great Recession". Just compare their economic growth with that of most advanced economies, in particular the European ones.[2]

In this Chapter, we have examined the key distinctive features of economic development in the two countries. The impressive growth of both giants in the past 3–4 decades permitted to China to be again the first economic power (as total GDP in PPP) and India arrived at half of US economy dimension. As mentioned at the end of Sect. 4.2, both China and India will be among the top economies in the world around 2030, at least if we measure GDP in real terms and PPP adjusted. However, per capita GDP are still, respectively in China and India, less than 30% and less than 15% with respect to US level. So, many more years will be necessary to achieve the well-being of the most advanced economies as well as to eliminate the most acute imbalances and inequities.

Trade opening has been crucial for their economic growth has been examined in Sect. 4.4, confirming previous empirical studies (although the direct impact of FDI on economic growth is less clear for some emerging economies, as reviewed in Sect. 4.3). We have also documented a recent slowdown in trade opening, even prior the current protectionist tendencies in world trade. After many years when economic growth has been led by exports and capital accumulation, especially in China, now a greater attention has been attached, for the first time, to consumption and internal demand. Trade specialisation has changed particularly in China, now extremely specialised in high-tech sectors, like telecommunications equipment, electronic and office equipment, integrated circuits and electronic components, machinery and transport equipment. On the other hand, India is still specialised—within Manufactured goods—in more traditional activities, apart from chemicals and pharmaceuticals; it is also well-known the significant weight of services in the Indian exports. Regarding the geographical orientation, the United States are still by-and-large the first trading partner, but many Asian and European countries are in a good position; interestingly, reciprocal trade of the two countries has also augmented over time. As for FDI flows, the two countries assumed recently a greater "active" role,

[2]As for the recent economic problems of the EU, in particular of the euro area, see Marelli and Signorelli (2017).

with significant FDI outflows (in any case the latter are still smaller compared to inflows).

FDI inflows were greatly favoured by economic reforms, not only in the early stages of liberalisation and development of the two countries—with India partly lagging behind China—but also in the most recent period. For instance, both China and India are included in top ten improvers list in ease of doing business, by introducing business friendly reforms in their economies. Both countries are on right track and taking measures to reduce barrier to entry and promote global integration. It is particularly worth to mention that reforms in business start-up regulations are crucial in enhancing the foreign and domestic investment and thereby in promotion of entrepreneurship and economic growth in low-income and emerging economies.

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Chapter 5
Facing Political Issues and Protecting National Sovereignty: The Sino-Indian Economic Relation Since 1947

Paul Caussat

5.1 Introduction

From the notorious slogan "*Hindi Chini Bhai Bhai*" (Indians and Chinese are brothers) to the Sino-Indian 1962 war, from the historic visit of Rajiv Gandhi to China in 1988 to the 2017 Doklam face-off, the economic and political rise of China and India has not necessarily translated into deeper bilateral economic ties. Since their modern foundations in 1947 (India) and 1949 (China), how have the two economies interacted?

As far as the economy is concerned, non-Western countries have generally received less attention. This is especially true with regard to India as we know little about the economic linkages that the country has been nurturing with the rest of the world in general and China in particular. Similarly, while there is a political science literature on the Sino-Indian strategic relations (Ollapally 2014), we still know rather little about the nature and evolution of their economic relations.

This chapter aims to analyse the economic relationship between China and India, the bilateral trade volume and structure as well as the nature of cross-broader investment flows. It also exposes and discusses the obstacles hindering the expansion of the bilateral economic relation. This chapter also aims to understand how growing China and India's common economic interests and longstanding geopolitical issues interact. The questions guiding the analysis throughout this chapter are the following: can a flourishing economic relationship contribute to reducing political tensions? If not, can the economic relation and security concerns be de-hyphenated?

This study develops two main contributions. First, we attempt to provide an overview of the economic relation between two large and fast-growing emerging economies in order to make sense of its remarkable evolution and current

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weaknesses. Second, the chapter also contributes to a better understanding of how the economy and the geopolitical situation are embedded and influence each other in the case of China and India. While both countries have agreed on the need to de-hyphenate the strategic and economic relations, this chapter brings to light a form of "securitization" of the economic relation.

The chapter is structured as follows. We start with an analysis of the Sino-Indian economic relations with a particular focus on trade and investment flows. We then look into the various geopolitical obstacles that prevent Beijing and New Delhi from expanding further their bilateral economic ties and discuss how the economic and strategic issues influence each other. We then present a few areas of bilateral cooperation that can potentially enhance economic ties irrespective of ongoing geopolitical issues.

5.2 Evolution of Sino-Indian Economic Relations

5.2.1 A Short History of Economic Relations from the First Century CE Until Today

From the transmission of the Buddhist faith during the first century CE to the Silk road sites located in India, the interactions of the Cholas with the Chinese in South East Asia to the naval expedition led by Admiral Zhang He under the Ming dynasty passing through the Indian coastline, economic exchanges between China and the Indian subcontinent have a long history (Sen 2003).

More recently, the British East India Company smuggled opium from India to China in exchange for tea, leading to the Opium wars, the Treaty of Nanking in 1842 and the Convention of Beijing in 1860. The Parsi community established in Bombay (today: Mumbai) was particularly involved in trading a range of products (including opium; Dhillon 2016) between India and China with names such as Jamsetjee Jejeebhoy or Jamsetji Tata (Roy 2012). Indians, in particular Currimbhai Ebrahim of the Bohra community, also exported cotton yarn to China (Roy 2012).

In the meantime, Hong Kong saw an increasing number of Indians settling in the city and taking on positions in the local administration (Hinnells 2005). Some key landmarks in Hong Kong are directly linked to the South Asian communities settled in Hong Kong during the colonial period: the University of Hong Kong was founded with contributions from Sir H. N. Mody; Star Ferry (connecting the Hong Kong island and the Kowloon peninsula) was founded by Dorabdjee Naorojee Mithaiwala; two Parsis and one Indian Jew are among the 13 founding members of the Hong Kong and Shanghai Banking Corporation (HSBC) created in 1864. Ngo (1999) documents that 43% of goods imported into Hong Kong were from India and close to 18% were exported into the Indian subcontinent. Although the figures have gradually declined over the twentieth century, Hong Kong has maintained close trade connections with India, the latter being Hong Kong's fourth exports partner after mainland China, the United States and Thailand.

A newly independent India was the first non-communist nation to recognize the People's Republic of China in 1950. However, political relations between the two countries remain tense despite attempts of compromise on border issues (the Panchsheel agreement signed in 1954), leading to the Sino-Indian war of 1962 and a humiliating defeat for Prime Minister Jawaharlal Nehru. Following this event, bilateral trade comes to a halt and both countries would have to wait until 1978 for bilateral trade to officially resume (Ollapally 2014) and quickly improve.

In 1984, China and India sign a Most Favoured Nation Agreement in 1984. Prime Minister Rajiv Gandhi's visit to China in 1988 signalled a shift in the relationship between China and India: controversial issues such as the border delineation are to be addressed in a Joint Working Group (JWC) while the two countries agree to pursue cooperation in non-controversial topics including the economy. In other words, both countries agree to de-hyphenate the strategic and economic relations. President Jiang Zemin's visit to India in 1996 was the first ever visit of a Chinese President to India and focused on expanding growing economic links. In a similar fashion, when visiting China in 2003 Prime Minister Atal Bihari Vejpayee delivered two speeches at business venues (Yuan 2016).

The political and economic relations suffered a setback following India's nuclear test in 1998 in the wider context of an emerging Indo-US strategic and economic partnership (to be paralleled with a rapprochement between China and Pakistan). A change in bilateral trade flows may be noticed after the 1998 nuclear test. While India enjoyed a small trade surplus with China in the years 1994, 1995 and 1997, China's exports to India suddenly grew much faster from the year 1999 onwards (Singh 2005). The country quickly became a central economic partner of India and eventually overtook the US as India's largest trade partner in good in 2008. Bilateral trade amounted to $2.92 billion in 2000, grew up to $61.7 billion in 2010 to reach $84.42 billion in 2017 (Arora and Saxena 2018).

5.2.2 *Bilateral Trade Volume and Structure*

From virtually no bilateral trade in 1991, Sino-Indian trade has been growing relatively fast to reach $84.42 billion in 2017. For the same year, India's exports to China amount to $12.5 billion while China's exports into India have reached 71.92 billion (Source: World Integrated Trade Solution). Put it differently, China exports to India almost six times more than India does into China. This difference leads to a very significant trade imbalance ($59.43 billion in favour of China), which has widened over the years and especially in the wake of the twenty-first century (see Fig. 5.1).

China represents India's fourth exports partner as well as its first imports partner. When taking into account Hong Kong, China's overall exports to India becomes $83.1 billion while the imports from India becomes $27.5 billion. Provisional figures

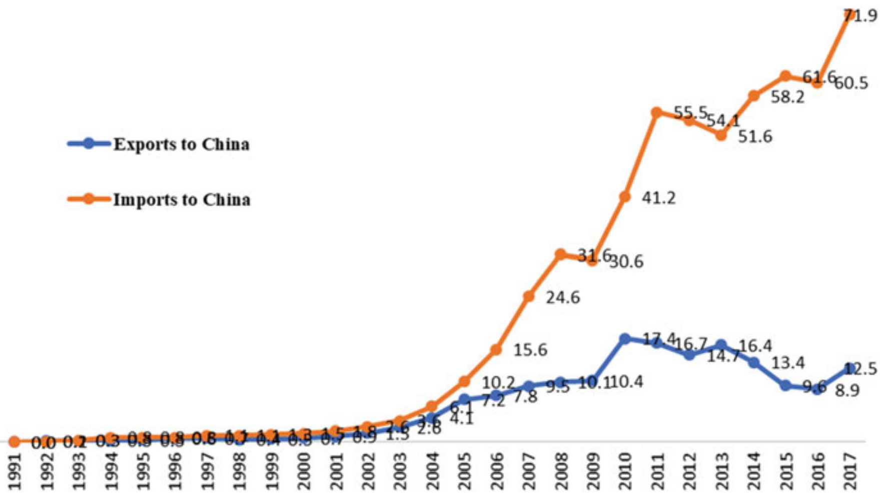

Fig. 5.1 Evolution of bilateral trade (US$ billion, 1988–2017) (World Integrated Trade Solutions)

Fig. 5.2 India's trade with mainland China and Hong Kong (2017, 2018; in US$ billion) (World Integrated Trade Solutions, Department of Commerce Government of India)

(Mishra 2019) show that there has been a slight reduction in the trade imbalance (approximately \$10 billion) from mainland China during fiscal year 2018, which has been more than compensated by a significant trade deficit from Hong Kong. Combined together, India's trade deficit with China stood at \$55.6 billion in 2017 and reached \$60.1 billion in 2018 (see Fig. 5.2). Certain Indian political commentators in India have suggested that China may be pushing its exports through Hong Kong in order to hide a wider trade surplus with India (The Economic Times 2019).

Indian exports to China are mainly composed of intermediary goods (56%) and raw materials (21%). Some major exported products include chemicals (18%),

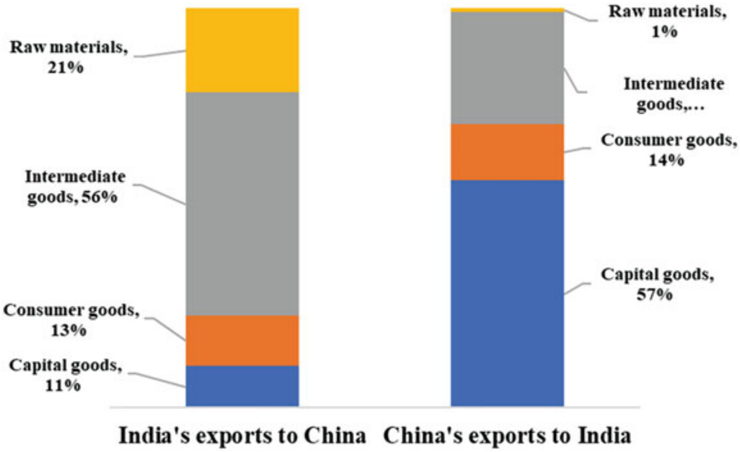

Fig. 5.3 Sino-Indian bilateral trade structure (2017) (World Integrated Trade Solutions)

minerals (17%), metals (17%), textiles and clothing (12%), machines and electronics (9%) and fuels (8%). In contrast, China tends to export to India goods already processed goods, including capital goods (57%) and some intermediate goods (28%). This includes machineries and electricals (56%) and chemicals (14%). India also significantly depends on China for some of the key sectors of its economy. China accounts for 73% of India's telephone and communication apparatus imports, 81% of India's antibiotics imports (Dhar 2019). Figure 5.3 displays bilateral trade key characteristics.

Due to significant economies of scale achieved at home as well as a relatively low labour cost and high-quality infrastructure to transport goods, China has been able to export to India goods such as textile and clothing, electronic devices or machineries, at a very competitive price. One of the main complaints from Indian business associations stems from the so-called "unfair competition" with Chinese state-subsidised goods. The Indian government also laments the lack of access to the Chinese markets. The country has sought to gain a greater access to the Chinese market especially for various agricultural products, milk products, animal feeds as well as pharmaceutical products.

Bilateral services trade flows have remained low due to regulatory restrictions and linguistic differences. India's services exports are mainly composed of IT and IT-enables services. However, these exports target a very narrow geographical base, mainly three markets: the US and the UK and Canada (75% of total IT and IT-enables services exports in 2014; Singh and Pachouri 2014). Tourism flows are also disproportionately low: as little as 250,000 Chinese visited India in 2017 (Ministry of Tourism 2018) while 820,000 tourists in China come from India (National Bureau of Statistics of China 2019). There are also 18,000 Indians currently studying in China.

When it comes to tariff and non-tariff barriers, India has had a long protectionist tradition of high imports tariffs for goods and services. In contrast, China has been

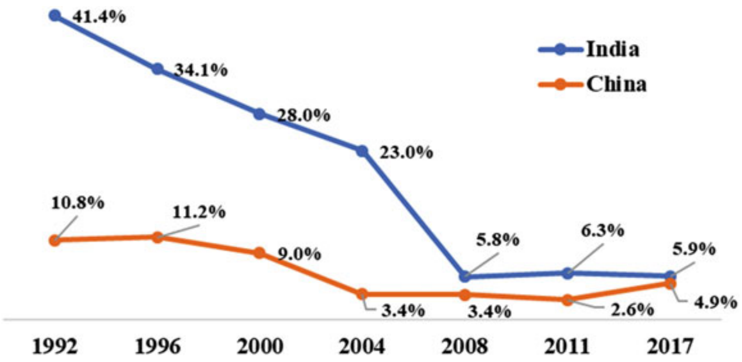

Fig. 5.4 MFN weighted average (%) tariff for bilateral imports of goods (World Integrated Trade Solutions)

liberalizing its trade policy with the exception of the services sectors that are still met with important regulatory barriers and a high level of public ownership (Kowalski 2008). However, India has been has come a long way as tariffs for Chinese goods have declined from above 40% in the early 1990s to close to 6% in 2017. Chinese imports tariffs have also been declining although to a lesser extent, from an average close to 11% in 1992 to an average close to 5% in 2017. Product-wise for the year 2017, China charges the highest tariffs for food products (10.82%) followed by agricultural and raw materials (10%) and then textiles product (7.24%). Similarly, but to a greater extent, India charges the highest tariffs for food products (41.04%) followed by agricultural and raw materials (12.40%) and then textiles products (11.62%). Figure 5.4 shows the evolution of imposed tariffs on bilateral trade since 1992.

Unfortunately, no cross-country data is available to measure the level of non-tariff barriers applying to a specific country. Based on overall non-tariff measures (NTM), it can be inferred that India mobilises a broader range of non-tariff instruments to restrict imports from its partners. For the year 2013, as much as 347 products were affected by non-tariff measures set by Indian public authorities, against 81 products for China.

To sum up, trade between China and India has grown substantially from a very low level in the early 1990s. There are however three major features associated with the current trade figures to be developed.

First, given the size of the population and the economy as well as the geographical proximity (an important factor to explain international trade; Ghemawat 2001), the current bilateral trade level is deemed to be significantly lower than its potential volume. There is significant room for improvement to be achieved through a better cross-government coordination of tariff and non-tariff barriers.

Second, trade flows are very significantly imbalanced towards China, which is enjoying a high trade surplus with its Asian neighbour. This trade imbalance is a source of profound concern for Indian public authorities, which are seeking to bridge the deficit through a greater access to the Chinese market. The last informal meeting between Prime Minister Narendra Modi and President Xi Jinping held in Wuhan in April 2018 has largely discussed these issues. However, some also argue that India's trade deficit with China is rather unexceptional. The country runs trade deficits with most of its trade partners as its manufacturing base is relatively small and the country needs to import many products to meet the demand of its consumers (Yuan 2016). It is also interesting to note the role of Hong Kong as a trading platform between India and China, contributing to increasing or decreasing the trade imbalance.

Third, although both countries have agreed to de-hyphenate their political and economic relations, bilateral trade seems to represent a barometer of the Sino-Indian political situation. China may be using various trade strategies as a consequence of political events or as a diplomatic tool. When political relations are improving so does the trade balance and vice versa.

5.2.3 Cross-Border Investment Flows and Structure

Bilateral cross-border investments are very low when compared to what both countries achieve with other partners. According to the Embassy of Indian in Beijing, cumulative Indian investments in China till September 2017 have reached US$851.91 million (Embassy of India in Beijing 2019). In 2015, China accounted for 8% of total outward foreign direct investments from India and only appears in the top 20 recipients of Indian investments. Investments (majorly from private companies) are concentrated in the following sectors: IT and IT-enables services, banking, pharmaceuticals, automotive components, wind energy and other manufacturing activities. Major Indian companies have set up representative offices, wholly-owned subsidiaries or joint ventures with local partners, and are concentrated in the following geographical areas: Shanghai area, Guangdong province (Guangzhou, Shenzhen) and some companies are also in Beijing.

China ranks 18th in terms of foreign direct investments into India for the period running between April 2000 and March 2019. Over the same period, approximately US$2215 billion have been invested by Chinese companies in India (or 0.53% of total inflows), a number that is far lower than Mauritius (32.01%), Singapore (19.76%) or Japan (7.21%) (Ministry of Commerce and Industry 2019). Cumulative Chinese investment in India till the end of December 2017 amount to US$4.747 billion. China's investments in India have traditionally targeted the established industrial hub in Maharashtra and Gujarat. There are more than 100 Chinese companies that have established operations in India, mostly in the automotive, mining and low-technology sector such as electronic, hardware (Singh 2005). Many of these companies, especially in the raw materials and electric sectors, are large state-owned enterprises.

Large and often public sector-owned investments have remained very low compared with other partners for geopolitical reasons that will be discussed in the next section. There have not been many Chinese major investment projects in India or Indian investments in China. As a result, invested amounts remain significantly lower than the size and geographic proximity of both the economies would suggest. However, Chinese investments to India seem to have recently been on the rise and this trend can be accounted for by investments from private companies.

Three examples can be mentioned here. First, Chinese mobile companies have been very successful in penetrating the Indian market: Xiaomi (26.8% market share in 2017; ahead of Samsung), Realme, Vivo and Oppo. With significant investments to manufacture locally, these companies now represent approximately 40% of the Indian mobile handset market (Embassy of India in Beijing 2019). Second, India seems to become an attractive place for establishing R&D activities. Huawei has established its largest overseas R&D centre in Bangalore with a focus on artificial intelligence. Third, there has been an upsurge in Chinese venture capitalists such as Alibaba, Fosun, Shunwei Capital, Tencent or Xiaomi (Arora and Saxena 2018), investing in Indian start-ups (from $668 million in 2016 to $5.6 billion in 2018), targeting sectors such as e-commerce, fintech or logistics (Pani 2019). For instance, Alibaba invested $500 million in Snapdeal, $680 million in Paytm (providing the group with a 40% stake) and also invested in companies such as Bigbasket or Zomato. Tencent invested $400 million in Ola, $700 million in Flipkart. As a consequence of this recent move, China's India investment have recently been more geographically diversified, targeting states such as Haryana (near New Delhi), Tamil Nadu, Andhra Pradesh (Hyderabad area) and Karnataka (Bangalore area).

While Western investors still dominate the Indian start-ups ecosystem, these companies seem to be increasingly turning towards Asian venture capitalists for resources as well as expertise. There are several reasons to account for this new trend. The similarities in terms of consumer spending behaviour and income levels in China and India provides Chinese investors with a significant competitive edge over other investors. For Indian companies, Chinese investment represents an opportunity to benefit from an expertise to navigate the domestic environment and tailor solutions to consumers on a large market scale. In this respect, it is likely that Indian entrepreneurs have more to learn from Chinese investors than American venture capitalists (Liu 2018).

For Chinese companies that have not been able to enter the Silicon Valley, India represents a promising market that requires relatively little resources to be invested to yield significant returns. These investments can also benefit the Chinese economy by transferring back digital innovations developed in India at a relatively lower cost, to nurture the Chinese digital ecosystem. As far as industrial investments are concerned, India may be the only market that is large enough (approximately the size of all ASEAN economies together; more than twice the population of all ASEAN countries together) to absorb China's excess capacities and investments (Dutt D'Cunha 2018).

To sum up, in spite of major Indian and Chinese companies having established a presence in their respective neighbour, cross-border investments have remained very low in comparison with the size of both the economies and their geographical proximity. However, investments from Chine private firms and venture capitalists in particular seem to have recently been on the rise: manufacturing smartphones locally; developing research and development activities; bringing resources and expertise to cash-strapped Indian start-ups. Lastly, it is worth noting that bilateral investment figures may not reveal the full picture as bilateral investments may also be channelled through third countries such as Singapore or Hong Kong. This is especially the case for digital and venture capital investments.

Having analysed the bilateral trade and investment structures and flows, we will now discuss the geopolitical issues that prevent both countries from deepening economic ties.

5.3 Contemporary Issues and Obstacles to Improving Economic Relations

Both the bilateral trade and investment flows could be further developed all the more so as both economies are complementary in nature at two levels: (1) China possesses a strong manufacturing base and India possesses a service base; (2) India exports raw materials exports and China exports manufacturing products. Indian experts have lamented that non-tariff barriers create restrictions to access the Chinese market especially for Indian pharmaceutical products and IT services (Ollapally 2014). Chinese officials have also complained about unfavourable treatment when it comes to proposed Chinese investments.

The obstacles to a deeper economic relation are to be associated with long-standing and ongoing geopolitical issues between New Delhi and Beijing, chief among which are territorial disputes (Arunachal Pradesh in North-East India and Akshai Chin in China). In addition, China's five times larger and fast-growing economy as well as its expanding military capacities have contributed to an increased imbalance between the two countries. This in turn leads to nurturing a high level of mistrust among the Indian strategic community towards Beijing. As a result, the bilateral economic relation has tended to be contaminated by security concerns, a phenomenon of "securitisation" of the economic relation (Yuan 2016). Three examples of "securitization" of the economic relations are exposed below:

First, the 2017 Doklam standoff between the Chinese People's Liberation Army and the Indian Army (following an attempt made by the Chinese People's Liberation Army to build a road near the border between Bhutan, China and India) led the Indian government to veer away from China on a major infrastructure development project: the Mumbai-Ahmedabad high-speed rail project. Japan, China's main competitor, won the high-speed rail contract although China was foreseen to bag the contract before the political event (The Economic Times 2017).

Second, in the wake of a US-led move to ban Huawei's 5G technology in the ground of espionage, the Indian government has been thinking to exclude Chinese 5G technology manufacturers, Huawei and ZTE, from bidding for 5G projects in India. This threat has been met with resistance by Indian experts as there has been no evidence of spying activities through Huawei equipment (Mankotia 2018). One approach through which the Indian government may be able to restrict Chinese telecommunication equipment manufacturers would be to exclude Chinese companies from bidding for 5G projects in border areas where both countries have territorial disputes (Satija 2019).

Third, in order to bolster Chinese investments in India, the Chinese government has suggested the creation of Chinese industrial parks located in India. The Indian government is reluctant to provide China and Chinese companies with a larger presence in India in the contexts of long-standing political issues and mistrust (Ollapally 2014).

While it is acknowledged that deeper economic relations benefit the political relation between the two countries, the Sino-Indian example seems to point to another direction according to which it is the geopolitical situation that influences the state of economic relations. Yuan (2016) argues "*until and unless Beijing and New Delhi can fundamentally address the security dimension of their relationship, bilateral economic ties will be affected by political as well as economic considerations*" (p. 32).

5.3.1 Geopolitical Obstacles to a Deeper Economic Relation from the Point of View of China

With a five times larger economy than India and fast-growing military capacities, China is in a position of strategic domination. However, Beijing has three main political issues with New Delhi, which may influence both countries' economic relations and prevent them from expanding their economic relations.

First, China is deeply concerned with India's Tibet policy that has consisted in granting political asylum and hosting the 14th Dalai-Lama who has also shown to be politically active by lobbying Western countries, as well as about 100,000 other Tibetans. There are debates within Indian strategic circles regarding the relevance of such a policy and what the country may lose in terms of economic benefits from China. However, many other experts argue that the current Indian stand on Tibet represents a pressure point for the country in its relation with China that could help New Delhi restore the balance with Beijing.

Second, China claims a major part of India's Arunachal Pradesh (formerly called "North East Frontier Agency", also referred to as "South Tibet" in China) on the ground that it does not recognize the McMahon line. This disputed territory is seen as a threat for the Chinese government: when the Dalai Lama fled China in 1959, he first found refuge in the monastery of Tawang in Arunachal Pradesh. There are also speculations that the successor of the Dalai Lama will come from Tawang (The Economic Times 2017), there by reinforcing Sino-Indian tensions on this topic.

Third, China has been wary of the striving US-India rapprochement (Jacob 2019) and their increasing strategic convergence especially in the Asia-Pacific region. While the US has become India's second largest arms supplier, regular joint

US-India military exercises as well as agreements to exchange sensitive military information (South China Morning Post 2018) have been looked upon by Beijing as signs of hostility towards China. Fears of strategic containment have been also fuelled by the convergence of interests and relations between India and some of China's neighbouring countries including Japan, Vietnam and South Korea, as part of India's "Look East policy". For instance, India's engagement with Vietnam is seen by China as a move from India to challenge and counter China in its periphery (Pant 2014). Oil exploration projects between Vietnam Oil and Oil and Natural Gas Corporation (ONGC) in the South China Sea have been condemned by China that also claims that the project is located within its own territorial waters (The Hindu Business Line 2018).

5.3.2 Geopolitical Obstacles to a Deeper Economic Relation from the Point of View of India

The key question for New Delhi remains whether China should be viewed as a threat to India's security or whether it can also be viewed as an opportunity for economic development. Following the Sino-Indian war in 1962 that took New Delhi by surprise, a consensus emerged in New Delhi that China and India are rivals, not friends, although this consensus was increasingly challenged after Rajiv Gandhi's visit to China in 1989 and the successive rounds of bilateral visits (Jain 2004). However, according to Ollapally (2014), three schools of thought coexist inside the Ministry of External Affairs, each of these conveying a different view on the Sino-Indian relationships and the benefits of strengthening economic ties in spite of political persistent disagreements and tensions (Ollapally 2014):

- The "realists" favour hard power over economics and do not trust international institutions for protection;
- The "nationalists", likewise, favour self-reliance in the international arena as an end goal;
- The "liberal-globalists" favour international political and economic integration.

While the public discourse is often dominated by the nationalist school, the view inside the Ministry of External Affairs is more nuanced as the three schools compete against each other.

The nationalists see trade deficits with China as another pressure point over India. They suggest that the government provides more support to the Indian business community to compensate for Chinese subsidies and subsequent unfair advantages. They are extremely wary of China's growing presence in India's neighbourhood, from the construction of ports surrounding India (the "string of pearls"), to providing Bangladesh and Pakistan with military equipment and developing an "all-weather friendship" with Pakistan.

The realists see economic growth as an important determinant of India's strategic agenda to become a power in international arena. However, they ultimately favour military power: economic growth is seen as a means to acquire the necessary financial resources to develop India's military capacities and rival with China. In contrast to the domestically-oriented nationalist school of thought, they may favour economic openness to increase its economic power as well as alliances to contain China. They argue that the 2006 US-India nuclear accord has led China to take India more seriously.

In contrast to the other schools of thought, the globalists argue that India gains from trade with China. Cheap Chinese products benefit the Indian consumers overall, telecommunication equipment have been deployed at a relatively inexpensive cost thanks to Chinese efficiencies. The globalist school also invokes India's internal weaknesses and the lack of a strong industrial base to account for by its trade deficit with China. They see political tensions between the two countries as an obstacle to India's economic prosperity.

Despite divergences, the three schools of thought have in common the idea that India should deepen its economic and political ties with countries located in China's neighbourhood (Ollapally 2014).

5.3.3 Should India Join the Belt and Road Initiative?

Amid the geopolitical context described above (Sino-Indian war, territorial dispute, China's all-weather friendship with Pakistan), the Belt and Road Initiative (BRI) launched by the Chinese government in 2013 has sparked debate in India as to whether the country should join the multi-billion infrastructure initiative.

On the one hand, New Delhi has not yet joined the BRI on the ground that the its flagship project, the China-Pakistan Economic Corridor (CPEC), violates Indian sovereignty by passing through Pakistan-administered Kashmir Kamdar (2019). There are also concerns that the BRI will mainly benefit China and increase its economic and geopolitical power over other countries (Pant and Passi 2017). To support this argument, New Delhi points to a few examples such as the Maldives, Sri Lanka or Malaysia. These countries have been trapped in a debt repayment spiral on BRI projects. Hence, New Delhi would prove to be naïve not to take into account the geopolitical context of their bilateral relation and "*the reality of being in the vicinity of a bigger regional power that at best does not factor India into its calculations and at worst devotes some capital to keeping India unbalanced*" (Pant and Passi 2017). A third concern formulated by the nationalist school of thought is that joining the BRI would lead to the widening of India's trade deficit with China. Such a scenario would ultimately increase China's pressure and economic power over India.

On the other hand, proponents of the BRI -the globalists in particular- argue that the BRI would boost India's connectivity with its neighbourhood and enhance regional growth. Not joining the initiative would probably lead to small short-term political gains but missed long-term economic opportunities. Experts also argue that being part of the BRI would help India influence the direction of the initiative. India could for instance develop its own infrastructure projects incorporated within the BRI (Pant and Passi 2017).

To sum up, the geopolitical tensions between the two countries since the Sino-Indian war in 1962 and a general mistrust from the Indian side have prevented both countries from expanding their economic ties further and India from joining the BRI. The "securitization" of the bilateral economic relation, a strategy mainly pursued by New Delhi, has led to trade and investment levels and -in general- missed economic opportunities for both countries. Having exposed the various issues impeding the economic relation, we will also discuss few areas of economic cooperation.

5.4 Current and Future Areas of Cooperation

Although geopolitical issues between Beijing and New Delhi do a significant obstacle to stronger bilateral economic ties, there are a few specific political and economic areas in which both countries are expected to develop a stronger cooperation. This could in turn reduce the level of mistrust between the two countries.

5.4.1 The Political Situation May Become More Favourable to the Bilateral Economic Relation

The de-hyphenation of bilateral security and economic issues has not been very effective so far. New Delhi has remained wary of Beijing's geopolitical ambitions, which has also reflected on their economic relations. Indian exporters have also been complaining about non-tariff barriers imposed by China and the lack of access to the Chinese market.

However, a window of opportunities for a closer political cooperation might open. The informal Wuhan summit held in 2018 is considered to constitute the early stage of a reset of the bilateral ties. President Xi Jinping and Prime Minister Narendra Modi agreed to reduce border tensions, manage their strategic differences (Godbole 2018) and enhance the economic cooperation. In May 2019, China agreed to drop its opposition to UN blacklisting the leader of the Pakistan-based terrorist group Jaish-e-Mohammed, Masood Azhar, following the Pulwama attack where 40 Indian security personnel died in Kashmir: a longstanding demand from India (Zheng 2019). Lastly, the emerging US-China and US-India trade wars may also have a positive impact on the Sino-Indian trade. Both China and India could agree to further reduce their trade tariffs with several countries as a means to compensate for additional US tariffs and re-orient their trade relations.

It is however at the multilateral level that India and China have found common grounds. Both countries share similar concerns about Western dominance in international arenas in general and about US dominance in particular (Pant 2014), its use of military power and the international status of its currency. Growing multilateral convergence has led the two countries to collude against Western positions on various topics. For instance, in climate change negotiations China and India generally agree that Western nations share a historical responsibility for climate change and invoke the principle of common but differentiated responsibility (Mizo 2016). They also voice together sovereignty concerns against imposed carbon emission reduction objectives and external controls. To reflect on this growing convergence in international arenas, Jairam Ramesh, former Indian Minister of Environment and Forest and current member of parliament, coined the term "Chindia".

Interestingly, India and China have converged on certain multilateral topics in spite of significant divergences on a range of bilateral issues. India is keen to side together with China in multilateral arenas but does not hesitate leverage "its relationship with the US in order to constrain China" (Pant 2014, p. 38).

5.4.2 Areas of Economic Cooperation

Concurrently with the geopolitical evolutions, China and India have also been keen to cooperate albeit with some restrictions, in certain economic areas. Four areas of economic cooperation are exposed below: digital development; funding of projects through the AIIB; energy resources and regional connectivity.

There has been a growing complementarity between China's hardware industry and India's software development capacities. India and China have launched digital corridors for Indian IT companies to support the burgeoning Chinese IT industry (The Economic Times 2019). As mentioned earlier, Chinese venture capitalists have also been keen on investing into Indian start-ups to support the development of innovations that could later be transferred back to China. If Beijing grants Indian firms a larger access to its IT market, this would also contribute to reducing the Sino-Indian balance of payment gap.

Similarly, in a bid to compete with Western institutions (World Bank and International Monetary Fund) and with the Japanese-led Asian Development Bank, China launched in 2014 the Asian Infrastructure Investment Bank (AIIB) headquartered in Beijing. India is well represented within this institution with a 7.65% vote share. New Delhi has also bagged the important nomination of Chief Investment Officer who is also a Vice-President of the AIIB. India has subsequently become the largest recipient country of AIIB funds (The Hindu Business Line 2018). Hence, there is a growing understanding by Chinese and Indian officials of the potential and complementarity between Chinese financial resources and India's resource-needed projects.

Third, although China and India have been competing against each other for acquiring overseas natural resources, there is scope for cooperation in this area. Both countries have recently created a Joint Working Group on Oil and Gas in order to institutionalize and stimulate their energy cooperation (Bhowmick 2019). Both countries have also been cooperating together to enter countries such as Sudan, Syria or Iran, from where Western oil companies withdrew amid political tensions and civil unrests (Kumaraswamy 2007). For instance, a consortium including ONGC Videsh Limited (OVL; the overseas acquisition arm of the Indian oil & gas company ONGC) and China Natural Petroleum Corporation (CNPC) has been exploring and developing oil fields in Sudan. China built a refinery in Khartoum and India developed the pipeline to channel refined products to Port Sudan for exports (Zhang and Xing 2018).

Fourth, India may have ruled out joining the BRI for now but has been keen to develop regional interactions (Yuan 2016). One of the initiatives both China and India are currently committed to is the BCIM-EC (Bangladesh-China-India-Myanmar Economic Corridor) that aims to connect the Southern Chinese province of Yunnan to the state of West Bengal in India through India's North Eastern states, Myanmar and Bangladesh. This initiative will allow to open up China's landlocked South Western provinces by providing access to the neighbouring countries and to the Bay of Bengal. Similarly, it will also support the economic development of India's landlocked North Eastern states and connect this region to its neighbours.

In spite of bilateral divergence, there have been areas of economic cooperation that can be pursued in spite of geopolitical tensions: convergence in multilateral arenas around topics such as climate change negotiations; complementarity between Chinese resources and India's digital development and resource-deprived projects; joint exploration and development of oil fields as well as regional development through economic corridors.

5.5 Conclusion

This chapter looked into the Sino-Indian economic relation, analysed the bilateral trade and investment structures and highlighted the geopolitical obstacles hindering the expansion of the bilateral economic relation. Two contributions can be developed from this chapter.

First, the chapter attempts to understand and make sense of the evolution of the bilateral economic relation between two large and fast-growing emerging economies. From virtually no bilateral trade in the early 1990s, the Sino-Indian trade has grown fast to reach $84.42 billion in 2017. As a reflection of their current economic status, India tends to export raw materials and basic intermediary goods while China tends to export manufactured goods to India. Trade figures also show an unbalanced trade relationship. India suffers from a significant trade deficit that tends to widen when including trade flows with Hong Kong in the picture. As far as bilateral investments are concerned, both their flows and stocks remain low: China is India's 18th partner and India only appears in the top 20 investors in China. Chinese investments have traditionally concentrated in the automotive and energy sectors while Indian investments focus more on IT and IT-enabled services, pharmaceuticals and banking industries. Although there have been some success stories (e.g. Chinese smartphone manufacturers making inroads into the Indian market; Chinese venture capitalists investing in India start-ups), the overall assessment of the bilateral economic relation reveals a rather disappointing picture given both countries' market size and economic health. There is scope for a much broader economic relationship especially because of their geographical proximity (an important factor to explain international trade; Ghemawat 2001) and economic complementarity: Chinese industrial base vs. Indian service base; Chinese hardware vs. Indian software production; China's financial capacities and India's resource needs.

Secondly, this chapter contributes to a better understanding of how the economy and the geopolitical situation are embedded and influence each other in the Sino-Indian context. In particular, can a flourishing economic relationship contribute to reducing political tensions? If not, can the economic relation and security concerns be de-hyphenated? Although both New Delhi and Beijing have committed to de-hyphenate their economic and strategic relations, this chapter shows that the economy has done little to reduce bilateral political tensions. By contrast, it seems likely that security concerns on both sides (on the one hand, China's expanding economy and military capacities, its "all-weather" friendship with Pakistan, the "String of Pearls" and border skirmishes; on the other hand, India's Tibet policy, its US rapprochement and alliances with neighbouring Asian countries) may contaminate the dynamic of bilateral economic ties through a process of "securitization" of the economic relation (Yuan 2016). To the question of whether China should be seen as a threat or as an opportunity, different schools of thought coexist (and sometimes confront) within the Indian Ministry of External Affairs (Ollapally 2014): the "nationalists" who perceive trade deficits with China as another pressure point over India, the "realists" who can accept alliances with the US and other countries to contain China; and the "globalists" who call for a deeper economic relation with China in order to benefit from associated economic opportunities.

When it comes to China's multi-million Belt and Road Initiative (BRI), India has refused to join the initiative for the moment, stating sovereignty concerns and the fact that it may increase China's pressure point over India. Pant and Passi (2017) argue that India does not have the financial strength to develop its own BRI and has no choice but to partner with the US, Japan and Australia to balance China's infrastructure projects. As a response to China's BRI, India and Japan have recently agreed to develop an infrastructure development partnership to connect Asia and Eastern Africa: the Asia-Africa Growth Corridor (AAGC).

The picture would not be accurate without mentioning current and potential areas of Sino-Indian cooperation. In the wake of a burgeoning trade war with the US and in the aftermath of the Wuhan Summit, both countries may seek to expand their collaboration in four related directions: (1) developing digital capacities; (2) matching China's financial capacities with India's capital needs (funding the development of start-ups through venture capital and infrastructure projects under the umbrella of the AIIB); (3) cooperating to acquire, explore and develop overseas natural resources; (4) developing regional connectivity initiatives such as the BCIM economic corridor.

Both countries will very likely deepen their trade relation and seek to bilateral investments through -for instance- the development of industrial parks. At the same time, India will probably continue to try to contain China via regional alliances while China is likely to continue to invest in countries surrounding India, Pakistan in particular. But ultimately, the two countries cannot afford ignoring each other: India will need China's cost-efficient goods, large-scale industrial expertise and financial resources and China will need to access India's digital innovation and its 1.4 billion consumers market to continue to maintain its economic growth via exports.

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Part II
Business Sector-Focused Breakdown of the Present Collaboration Initiatives and the Road to BRI

Chapter 6
The Role of Chinese and Indian-Owned Multinational Firms in the Global Economy

Fang Lee Cooke and Geoffrey Wood

6.1 Introduction

The expansion of Chinese and Indian firms' global footprints—and their varying impact—in recent years reveals their growing strategic intent and emerging capability, and, indeed, country of origin dynamics and distinct state traditions. It calls for the need to (re)examine how emerging market multinational enterprises' (MNEs) internationalisation strategies could be conceptualised, with implications for human resource management (HRM). Over the last two decades, outward foreign direct investment (FDI) from China, and to a lesser extent India, has risen substantially in both developing and mature economies. In particular, the growing presence and strength of a number of high profile Chinese firms (e.g., Huawei and CRRC) in the global economy has become increasingly prominent and controversial, especially given close ties to their parent government (even if the linkages between the US tech giants and the US security complex, might, in objective terms, be equally controversial). For example, China's leading telecom firms, such as Huawei and ZTE, have been the focus of national security debate and attracted US government's sanctions and financial penalties. In reviewing the patterns and strategies of Chinese and Indian firms' internationalization, this chapter assesses their role in the global economy, such as leading innovations in products and services and employment creation. The chapter further identifies challenges they are likely to encounter in entering and performing in the global market, as well as some of the perceived negative impacts they may have. Finally, the chapter identifies a set of research avenues for future investigation, to shed light on how political, institutional, and

For the purpose of this chapter, China and India are listed in alphabetical order without placing one country above the other.

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cultural factors at various levels, and Chinese and Indian MNEs' strategies, may impact various aspects of HRM practices. The chapter draws from theoretical perspectives from political economy, institutional theories, and culturalist views, to examine the roles of institutional actors and factors in the configuration of HRM practices in Chinese and Indian MNEs. The political economy perspective is particularly relevant to the study of emerging MNEs in developing countries (Akorsu and Cooke 2011). Equally, institutional arrangements are seen as the driving forces that determine MNEs' practices (Morgan and Kristensen 2006). Scholars who favour the institutionalist perspective call for sensitivity to the wider context in which the MNEs operate, in order to understand the historical and current preferences and strategies of all parties in the employment relationship (Almond and Menendez 2006).

6.2 Trends of Chinese and Indian FDI

Outward FDI from China and India has grown substantially since the 1990s. As shown in Table 6.1, in 1990, FDI from China only made up 0.34% of the world's FDI outflows, much less from India. By 2018, FDI from China and India consisted of 12.8 and 1.1% of the world's FDI outflows respectively (UNCTAD 2019). In 2017 and 2018, China was amongst the top three sources of FDI. The amount of cross-border acquisitions has also grown since the 2000s for China, but much less so for India (see Table 6.2). Manufacturing has been the engine for China's rapid economic growth since the 1980s, whereas IT and business process outsourcing (BPO) has spearheaded India's rise in the global economy. Both countries have gone through two stages of internationalisation, which have helped develop their indigenous firms to become global firms, in addition to some that began as global firms (e.g., Child and Rodrigues 2005; Cooke et al. 2018b; Thite et al. 2016a). The first stage was through inward FDI, which has enabled domestic firms to acquire, among other things, technological capability and management competences. The second stage was the internationalisation of indigenous firms through the establishment of overseas operations, some of which has been via cross-border acquisitions (e.g., Buckley et al. 2016a; Cooke et al. 2018b). Buckley et al. (2016b: 675) analysis of 1138 cross-border acquisitions made by 515 Indian MNEs during 2000–2013 shows that Indian MNEs have 'interface competence', in that they 'combine in-house resources with experiential market and externally sourced technological knowledge for undertaking cross-border acquisitions.'

By and large, the Chinese and Indian MNEs are not strong ones, if measured by the global ranking in terms of assets, technological capability and brand values. According to McKinsey Global Institute (2019), although China is the world's second-largest investor in R&D (with $293 billion in 2018), it still relies heavily on imported technology and intellectual property. State-owned/connected Chinese MNEs constitute the leading Chinese MNEs in the Fortune Global 500 list. As such, Chinese MNEs have attracted criticism; some question if they are truly MNEs and would be as competitive as they are presented to be, if they did not have state

Table 6.1 FDI outflows of China and India, 1990–2018

(millions of US dollars)

Economy	1990	1995	2000	2005	2008	2009	2010	2015	2016	2017	2018
World	243874.8	356727.3	1163730.8	832989.6	1701001.3	1098494.2	1373190.7	1682584.4	1550129.7	1425439.3	1014172.2
China	830.0	2000.0	915.8	12261.2	55907.2	56529.0	68811.3	145667.2	196149.4	158290.0	129830.0
India	6.0	119.0	514.4	2985.5	21142.5	16057.8	15947.4	7572.4	5072.4	11140.5	11037.0

Source: Adapted from UNCTAD (2019), FDI/MNE database (www.unctad.org/fdistatistics)

Table 6.2 An overview of cross-border mergers and acquisitions, 2005–2007 average, and 2013–2015 (US$ billion)

	Sales(net)				Purchases(net)			
Economy	2005–2007 (Pre-crisis annual average)	2013	2014	2015	2005–2007 (Pre-crisis annual average)	2013	2014	2015
World	729.18	262.52	432.48	721.46	729.18	262.52	432.48	721.46
China	9.00	31.07	54.91	9.66	6.59	51.53	40.78	43.65
India	3.49	4.64	7.55	1.41	12.34	1.92	1.08	−0.86

Source: Adapted from UNCTAD (2016)

backing in various ways (Huang 2008); however, the same might be said for many Western MNEs, especially in aerospace, defense, pharmaceutics and IT.

A significant (and rising) proportion of China's FDI outflows is in the manufacturing and mining sector. Such investment has implications, not only for broad developmental trajectories, but also for work and employment issues. In addition, Chinese construction firms have a strong presence in Africa, the Middle East and Southeast Asia. Some Chinese MNEs have been found employing Chinese expatriate workers, even in unskilled positions, in their overseas subsidiaries, which undermines the opportunities for local employment and human capital development (Cooke et al. 2018a; Lee 2009, 2014). Such practices have met with local resistance (Cooke et al. 2018a; Lee 2014). Chinese FDI in Africa has had significant political implications, as borne out by political debates in countries such as Zambia and Ghana (Cooke 2014; Jackson 2014; Kamoche and Siebers 2015). In contrast, Indian MNEs investing in Africa have not shown the same degree of preference for particular industries, and adopt a lower public profile. While China's economic growth has been supported by its manufacturing industry, Indian economic development in recent decades has been spearheaded by its IT industry, which has become world leading. At the global level, Indian IT services firms have dominated the outsourcing market with a 56% share, providing business process management services, primarily to western economies (Invest India 2019). In some ways, Chinese MNEs tend to have a stronger presence in less developed countries, whereas Indian MNEs are more concentrated in North America and European countries.

The external resources that the Chinese and Indian MNEs can draw on differ significantly and may be closely related to the level of political capital created by their government. Take Africa for example. While Chinese firms can leverage competitive political advantage, comparative economic advantage, and symbolic and economic diplomacy in Africa (Alden and Davies 2006), Indian corporations tend to rely on their corporate entrepreneurship, rather than political leverage, to gain competitive advantage; they seem much less able to leverage the range of diplomatic and state support than their Chinese counterparts. One reason for this distinction is that the Indian government has relatively fewer diplomatic ties with developing nations in Africa when compared with the Chinese government. As such, it has been argued that Indian firms are often considered to be more entrepreneurial and innovative than their Chinese counterparts (Huang 2008). Nevertheless, not all Chinese MNEs are able to benefit from the political patronage of governments, nor is the political factor the only source of influence on labour practices. Rather, industry-related characteristics, internationalisation motives of the business, and the nature of the value chain, are sources of major distinctions and complex interactions amongst internationalising MNEs across the region. For example, due to skill shortages, auto workers in developing countries may be able to successfully demand competitive wage and other benefits, as we have seen in China and India in recent years. In India, auto workers have chosen a more aggressive approach to advancing their terms and conditions than their counterparts in China (Nankervis et al. 2013). By contrast, employers in labour-intensive and low value-added sectors, such as garment manufacturing, may be caught at both ends; they are unable (some are unwilling) to pay what many would regard as an acceptable living wage; nor are they able to press the state to develop social policy that provides better benefits for workers so that a social wage is protected and is not at the mercy of commercial competition.

The growing strength of China and India in the global economy has been felt by national governments, particularly for countries in the region that have a strong economic connection. For example, the Australian Government White Paper, 'Australia in the Asia Century' (2012) is a strong indication that the Government has recognised the potential impact of the rising power of China and India on the region and beyond; the responses of successive Australian government has alternated between seeking to embrace the opportunities this affords and outright paranoia.

The US government has been quite aggressive in blocking Chinese MNEs through disapproving cross-border deals or restrictions in the way they conduct business in certain industries that are deemed sensitive and presenting a threat to the country. At the same time, attempts of the Trump's government to resume the manufacturing capacity and create jobs as part of the 'American first' initiative may not be able to deliver as expected. For example, the Chinese-owned Fuyao Glass Industry Group plant (Fuyao hereafter) in a Dayton suburb in Moraine, US was reported to have had industrial disputes, below expectation (by its Chinese employer) productivity level, health and safety concerns, and redundancy issues (Smith 2019). Yet, Fuyao workers in this suburb, which was once home to a large, unionized General Motors assembly plant, voted heavily against a move by the United Auto Workers to represent them (Carey 2017). This case offers interesting insights into the multi-faceted challenges and the learning process of a new Chinese MNE owned and managed by a veteran Chinese businessman. The case is far from being settled, but whether the factory can sustain and what benefits it can bring to the local community and the broader US economy will in part hinge strongly on the power relationships between the key stakeholders at various levels. Similarly, the delay and shrinking project of the planned Foxconn plant (invested by the Taiwanese owner) in southeastern Wisconsin offers another glimpse into the growing complexity faced of setting up manufacturing plants by MNEs from the emerging market in the US, involving debates and concerns related to political, legal, environmental, human capital and technological capability issues (The Verge 2019).

In short, the globalisation of the Chinese and Indian firms and industries will have a direct impact on firms in the global as well as within the domestic market. Consequently, a critical way for national firms in the host countries to compete globally is to identify the strategies and lessons from Chinese and Indian MNEs operating in these host countries and elsewhere. The implications of Chinese and Indian MNEs in the global economy would encompass insights as to the following: competition for FDI and product markets; the human dimensions of production; and, importantly, further insights as to the benefits and costs of the dominant HRM practices and labour relations paradigms favoured by such firms (Table 6.1).

A major difference between Chinese and Indian MNEs and western MNEs is that the former are typically young international firms that expand internationally in order to learn and acquire resources vital for them to grow, often in a trial and error style, whereas the latter often expand globally to exploit their existing firm-specific competitive advantages (e.g., products, technology, distribution outlets, brand, management competence, and well established value chains). As Thite et al. (2016b: 435) observed in the case of Indian MNEs, most of their overseas growth has occurred in the 2000s, and in a very short period of time, they have spread their global network, mainly via acquisitions in a constant cycle of 'linkage, leverage, and learning'. Despite some failures in cross-border acquisitions, Chinese and Indian MNEs have been quick learners in their internationalisation, both in scale and speed (Cooke et al. 2018b; Thite et al. 2016a). Their management practices carry distinct home characteristics and they encounter considerable challenges in their HRM, as discussed below.

6.3 HRM Practices and Challenges in Chinese and Indian MNEs

Chinese and Indian MNEs are characterised by different ownership forms and operate in a range of industrial sectors across regions of diverse historical and cultural backgrounds and dynamic institutional settings. This makes it difficult to generalise the HRM practices of these firms and their impact on the global economy. Nonetheless, research evidence reveals a variety of indicative patterns, especially in staffing arrangements.

One of the incentives to attracting foreign MNEs to the host country, particularly in communities and regions that are in desperate need of such investment, is the prospect of generating employment. Thus, a key aspect of HRM in MNEs is their staffing strategy and the related HRM or labour practices associated with this strategy. These strategies and practices have a direct impact on the relationship the MNEs have with the institutional actors in the host country, both formal and informal, including governments, trade unions, local communities, workers and so

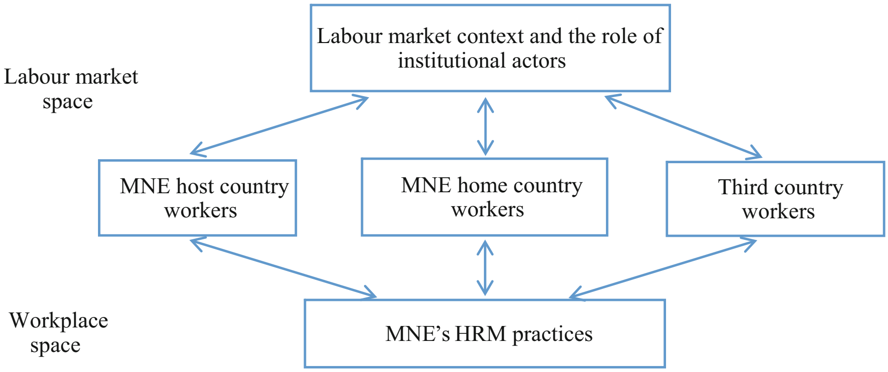

Fig. 6.1 Analytic framework of HRM practices of Chinese and Indian MNEs in host countries

forth. Global staffing and HRM practices are influenced by multiple factors external and internal to the MNE, including, for example, the characteristics of the local labour market and labour regulation, as well as the MNE's business strategy and human resources that enable the MNE to be deployed globally. The analysis of HRM, especially staffing practices in the Chinese and Indian MNEs, can be framed by mobilising two main conceptual elements: the role of the institutional actors and the spatial dimension (see Fig. 6.1).

The focus on the institutional actors in the labour market space at cross-border, national, and local levels, and on the HRM space at the workplace level, helps us better understand 'the interplay between the macro and micro spatial scales' (Groutsis 2006: 153). The interaction of institutional actors at various levels and different stages of the employment relationship challenges the conventional spatial divide between macro (labour market) and micro (workplace) levels, and between work and non-work domains, in the analysis of HRM in MNEs. By examining the respective role of institutional actors in shaping these spaces, and the interests forged by them 'in the process of negotiating space,' we can gain a better 'insight into the relationship between and within spaces in the labour market as labour market [and workplace] behaviour within and between these groups is captured' (Groutsis 2006: 152). Moreover, the mobilisation of a multi-level analytical framework offers us a robust approach to explaining work relations 'by identifying the connections between capital, product and labor markets and locating these in particular spatial and temporal contexts' (Westcott 2006: 188).

As Herod (2001: 2) argued, space and spatial relations may serve as 'sources of power and objects of struggle.' Extant studies of HRM practices in MNEs have been conducted, primarily within the organisational context, often within specific national boundaries where the subsidiary is located. However, the spatial dimension of work organisation and labour practice is not confined within the boundary of firms; there is much diversity in regulation and enforcement capabilities, not only between, but also within countries. Nor is it restricted by national boundaries, especially in labour markets characterised by cross-border labour mobility. In labour markets where workers from host, home, and third countries are competing against each other in a process shaped by the interactions of various actors, the space available for one group of workers in the labour market and in the workplace to contest their rights and interests may be underpinned by the relative power of other groups of workers (e.g. local vs. expatriate workers and third country nationals) (Cooke et al. 2018a). The adoption of such an analytical framework thus enables us to examine MNEs' staffing and associated HRM practices in a more holistic manner, and develop a more nuanced understanding of the opportunities and constraints that MNEs from emerging economies may face.

Previous research on MNEs has confirmed dual pressures—the need to conform to home country and host country institutional environments—when adopting labour strategies and practices (e.g., Brewster et al. 2008; Hillman and Wan 2005). In entering new markets, MNEs may diffuse valuable skills and create jobs, as they seek to reap specific advantages of operating in a particular setting. Alternatively, they may opt for cost cutting, centering on labour repression, with low and transitory commitment to the country of domicile (Morgan 2012). As many African countries are in a relatively weak bargaining position vis-à-vis potential overseas investors, sub-optimal state capabilities mean that it is often difficult to enforce regulations, even against domestic players. Morgan (2012) suggests that MNEs may be tempted to adopt different governance systems and associated practices where institutional constraints are weaker or more pliable, in order to escape a greater degree of regulation encountered at home. However, MNEs may adopt certain labour practices in the host countries to take advantage of the labour market conditions of both the home and host countries (e.g., Cooke 2014).

Extant research shows that Chinese MNEs adopt a highly pragmatic approach to their staffing arrangements, including the deployment of expatriates (both highly skilled and semi-skilled) from China, local workers, Chinese diaspora in the host country, as well as third country migrant workers (some may even be undocumented labour). For instance, Huawei and ZTE, two Chinese telecom giants, tend to deploy expatriate employees for the following reasons: in locations where there is skill shortage; where there are institutional barriers to using expatriates through restricted/delayed approval of expatriate work visas and imposed quotas on expatriates proportional to the local workforce; where urgent overtime work is required (Cooke 2012, see also Zheng and Smith 2017 on Huawei in Europe). Cooke et al.'s (2018a) study of Chinese construction firms in Africa also found that the Chinese firms use a fixed model of staffing, including workers dispatched from employment agencies in China for their skills, language and cultural similarity, and in order to bypass local labour regulations. The Chinese construction firms also deploy local workers in the host country, in part because of the pressure to create local employment and the rising labour cost of hiring Chinese dispatched workers. The same study further revealed that the large state-owned Chinese construction MNEs subcontract part of the projects to Chinese private construction firms, who offer lower employment terms and conditions to the workers; some even deploy undocumented African migrant workers in order to contain costs. These practices tend to invoke local resentment and complaints. Labour disputes are often settled informally with financial payouts. Local governments, trade unions, politicians, and community leaders have been found to be involved in labour relations issues in Chinese firms operating in the mining sector (Cooke 2014; Lee 2009, 2014).

Tensions in staffing strategies and the Chinese MNEs' pragmatic responses to the host country's institutional and organisational settings have also been found in Chinese MNE operations in Europe and the US. For instance, Ouyang et al.'s (2019) study of Chinese MNEs in the US shows that these firms implement HRM localisation as a strategic mechanism to overcome the liabilities of their Chineseness. Khan et al.'s (2019) study of seven Chinese MNEs in the UK and the role of expatriates and diaspora in resolving the tension between home and host countries shows that expatriates, although equipped with knowledge of both home and host countries to bridge the cultural and institutional divides, still face an uneven and contested process of integration of the two HRM systems. Similarly, applying a social relations discourse analysis, Zheng and Smith (2019) examined two sets of social relations—the social functions of expatriates and the pathways of expatriation—among three Chinese MNCs operating in Europe. They propose a framework of tiered expatriation as an open system that incorporates the collective function of labour, strategic choices of the MNC, and the actions of workers and institutional players, in order to capture the dynamic and diverse nature of negotiations between Chinese MNEs and local institutional actors in staffing choices.

Zheng and Smith's (2017) study of labour practices of Chinese firms in Europe also shows that when under the pressure from the local dockworkers trade union at the Greek Port of Piraeus, the Chinese construction firm replaced its Chinese workers with migrant workers from other EU countries through employment agencies, instead of hiring the local Greek dockworkers, as demanded by the trade union through several rounds of strikes. The intention was to maintain labour flexibility and keep the trade union off. Such a defensive labour strategy is not unique to the Chinese MNEs, but is quite common in the labour intensive industries (e.g., shipbuilding, logistics, services and distributions) with a high level of fluctuation of work (c.f. Lillie 2012 for migrant workers in contingency employment in the shipbuilding and construction industry in Finland).

In contrast, Indian MNEs in the IT services industry tend to use expatriates from their home country for international staffing because of the low cost of hiring them, the abundance of IT professionals at home, their technical competence, language proficiency, motivation, and hardworking attitude and efficiency. Even so, Indian IT services MNEs have been increasing the proportion of their local employees in the western markets slowly, in order to be seen as serious about embedding their business in these countries (e.g., Thite et al. 2016a). It is worth noting here that, compared with the small number of studies of HRM in Chinese MNEs in English journals (see Cooke et al. 2019a for a review), the number of studies of HRM in Indian MNEs is even smaller, and precludes us from discussing their practices in more details in this chapter.

What is clear, though, is that the rise of China and its MNEs in the global economy has been met with more suspicion, criticism, and resistance by the rest of the world than has the rise of India and its MNEs, in part because of the sharp ideological and cultural differences that inform political regimes and economic policies. Other factors may include the rise of right wing populism in the US, the UK and Australia, protectionist sentiments or fears of a dilute of labour standards As an example of the latter, Zheng and Smith (2017) described that the arrival of Chinese firms in Europe has been greeted by fear of local firms racing to the bottom in the economy, because Chinese firms are perceived to be exploiting institutional loopholes, being non-compliant to law and regulations, and offering poor labour standards, even though employment practices adopted by Chinese MNEs are diverse and can be responsive to local conditions. The negative public image of Chinese MNEs has, to varying extents, constrained their expansion strategy and HRM practices. It may also prevent the host countries from benefiting from what the Chinese MNEs have to offer—for example, technological competence and infrastructure building capability—to meet the economic and social development needs of these host countries.

A further issue which is worth considering is that there are numerous instances where emerging market MNEs—and most particularly, Chinese and Indian ones—have been able to turnaround high profile yet failing Western firms that previous owners had written off: examples would include Volvo (Geely, China) and Jaguar Land Rover (Tata, India). There are a number of possible explanations this phenomena: in the case of Jaguar Land Rover, indigenous managerial incompetence would be a strong candidate. However, in the case of these two examples, where the new owners were in part motivated by technology seeking, it would seem unlikely that some unique new knowledge was infused. Rather, a major ingredient in the turnarounds was simply the provision of more patient capital, allowing for a recovery from decades of under-investment; this is of considerable significance, as evangelists of the liberal market model have, as an article of faith, held that a focus on short term shareholder returns maximises performance and allows for the most optimal allocation of capital (yet, in the case of the two car firms alluded to, the former US owner does not seem to have found a better outlet for its capital elsewhere). In some instances, the new Chinese or Indian owners have not had the patience to persist with a firm—and its country of origin workforce—after core technology has been acquired. However, there are many other examples across a wide range of sectors where declining firms that provide large numbers of decent jobs have been renewed through acquisitions by emerging market MNEs. Although it is easy to ascribe each instance to anecdotal factors, it does highlight the limitations of the shareholder dominant paradigm, and the extent to which the ability of Chinese MNEs in particular, to access longer termist capital, may help mitigate some of the worst consequences of shareholder value orientated capitalism.

6.4 Future Research Directions

There remains much to be researched on the role of Chinese and Indian MNEs in the global economy in general and the nature and broad economic and social impact of their HRM more specifically (Cooke et al. 2019a; Thite et al. 2016a). This section outlines some of the research avenues related to subject matters as well as intellectual and methodological approaches, to advance our understanding on this topic.

First, future research may examine more closely the role of the state in both home and host countries, at various levels, in shaping the business opportunities and institutional environment for the Chinese and Indian MNEs across different industrial sectors and ownership forms. The combination of these factors creates a dynamic and interactive context, for example, in creating a transnational labour market within which these MNEs operate. Issues that can be explored include, for instance, what is the role of the state in home and host countries in creating job opportunities and the quality of these jobs for local workers, for home country nationals, and importantly, for third country nationals where cross-border mobility is relatively easy, with or without legal documents? The mobility of these workers may affect the job chances and quality of work available for the local workers, thus creating further political and social tensions, as illustrated above.

Second, existing studies of HRM practices of MNEs have primarily adopted a culturalist and institutional perspective (e.g., Cooke et al. 2019b; Morgan and Kristensen 2006). Extant comparative institutional analysis has tended to focus on differences between first world institutional archetypes and their role in the making and remaking of formal rules. The utility of this approach to studying Chinese and Indian MNEs in their host countries, particularly in other less developed countries, raises challenges. For example, in some African and south Asian countries, there remains uneven institutional coverage, allowing room for firms to innovate and co-shape institutions, overtly and covertly, with local institutional actors, formal and informal. Adding to this institutional fluidity is that both China and India, as MNEs' home countries, are also experiencing dynamic changes in their institutions that affect FDI and labour practices which are often specific to industry and firm ownership types, as we have seen above. With a few exceptions (e.g., Giroud 2007; Ren 2010), the role of emerging market MNEs and their employment practices in the development of these countries have been under-researched. An interdisciplinary approach will thus uncover how labour practices of Chinese and Indian firms operating in different industries and markets may be affected by the institutional arrangements, reflecting institutional actors' preferences and bargaining position, and the cultural traditions of the host countries. For example, a feature of emerging market MNEs in Africa has been a tendency to forge close relations with governments/states and local elite firms, but a neglect or avoidance of relations with unions and other social partners (Wood and Brewster 2007). Although studies of the political role of MNEs have gained traction (e.g., Frynas and Stephens 2015; Scherer and Palazzo 2012), research about their implications for HRM (in Chinese and Indian) MNEs remains limited (Cooke et al. 2018b). Again, whilst attempting to understand institutional effects in emerging markets has led to the development of new national taxonomies: hierarchical market economies (Latin America); segmented business systems (Africa), family capitalism (Asia and elsewhere) (Schneider 2009; Wood et al. 2011). These frameworks may help explain country of domicile pressures. However, an equally important distinction—which cuts across emerging and mature economies—is simply the degree of state willingness and capacity for active intervention in market coordination. This will, for example, help explain the very different role and experience of Chinese and Indian MNEs, and, indeed, how they differ to MNEs, say, from Brazil or South Africa.

Third, future studies of Chinese and Indian MNEs could adopt a multi-level analysis approach. In developing regions such as Africa, where the regulatory capabilities of states are uneven, informal rules and conventions can be important. Newly entered MNEs may be working with existing and emerging institutional actors in these economies to create informal practices and industrial norms that set the trend for the industry/sub-sector. For example, in the case of Chinese MNEs operating in less developed countries, the combination of political diplomacy and business entrepreneurship are creating a unique effect, remaking the landscape of work (Cooke 2014). For Indian MNEs, forging alliances with global business giants and the mobilisation of corporate strengths seems to be a key strategy to embed their business on foreign soil (Huang 2008). A multi-level and interdisciplinary approach will broaden the field of analysis of MNEs' employment practices by situating them in a wider institutional framework, involving traditional and new actors at various levels. It will assess what impacts they may have on the host country (and vice versa) through their employment practices. These research efforts are likely to provide a deeper understanding of the bounded nature of diversity and change within specific (sub-)national and geographic contexts, and to transcend the fashionable view that MNE practices simply represent a mix of home and host country effects. Almond (2011) also calls for more integrated studies that examine the changing level of governance and its impact on management practices. Here, cross-border labour mobility, for instance, may create a transnational labour market, drawing on, and shaping, local labour market conditions simultaneously.

Fourth, Chinese and Indian MNEs are not the same, nor do they operate similarly across the world. Comparative research into Chinese and Indian MNEs in different parts of the world remains rare. Given the growing significance of the two economies in the global economy, in-depth comparative studies will yield important insights that will be beneficial to academic knowledge as well as policy and practice. Morgan (2005) argues that viewing nations as separate and self-contained entities may create a false impression that the dominant questions for comparative analysis are about convergence and divergence, rather than the degree of integration and fit, and the capacity of actors at the firm level to make choices about regulatory approaches within the sets of constraints imposed by institutions, history, and international/environmental context.

Finally, the turnaround phenomenon—the repeated ability of a number of prominent emerging market MNEs to revive the fortunes of large declining Western industrial firms—remains very under-investigated, other than in terms of single case studies. The question arises is whether this is largely about an ability to secure patient capital—and, if so, what this tells us about the shareholder value maximization paradigm—or if the experience of operating in challenging institutional contexts is also relevant in reviving declining firms; this may, for example, be the case if local or national institutions in the country of domicile are no longer capable of, or interested in, meeting the needs of specific sectors or industries.

One can envisage that Chinese and Indian MNEs in developing countries may encounter a very different set of opportunities and challenges, and the role of host governments may also differ significantly compared to that in developed regions. Comparative research, therefore, has the potential to advance our knowledge on Chinese and Indian MNEs' global footprint in territories less charted by the international HRM research community. Insights from these studies will enable us to assess the extent to which Chinese and Indian MNEs have imparted, in many important respects, a new paradigm of employment practices in developing countries, one which is different from that of western MNEs. This has significant implications for some smaller nations; the implications may not only be political and economic, but also demographic (e.g. through the mass deployment of expatriate workers). Therefore, the scale and scope of Chinese and Indian FDI into Africa and other institutionally fluid and economically vulnerable regions, and how they manage labour, has far-reaching implications, not only for relative national development and domestic politics, but also international relations. Mature market MNEs are generally under far greater scrutiny in their country of origin and by end users within such countries, in terms of the labour standards of their suppliers. In highly competitive markets with easily substitutable products, this places mature market MNEs under competitive disadvantage, not only from countries with lower labour standards, but vis-à-vis other MNEs that are better able to export their labour standards and practices to other developing countries at lower cost. This is of great relevance, not only in terms of the changing global balance of power, but also for developed economies like Australia, where there remains a heavy reliance on minerals as a producer and consumer, and, in turn, on an ability to attract new investment.

Fifth, the emerging body of research on MNEs from China and India has primarily focused on the large, state-owned/connected firms in the case of China (e.g., Boisot and Meyer 2008; Child and Rodrigues 2005; Cooke et al. 2018a) or the top-performing global giants in the case of India (e.g. Thite et al. 2016b). Far less attention has been paid to the investment motives and management practices of smaller privately-owned firms, many of which emerged as a result of opportunistic entrepreneurship (e.g., Akorsu and Cooke 2011). However, emerging market MNEs tend to be smaller in size, with considerably less resources and international experience than their counterparts from developed markets, limiting their ability to transfer management practices across their subsidiaries (Guillén & García-Canal 2009). Given that the bulk of Chinese and Indian outward FDI comes from the private sector (National Statistics Bureau of China 2019; UNCTAD 2019), there remain major gaps in our understanding of MNEs from China and India, especially given the disproportionate scale of their operations in some less developed countries, notably African states and southeast Asian countries. More research efforts on smaller MNEs will be desirable, particularly in understanding how they compete and collaborate with larger (and state-owned) MNEs to complement each other's resources and accommodate each other's constraints, as we have seen in the Chinese construction value chain in Africa and Asia.

Sixth, extant literature has tended to treat China and India and their firms as the learners from the developed economies and their firms, for example, through cross-border transfer of knowledge and technologies (Narula 2014). As such, the ability to develop absorptive capabilities is seen crucial for the former to catch up (Mudambi et al. 2018). This raises several questions: when Chinese and Indian firms in certain industries have become the world leader, the opportunities for them to learn from other firms or through internationalisation may decrease; will this slow down their own growth and competitiveness? Equally, as Chinese and Indian MNEs continue to rise in their global leadership, will they become the role model for other firms in the developed economies to follow and learn from? And if so, what are the necessary conditions for this learning to take place? How will the global economy be reshaped, and with what impacts on societies?

Seventh, given the limited studies on the topic thus far and the nature of the research avenues outlined above, future research may adopt a case study approach to explore major factors influencing the business strategy and management practices of Chinese and Indian MNEs with different sizes, product markets, and ownership forms (see also Zheng and Smith 2017). A case study approach enables the collection of detailed information from various sources (e.g. interviews, secondary data, and on-site observation) at different levels (e.g. national, industry and firm) to facilitate this analysis. As Quintanilla and Ferner (2003) observed, the examination of the interplay between the MNEs and their home and host countries has been a distinct focus in the international HRM field. This necessitates the examination of the macro environment as the context within which to make sense of organisational strategy, policy and practice at the micro level.

6.5 Conclusion

This chapter examines trends of Chinese and Indian FDI and the internationalisation of Chinese and Indian MNEs. It discusses employment/HRM practices of Chinese and Indian MNEs. These emerging economy MNEs face multiple challenges in their internationalisation and subsequent growth as MNEs, impeded to varying extents by their liability of country of origin, newness, smallness, and deficits in corporate resources and competence (Cooke et al. 2018b; Thite et al. 2016a). Although the management styles of Chinese and Indian MNEs carry many characteristics resembling their national culture (e.g., the Chinese paternalism and pragmatism, and the Indian social mission orientation and a tendency to centralize decision making, due to fear of loss of control), they are also adaptive in their management approach to host country situations, and have adopted western HRM practices. While some of the Chinese and Indian MNEs have had major setbacks in their international operations, the Chinese and Indian MNEs in the telecom and IT services sector have emerged as strong and innovative global players and leaders of the industry.

MNEs from emerging economies such as China and India have remained under-explored, despite their rapid growth since the mid-1990s (Cooke et al. 2019b; Luo et al. 2010; Thite et al. 2012). As such, knowledge about how the Chinese and Indian MNEs operate, and what opportunities and barriers they face in various sectors across different parts of the world, and the role they play in the global economy and social development, remains extremely limited. Yet, theories developed based on western institutional contexts and MNE practices may have limited research's explanatory power to understand the management practices of relatively new MNEs from emerging economies, and to understand the policies and practices in countries of domicile where institutional practices are more fluid or less complete in coverage than would be encountered in the developed world. Further, the scarcity of studies on management issues of Chinese and Indian MNEs misses out on the opportunity of exploring industry-based and ownership-specific variations in firms' strategy and practices, because industry/ownership-based disparities open up new space for MNEs to develop different labour practices within a broad national and transnational institutional context, with implications for economic and social development. Therefore, when governments shift emphasis in relation to FDI, it is important to formulate policy with the awareness that the implications are not only local, but also national and global.

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Chapter 7
Global Integration or Local Responsiveness? Insights from the Case of Chinese MNEs in India

Pi-Chi Chen and Kim Bui

7.1 Introduction

Scholars (Hamel and Prahalad 1983; Bartlett and Ghoshal 1989) have explored the global Integration-local Responsiveness (the I-R) framework from different perspectives. Hamel and Prahalad (1983) introduced the concept of the I-R framework suggesting that multinationals usually provide standardised or localised products and services. Multinationals follow integration because of economies of scale, customers' preferences and coordination of subsidiaries. On the other hand, these firms follow responsiveness, because of host country's product/service preferences and resource advantages. Bartlett and Ghoshal (1989) broadened this classification to identify a three-step typology for different kinds of international firms. Global companies usually adopt high standardisation (integration, globalisation), multi-domestic companies pursue high responsiveness (localisation) and transnational companies pursue both integration and localisation. This research is going to explore how this framework is implemented by Chinese MNEs in India using the cases of Sany Heavy Industry and CRRC Corporation Limited. Chinese MNEs in India are selected as case study because India is set to make strides with the injection of funds into its failing infrastructure. Investment combined with the application of new technologies and job creation will boost Gross Domestic Product (GDP) and economic growth, however, problems such as population growth and corruption are likely to be topics on the policy agenda for a long time to come. India needs to move quickly by adopting innovative policies with a clear focus on infrastructure development; however a lot more remains to be done despite needing urgency.

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This study provides three key contributions. It provides insights on how Chinese MNEs in India implement the I-R framework. Second, it fills a gap, as research on this theme in India has not been addressed in the scholarly literature before. Finally, it provides valuable input to practitioners, as the study provides both recommendations and challenges for global firms planning to establish in India.

This paper has three parts. It begins with a review of the literature review relating to the underlying determinants identified by previous conceptual and empirical studies and proceeds to formulate the main research question. The study then proceeds the detailed case analysis with the factors affecting the I-R framework being discussed in relation to three themes, namely, global integration and local responsiveness factors. Finally, implications are derived from case analysis and directions for future studies are advanced.

7.2 Theoretical Background

As firms evolve to become international companies, how they configure their activities across borders is largely dependent on how they deal with the fundamental tension between the opposing demands of globalisation and localisation (De Wit and Meyer 2010). This theoretical background begins with a clarification of the concepts of global integration and local responsiveness. Subsequently, attention will turn to strategy issues in an international context.

7.2.1 Global Integration and Local Responsiveness

C. K. Prahalad, Yves Doz, and Chris Bartlett developed the global integration and local responsiveness (the I-R) framework to enable worldwide companies to consider various strategic and organisational responses to changes in their environment. Global integration is generally defined as integrating the activities of the MNE across international markets, and local responsiveness refers to resource commitment decisions taken autonomously by a subsidiary in response to primarily local competitive or customer demands. The need for integration arises in response to pressures to reduce costs and optimise investment. The need for local adaptation of products or differences in distribution across national markets indicates a need for local responsiveness. The I-R framework shows these two pressures as orthogonal, and that companies need to judge the degree of strategic emphasis on both dimensions simultaneously, rather than treating them as alternatives. Bartlett and Ghoshal (1989) used the I-R framework not only to map the industries they studied, but also the companies within an industry, the functions within a company, and the activities within a function.

Bartlett (1986), Prahalad and Doz (1987) and Ghoshal (1987) have all extended the conceptualisation of industry pressures to incorporate generic strategic responses. Both sets of scholars have used variations of the I-R framework in their work. Perhaps the clearest explication of these pressures is the Prahalad and Doz (1987) model, where each pressure in the I-R framework is represented as a separate axis comprising a 2×2 Matrix. Prahalad and Doz (1987) applied the I-R framework to analyse the management of relationships between headquarters and subsidiaries. The managers of MNEs face the requirement for the strategic integration of their operations in various countries in the presence of strong forces for national responsiveness and fragmentation. Strategic integration needs usually stem from the economic, technological, and competitive conditions of the firm's activities. Integration usually involves the development of a network of subsidiaries in which R&D, manufacturing, and distribution tasks are centrally allocated and coordinated. 'Locally responsive' strategies will be emphasised, if managers perceive industry pressures predominantly at the domestic level. If managers perceive industry pressure for 'global integration' within global industries, a global strategic coordination will be recommended. Finally, when perceptions of environmental pressures indicate a need to respond simultaneously to both local responsiveness and global integration pressures, 'multifocal' business strategies would need to be adopted.

Bartlett (1986) stated that the increasing manufacturing economies associated with global- or regional-scale demands, or the need to spread escalating technological development costs over short product life cycles, have tended to create the need for greater global co-ordination of efforts and integration of operations. On the other hand, national differences in consumer tastes or market structures, or host government protectionism or regulation, have increased the need for more local differentiation and responsiveness. The search for the balance between integration and responsiveness is influential in shaping the organisational strategy of the MNE.

Roth and Morrison (1990) and Johnson (1995) extended the I-R framework with empirical surveys. In the study by Roth and Morrison (1990), businesses competing in global industries were categorised into three groups according to the I-R framework for conceptualising industry pressures confronting businesses competing internationally. The three groups are named as global integration, locally responsive and multifocal business. Roth and Morrison's (1990) study showed that a group of businesses were able to maintain a 'non-global' competitive position through emphasis on a focused set of competitive attributes, which were directed towards being highly responsive to each local environment in which they operate. The second extension of the integration-responsiveness framework was in the area of proper matching between the organisation and its context, which plays an important role in the businesses' overall effectiveness. Roth and Morrison (1990) also found that being responsive to the customer, through quality customer service, is the most important competitive attribute, regardless of the strategy pursued.

Johnson (1995) extended Roth and Morrison's (1990) test of the Prahalad and Doz (1987) model in the study of a single global industry. His study confirmed the validity of earlier work, as well as the performance difference across each of the groups of businesses within a global industry. It suggested that competitive attributes are differentiated in integrative and responsive strategies within a single industry context. The main conclusion of his study was that there seems to be a strong relationship between the role an MNE assigns to a subsidiary, and the level of coordination that is then required. As the requirement increases for the integration of the subsidiary's activities with those of the rest of the MNE, there is a heavier use of mechanisms of coordination, both formal and subtle, up to a point regardless of its level of localisation. The other finding is that the subtle mechanisms of coordination seem to play a more important role, once the formal ones have been put in place. The research showed that an increase in the firm's integration level has to be accompanied by an increase in coordination, with the increasing importance of subtle mechanisms of coordination over time.

Gupta and Govindarajan (1991) built on Porter (1986) and Bartlett and Ghoshal's (1989) notion of the MNE as a differentiated network. Gupta and Govindarajan (1991) treat a MNE as a network of capital, product and knowledge transactions among units located in the different countries. They focus on knowledge transactions and study where the knowledge flow between a subsidiary and the rest of the MNE is defined as the transfer of either expertise (such as skills and capabilities) or external market data of strategic value (such as key customers, competitors and suppliers). Subsidiaries are different in knowledge flow patterns, namely those of global innovator (high outflow, low inflow); integrated player (high outflow, high inflow); implementer (low outflow, high inflow); and local innovator (low outflow, low inflow).

Jarillo and Martinze (1990) studied the relationship between the strategy of an MNE (which is defined as its choice of integration and the mechanisms of coordination) and differentiation levels across its geographically dispersed organisational unit. Multinational enterprises can attain a sustainable competitive advantage by integrating the value chain activities performed in their subsidiaries around the world. However, Jarillo and Martinze (1990) study showed that MNEs face globalising and localising pressures. Globalising pressure is concerned with raising the level of interdependence among subsidiaries; designing narrow product lines to be sold worldwide; concentrating production in a few plants in order to capture economies of scale and reducing input sources to the most efficient ones. Localising pressures might be caused not only by political pressures (such as to create employment, to improve the host country's trade balance, etc.), but also a strategy of localisation (such as tastes differing for many products across countries; local regulations, etc.). For these reasons, some industries still show a multi-domestic pattern of competition (Porter 1986) that calls for nationally responsive or differentiated configurations (Prahalad and Doz 1987; Bartlett 1986) of value chain activities as a primary source of competitive strength.

7.2.2 *Factors Affecting Global Integration and Local Responsiveness*

The determinants of the I-R framework have been subject to vigorous conceptual consideration and empirical evaluation (Bartlett 1986; Ghoshal 1987; Gupta and Govindarajan 1991; Jarillo and Martinze 1990; Johnson 1995; Luo 2001, 2002;

Prahalad and Doz 1987; Roth and Morrison 1990; Taggart 1997a, b, 1998). Empirical studies have identified a number of factors (e.g. technology and investment intensity, pressure for cost reduction, forming common demand market across the global, differences in customer needs, differences in distribution and knowledge creation) that influence decisions relating to I-R issue and identified factors that impact on the degree of global integration and/or local responsiveness. Studies have also concentrated on the degree of either local responsiveness or global integration though Luo (2001, 2002) has conceded the factors that influence integration and responsiveness are not necessarily the same or are inversely related and advised that "future studies should incorporate various factors into an integrated model assessing integration and responsiveness simultaneously" (Luo 2001, p. 472). Fan et al. (2008, 2011) conflated all factors identified by 15 previous empirical studies into factors solely affecting either global integration or local responsiveness, and hybrid factors that affect both global integration and responsiveness. In their works, they identified factors that affecting global integration include standardisation, centralisation, technology intensity, economies of scale, information flow, competitors' action and country specific advantages. The factors that affecting local responsiveness include environment complexity, cultural distance, domestic competition intensity, local trade barriers, established network, government support and local business infrastructure.

Meyer and Su (2015), in an empirical study of 345 subsidiaries in two emerging economies (Poland and Hungary), suggested that the I-R framework cannot be delineated into specific dimensions as earlier studies have typically done. Instead, important contextual factors at the subsidiary level (talent, cost factors and competitive advantages) have also to be examined in the final implementation of the MNEs' strategy.

China is rising as an influential political and economic power and Chinese MNEs are China's engines of international business (Rasiah et al. 2010). Zhang (2007) indicated however, that inadequate local responsiveness and strategic planning are among the key problems of Chinese MNEs. In some countries, local fear or dislike of Chinese investment has been evident (Hanson 2009; Hanson and Shearer 2009). The growth of Chinese foreign direct investment (FDI) into The Organisation for Economic Co-operation and Development (OECD) countries has become an issue of policy interest. For instance, Australia has introduced a "national interest" test in managing Chinese investments in the Australian resource sector (Drysdale and Findlay 2009). On the other hand, Rugman and Li (2007) and Rugman and Oh (2008) expressed that China has not had the management talent required to manage huge and complex multinationals due to the nation's short history of internationalisation. For example, Luo and Tung (2007) argued that MNEs from emerging economies, especially Chinese MNEs, face post-springboard/post-acquisition "integration difficulties". Thus, exploring what factors influence the I-R framework in the context of the biggest emerging market country's MNEs has become an important research theme.

In summary, achieving an organisational structure that would succeed in increasing regionalised or globalised markets is not easy and there is no simple solution.

The transnational form of an organisation may provide an alternative solution to the fundamental problem of configuring global integration to achieve the optimal levels of scale and scope economies, coupled with sensitive local responsiveness (Bartlett and Ghoshal 1989; Ghoshal 1987). At the same time, the decision of where to locate and how to manage each subsidiary will be made by the MNE's top management on the basis of contingent circumstances and specific cost benefit trade-offs (Segal-Horn and Faulkner 1999). The different organisational structures and strategies are, therefore, appropriate for certain specific conditions. To iterate, prior conceptual and empirical studies have identified factors that affect the I-R framework based on the perspective of MNEs from advanced economies. By contrast, in this paper we explore how Chinese MNEs perceive factors affecting the I-R framework.

7.3 A Case Study 1: Chinese State-Owned Enterprise CRCC and the Belt and Road Initiative—A Complex Globalised Strategy

7.3.1 The One Belt and Road Initiative

In 2013 Xi Jinping visited Kazakhstan and Russia and announced the plans for creating an economic belt and corridor that would link China with Central Asia, Russia, and Eastern and Central Europe (Ferdinand 2016). Shortly after this announcement, Prime Minister Li Keqiang announced plans for a maritime Silk Road which links China with Southeast Asia, India, the Persian Gulf, the Mediterranean, and further into Europe (Ferdinand 2016). Both these projects make up China's One Belt One Road initiative (BRI)—a massively ambitious development which involves over 60 countries and over four billion people being connected through railways, highways, ports, and pipelines (Summers 2015). China calls this a modern silk road that will to boost economic integration and will mark a new era of multilateral cooperation and globalisation (NDRC 2016). Nordin and Weissmann (2018) on the other hand argued that this initiative is a concrete manifestation of Xi Jinping's "Chinese dream" of rejuvenation from national humiliation.

> With the Belt and Road Initiative paving the way, we will give greater meaning to the notion of opening up, increase our level of openness, and coordinate efforts to strengthen strategic mutual trust, investment and trade cooperation, and cultural exchanges. . .we look to undertake practical and mutually-beneficial cooperation in multiple sectors with countries and regions involved in the Belt and Road Initiative, with the aim of developing a new picture of all-around opening up in which China is opened to the world through eastward and westward links and across land and sea—adapted from 13th Five Year Plan, NDRC (2016).

China hopes to build a comprehensive trans-Asian network to form what Xi Jinping calls a "community of shared destiny." A culturally and politically diverse but economically integrated economic orbit. This also includes a shared destiny includes shared beliefs and norms, mutual respect and trust (Callanhan 2016). Others

Table 7.1 Key regional pledges made to facilitate the BRI

Key BRI regions	Key pledge/deal
South Asia	Xi Jinping pledged US$20 billion to upgrade India's railway infrastructure and to feasibly test a HSR between Delhi and Chennai, a port city on the bay of Bengal. This will be the world's second longest HSR covering a total of 1754 km. Rumoured between China Railway Corp and Rail Vikas Nigam Ltd. (Zhong 2014)
Southeast Asia	China also pledged US$10 billion in loans for the China-ASEAN infrastructure investment. Including for projects in Indonesia, Laos, Malaysia and Philippines (Megha 2015)
	Further pledged US$6 billion to finance infrastructure connectivity in the Greater Mekong Subregion involving Myanmar, Laos, Thailand, Cambodia and Vietnam (Hua 2018)
Central Asia	Drafting of US$27 billion worth of economic cooperation (rail, port, and pipelines) and infrastructure construction agreements between China and Kazakhstan from 2016 to 2022 (Bisenov 2018)
Europe	China signed agreement to finance 85% of a new China-built railway linking Hungarian capital Budapest to the Greek port of Piraeus while passing through Serbian capital Belgrade. This project is worth US$3.8 billion and will open Western, Central, and Eastern Europe to container traffic with China. Work commenced in November 2017 (Liu 2018)

Source: Constructed by the author based on State Council

have argued that the BRI is designed to create transport infrastructure to permit China to import energy and resources, while exporting goods to parts of Eurasia without relying on coastal areas that is vulnerable to Western sanctions of naval blockades (Mitsuru and Kishimoto 2019).

The countries along the Belt and Road route totals over 60, and with over 50 having already signed the BRI corporation endorsements. These endorsed countries will link their development strategies to the BRI. Ultimately the BRI will change the way economic centers are connected, thereby impacting productivity, competition, market opportunities, transport and logistics. The estimated cost of this project is $8 trillion with expectations on the timeframe to be approximately 35 years (Hillman 2018). In 2014 Chinese Premier Li Keqiang has signed bilateral cooperation agreements worth over $140 billion to advance Chinese interest in exporting railway and port infrastructure construction, therefore creating transportation access and boosting Chinese exports throughout Eurasia and Europe. By 2018, China had committed over US$1 trillion to begin developing the infrastructure links in western China (Bruce-Lockhart 2017).

In understanding the BRI, many claim that it will be revolutionary and will create a new global order in both politics and economics—arguably where China will be at the center of global networks. Infrastructure and geographic space will be transformed and connected to grow new areas of economic activity (Macaes 2018). Table 7.1 provides examples of the key deals and pledges made by the Chinese to facilitate the development of BRI internationally.

7.3.2 A Global Integrated Strategy

The BRI aims to address infrastructure connectivity to accelerate the economic development primarily across Asia, Eurasia, and Europe. The structure of the BRI is geopolitically centered around several land corridors and maritime silk routes thus spanning across 60+ countries and stretching as far as Oceania and East Africa. It is therefore expected that upon completion, the BRI will mark a new era for global connectivity, collaborative efforts, and cooperation—totalling 40% of the global GDP. Studies have forecasted the BRI to require US$900 billion of infrastructure investment per year in Asia alone.

China cannot simply fund the initiative on its own, it therefore has taken an outward collectivist globalized approach, and will need infrastructure driven investments over the next decades in order for the BRI to be realized. Evidence in taking a globalized strategy, China has established financial institutions such as the Silk Road Fund, and the Asian Infrastructure Investment Bank (AIIB). Keen to make the BRI an inclusive global collaborative program, China has also welcomed membership from many Asian and European heads of state. As of 2019 members of the AIIB include 80+ nations including, UK, Germany, and Australia.

In fulfilling the BRI vision, rail projects funded by Chinese state-owned enterprises (SOEs) in neighboring South and Southeast Asian countries are currently underway. These include, rail projects between China and India, as well as Bangladesh, Laos, and Thailand. China argues that upon completing these ambitious infrastructure projects, it will act to strategically create more connectivity between the Asian countries; thereby resulting in the deepening of human and economic relations between these regions.

Not without its controversy, many argue that these BRI related projects are a strategy for China's quest for greater influence in Asia. Potential implications of China's BRI diplomacy would result in tipping the regional status-quo in favour of China as a key regional power. Thereby permitting Beijing to push forward with policies and initiatives that China champions.

It is further argued that expansion in the form of global connectivity could ultimately lead the way for China to become a global dominant figure in the form of hard power. Afterall, the strategy of securing economic resources such as natural resources and energy are critical strategic goals for any global leader (Gao et al. 2015). Acquisition of key economic resources can ultimately be achieved through global connectivity, with the BRI being a key driver to achieve such a goal. The BRI facilitates connectivity of different nations from different geographical region, and binds all these countries together through policy, trade, finance and mobility of people. As Gao (2012) and Butt (2016) pointed out, often, 'institutions of concertation and coordination' are the basis of hegemony and international hierarchy. Beijing has responded to fears by insisting that the BRI is a commercially viable and economic venture open for all to participate. The BRI has been promoted by Beijing as an inclusive project i.e. it is an initiative and not a strategy. Furthermore, Beijing has emphasized that it is a global program that was initiated by China but is not a Chinese project.

7.3.3 *CRRC's Failed HSR Bid in India*

7.3.3.1 CRRC's History

CRRC is one of China's largest conglomerates (www.crrcgc.cc/en). Its parent company CRRC Group is a national SOE under direct control and supervision of China's governing body State-owned Assets Supervision and Administration Commission of the State Council (SASAC). CRRC is world's largest supplier of rail transit equipment, including a full product line and leading rail technology. It employs over 180,000 people and in 2015, CRRC ranked in the Fortune Global 500 with over US$37.8 billion in revenue. Resultantly, CRRC is one of the key SOE providers of Chinese railway activities both domestically and internationally. CRRC has fully utilised its monopolistic position to further seek the internationalisation of its rail transit systems and solutions, this is includes provision of various locomotives and rolling stock transits within Asia, Europe, and the Middle East and Africa.

The SOE has already announced in 2019 that China is planning a record-high number of rail overseas investment. This is supported by the state's push for the furthering of Chinese rail investment, which is expected to be in the region of US $125 billion and with new construction projects are expected to rise by 45%. These investments are made in spite of the SOEs in the rail industry reporting net losses and debts exceeding RMB 5 trillion in 2018. Resultantly, these investments are only made possible by the strong financial backing and cheap access to credit from the state. The rationale behind this type of spending is twofold, firstly an outwards FDI (OFDI) is treated partially act as a stimulus to spur the slowing domestic economy. Secondly, an OFDI strategy is considered an national strategy championed by the state council. The 'going out' strategy is considered important stimulus for Chinese enterprises to catch up with the west, and thus SOEs are given priority over state funding (Zhao and Han 2016). This is further strengthened by the state council and the NDRC whom released a guide to specifically encouraged BRI related investments overseas (see Table 7.2). Given the state ownership of CRRC, the SOE not only has a moral duty to follow state orders, but given the easy access to credit, CRRC also has a large incentive to carry out overseas investments.

7.3.3.2 CRRC in India

In 2013 India announced its plans to build its first bullet train line, a 500 km high spend railway (HSR) line linking Mumbai to Ahmedabad in 2 h. The project is valued at US$19 billion and scheduled to complete in 2023, and is an ambitious plan to upgrade its existing 165 year old dilapidated network (Dasgupta et al. 2018). CRRC submitted a bid to undertaken the construction of the HSR, however ultimately lost out to Japan's Shinkansen for a number of reasons. The Japanese Shinkansen technology was deemed a big victory over China's CRRC.

Table 7.2 Prohibited, restricted, and encouraged categories regarding China's overseas investment (Reproduced from State Council 2017)

Prohibited	Restricted	Encouraged
Overseas investments involving the export of core technologies and products of military industry that have not been approved by the state	Investing in foreign countries and regions that have not established diplomatic relations with China, or engaged in wars, or bilateral, multilateral treaties or agreements concluded by China, which requires restrictions	Overseas infrastructure investment that is conducive to the construction of the "Belt and Road" and connections with neighbouring infrastructure
Applying overseas investment in technologies, processes, and products that are prohibited from exporting in China	Overseas investments in: Real estate, Hotels, Cinemas Entertainment, Sports clubs etc.	Investments that drive the output of superior production capacity, quality equipment, and technical standards
Overseas investment in illicit industries such as gambling and pornography	Establishing an overseas equity investment fund or investment platform without specific industrial projects	Investment and cooperation with high-tech and advanced manufacturing enterprises and to encourage R&D centers abroad
Foreign investments prohibited by international treaties provisions concluded or participated by China	Carrying out overseas investment using backward production equipment that does not meet the technical standards of the country of investment	Exploration and development of overseas oil gas, minerals resources, and other resource's on the basis of careful assessment of the economic benefits
Other overseas investments that are harmful or may endanger national interests or national security	Overseas investments that do not meet the environmental protection, energy consumption, and safety standards of the country of investment	Expanding foreign cooperation in agriculture, mutually beneficial win-win investment cooperation in agriculture, forestry, animal husbandry, and fishing

Source: Constructed by the author based on State Council

CRRC's loss was deemed one that was politically motivated. Firstly it is argued that CRRC proximity to the central state was primarily the reason why CRCC failed at securing the bid for India's first bullet train. It is speculated one of the principle reasons for CRRC loss was the colluding between Japan and India in order to combat growing presence of China in the region (Pandit 2018). As it stands, there has been political tension between India and China, wherein both leaders have struggled to strengthen ties between their respective countries, particularly given China's push for towards BRI related projects. This has not been without controversy particularly involving the projects in close proximity to India's borders—namely infrastructure projects: the China-Pakistan Economic Corridor (railway construction); BRI projects in Bangladesh (rail transit provision); and Nepal-China Trans-Himalayan Connectively Network (project bidding stage). All the aforementioned projects entail infrastructure developments by the Chinese SOE in regions under Indian territorial dispute, and thus fuelling India's strong opposition against Chinese led projects (Kuo 2019).

The tense relationship between the two nations is further illustrated when India opposed the Bangladesh, China, India and Myanmar Economic Corridor (BCIM). Aimed at increasing transport connectivity between the four countries, the BCIM was an economic initiative initially endorsed by the four leaders in 2013 (Chaudhury 2019). At the time, all agreed that the countries would economically gain and benefit from higher levels of trade due to improved connectivity. The BCIM was initially envisioned by China to form part of the BRI vision, however since the announcement in 2013, little progress has been made on this initiative. The BCIM initiative has since been rumoured to have been shelved for sovereignty issues as well as the growing tension due to Chinese involvement in the Kashmir region (Pakistan occupied).

Secondly, the failed bid by CRRC can also be explained by the resultant effect of India's current restrictions on Chinese SOEs involvement (Varma 2017). As there is a lack of mutual political trust between China and India, with the central state is the largest shareholder/ultimate owner of CRRC, this has made it problematic when attempting to penetrate the Indian market (Ebbighausen 2018). From India's perspective, the HRS networks are incredibly expensive to operate and require huge government subsidies. Thus this questions the economic sustainability of the proposed HSR lines in India when many parts of India still lack basic transportation infrastructure/conventional railways. This further begs whether these projects will drain the state funds and inevitably be deemed too expensive to run in the long-term. Given the Chinese acquisition of the Hambantota port when Sri Lanka defaulted on loan-repayments to China; should India have accepted CRRC's bid, India would have been at risk of dependency to China. Interestingly, despite the lack of Indian support on BRI related projects, India is currently the largest recipient of AIIB funds which is aimed at funding infrastructure and transportation in India (AIIB 2018). Moreover as it stands, India is currently the top borrower from the Chinese-led and Chinese-created development bank. Presently, ten Indian projects has so far been approved by the AIIB which totals over US$1.5 billion worth of AIIB loans (Stacey et al. 2018; Iwanek 2019). This is a perplexing contradiction given India's concern over being indebted to China and the fears of China's growing presence in the South Asian region.

Lastly, a common complaint on Chinese led infrastructure projects has been that it has primarily benefitted China's SOEs only. Specifically, it is argued that when the Chinese state banks finance projects particularly BRI-related, this funding flows to Chinese SOEs who then use Chinese contractors, and in turn employs only Chinese labourers (Cainey 2018). This lack of inclusion and widening participation was evidently found in the case of the BRI infrastructure route between Belgrade-Budapest, wherein contracts were awarded to Chinese companies who did not adhere to the EU mandate of competitive procurement processes. In such scenarios, it raises the question regarding the role in the BRI for non-Chinese players. The Belgrade-Budapest case, as well as several other cases (including the Malaysian East Coast Rail), has since been flagged by Chinese FDI recipient countries, whom are acutely aware and thus are now keen to re-evaluate Chinese related contracts. From India's perspective, it is critical that China adopts an open strategy, in doing so, Chinese led projects will be a larger, more far reaching, and therefore more likely to be supported by the India government (Pant 2017). Taking the BRI as an example, the large scale of BRI as well as the geopolitical and financial risk is indicative that China will need to ensure more widespread participation in the BRI projects. The Chinese should not treat the BRI is not a series of one-off infrastructure projects; but instead as a long journey to improve connectivity between Asia, and Europe. Though Beijing has been vocal that any country or organisation that wishes to support BRI will be considered a part of it, should China want India's support on the BRI, the Chinese SOEs will need to adopt a more inclusive strategy to related projects.

7.4 Case Study 2: Chinese Private Enterprise Sany Heavy Industry: A Successful Localized Strategy

7.4.1 Sany's History

Sany Heavy Industry Co Ltd. is China's largest heavy equipment manufacturers and subsequently in the top 10 of the world's largest multinationals producing construction equipment domestically and internationally (www.sanyglobal.com). Privately owned and headquartered in Beijing China, Sany employs over 90,000 employees across 100+ offices worldwide, it exports its products to over 150 countries. Sany publicly listed in the Shanghai stock exchange in 2003, however the majority shareholding remains with the founder and CEO Liang Wengen. Currently in 2019 Sany has an operating income of RMB 70 billion, its core operational areas include: concrete machinery; road machinery; port machinery; cranes; and mining and petroleum machinery.

Sany initially started as a modest welding factory in Changsha Hunan province established in 1989. However it quickly entered the construction industry due to China's rapid economic expansion and acted to exploit the new opportunities. Sany benefited from spill over effects from western MNEs activity within the Chinese manufacturing market. As a new comer in the construction equipment market, Sany rapidly adopted an absorptive capacity to successfully imitate existing successful designs from their western competitors (Bruche and Hong 2016). Sany managed to do this by investing heavily into their own inhouse R&D division. The market supported Sany's inhouse efforts as this would assist in ending China's need to import heavy industry related goods.

In 2011, Sany was the first Chinese heavy industry construction equipment company to enter the FT Global 500. Sany benefited greatly from the enormous growth and demand in the domestic market, and relished in the Chinese infrastructure, construction, and real estate boom. Sany very quickly obtain a leading market position, which was achieved through significant advances in economies of scales as well as keeping labour costs low, of which resulted in Sany's competitive advantage.

Critically this meant Sany was able to rapidly diversify its product portfolio, launching new products to markets, as well as building and expanding productive capability.

7.4.2 Sany's Internationalisation Process

With only a few decades of experience in the domestic market, Sany began rapid overseas internationalisation. Currently, Sany has four important global regional hubs, one of the most important of which is in India. Consistently, all of the regional hubs comprises of an R&D center, manufacturing, sales, and service functions. Sany's road to India began with an market-seeking internationalisation logic. Similarly to their Chinese market experience, Sany saw the opportunity to exploit the potential opportunities in the next largest emerging market. Sany began with exporting to India, and gradually transitioned towards higher levels of FDI commitment once all the relevant knowledge and experience from exporting was acquired. Next, Sany adopted more risker FDI approaches with its first overseas greenfield facility in India. This was a result of the Chinese state governmental 'go out' initiative to assist large enterprises to go abroad. The state provided support through financing of projects and access to soft Chinese state loans. Illustrated by the National Development and Reform Commission (NDRC) and the Export-Import Bank of China (EIBC) joint notice in 2004:

> The special loans for overseas investments shall be mainly used for supporting the following key overseas investment projects:
>
> (1) Overseas resource development projects which can make up for the relative insufficiency of domestic resources;
> (2) Overseas productive projects and infrastructure projects which can give impetus to the export of domestic technologies, products, equipment, and labor services, etc.;
> (3) Overseas research and development centers which may utilize internationally advanced technologies, management experiences and professional talents;
> (4) Overseas enterprise acquisition and merger projects which can improve the international competitiveness of enterprises, and accelerate exploration of international markets.

In 2007 Sany invested US$60 million to build its own manufacturing facility and local R&D center in India. It was also in Sany's own interest to build assembly plants in India to overcome import, tariffs, and local trade barriers encountered through its initial exporting modes of entry. Given the wealth of opportunities and the demands of the emerging market Sany built its core manufacturing base in Pune, India. It is the largest overseas subsidiary of Sany encompassing 80 acres and has over 6000 machines contributing towards infrastructure development projects in India (Sany 2019). As the Indian economy is currently expanding with a rising middle class, Sany envisions that India has a healthy demand for construction equipment in the foreseeable future. The forecasted growth for Sany in India was reported as 60% year-on-year by Sany India's CEO Deepak Garg. Subsequently, Sany has further committed to increase its investment by US$4 billion over a 5 year period. This investment involves creating new manufacturing units and increasing manufacturing capabilities (worth $1 billion) as well as creating wind energy projects (worth $3 billion).

7.4.3 A Local Responsive Strategy

Currently as it stands, Sany's revenue within the India market is US$100 million, 50% of this revenue is from locally manufactured goods whilst the remaining 50% are from Sany imports from China. Sany India's CEO has been vocal in reducing the volume of China imports and to begin transitioning into domestic Indian production. It was established that importing is not most cost effective mode to market. With high logistic costs, import tariffs, and the clear growing demand in the local market for Sany products; it has been worthwhile for Sany to expanded its existing plant facilities to accommodate local production. Moreover by having local production facilities, as a geographic bonus, neighbouring emerging markets such as Bangladesh would further benefit due to the proximity of Indian production.

Sany's localisation approach involves creating a fully integrated supply network which caters to specifically the local market needs. This involves accessing the demands of the growing middle class and manufacturing the necessary tools to facilitate this development. The Indian facility is responsible production and the manufacturing of heavy industry equipment such as: mining equipment, cranes, road machinery, and pumps. Sany India is subsequently Sany's biggest overseas manufacturing plant. This is made possible because the manufacturing base in India very much benefits from the abundance labour. Resultantly, Sany gains from the cost reductions in production, which is a direct result from the labour advantages unique to developing economies. With that said, with a population of 1.3 billion people, India also has an abundance of well-educated local talent, often of which has studied abroad, has international experience, and has now returned to India to benefit from the new economic opportunities.

The Chinese has now chosen to invest in the local talent and deemed it the best way to approach the market due the vast differences in practices between the host and home markets. In the case of Sany India, the CEO of this subsidiary is of Indian nationally and is an example of how the Chinese are investing in local talent. The previous first generation of subsidiaries led by the Chinese were typically always managed by Chinese nationals. This was particularly found in the C-suite and senior level managers position. This resultantly had an negative impact on the success of OFDI in terms of subsidiary morale, productivity, and staff retention. Most commonly seen in the cases of outwards FDI by Chinese firms, the Chinese will preserve local jobs (e.g. in scenarios of acquisitions) but and will rarely contribute to the generation of local employment (Fu 2005).

Interestingly, Sany has also invested in a R&D center in the Pune India site. Typically R&D centers from MNEs within the heavy construction equipment industry are based in the west and in developed economies such as Germany.

Sany on the other hand has chosen to base an R&D enter in all of its regional manufacturing hubs. This is done with the intention to attract high-skill local technicians and engineers that fully understands the local market. Therefore, what differentiates the Indian R&D center from other Sany hubs, is that Sany India develops products specifically suited to the local market needs. As an rapidly emerging market, Indian needs are constantly evolving, and for that reason the R&D base needs to be in close proximity to the market so that Sany can rapidly develop products to keep up with the changes. Therefore, Sany can ensure active developments in solving issues needs of the customer, and to ensure the production of goods that fulfils the wants of the domestic market (Si et al. 2013). Moreover, with India's rising technology industry, the R&D center in India is an opportunity to recruit directly from the local talents, as well as acquire the latest manufacturing know-how by bringing in new technology processes and developments.

Technological advances in the heavy construction equipment industry are incremental, and only comes into fruition through developments in the core components. Such examples include engines and control systems, which are dependent on external suppliers that have the pricing power. As a result, firms within in this industry operate on modest margins, some firms even report margins of 8% (Bruche and Hong 2016). In knowing this, one of Sany priorities is to focus on management efficiency and to provide a service directly to its end users. Sany saw the opportunity to offer a comprehensive quality in-time service directly to the customers by building a manufacturing site directly in India. This would not have been possible if they continued with exporting or using a third party distribution channel. By having their own base in India, this helped improve their sales performance by establishing a full distribution network as well as offering the ability to service their clients in real time—with no delays. However, knowing the margins in this industry and often low, Sany India's CEO has also placed emphasis on the need for Sany India to offer the full value chain, including; engineering, construction, operation and procurement, rather than Sany India being restricted to purely manufacturing.

7.5 Conclusion

Adopting a case study analysis, this study proposes that in the case of Sany, the motivations for foreign direct investment (FDI) in India by private firms are for market seeking purposes, and thus a local responsive strategy is adopted. In other words, though the private firms are driven to invest through profit-driven sentiments, the investments made in India act to also contribute to the local economy. Private Chinese investments are viewed in the lens of entrepreneurially driven, wherein investments are made directly into the local economy with the idea to create a fully integrated local network. OFDI are made into host countries by private investors with relatively little experience, in addition to investments that are of substantial value—all of which indicate risk taking mentality. In the case of Sany, the Chinese firm has invested US$4 billion over a 5 year period illustrating that Sany are committed to India in the long-run. This is further evidence by the creation of an R&D centre in Sany's Indian plant, as well as the promotion of the plant as Sany's largest overseas subsidiary. Interestingly, Sany has also demonstrated the committed to investing into the local talent, namely by having an Indian national CEO, as well as using local engineers and operators. This goes against previous first generation Chinese OFDI investment by which overseas Chinese subsidiaries were typical led by Chinese nationals. In sum, private investment in this case are well-thought out with a long-term oriented goal in mind, and investments are to promote the parameters of the local economy.

In comparison however, when investigating the motivations by the Chinese SOE CRRC, the FDI strategy used by the SOE is more representative to that of a global integrated strategy—beyond national borders. That is, SOEs adopt a more aggressive approach to FDI namely driven by the underlying objectives to fulfil the national Chinese state mandate. Different to private enterprises, SOEs have a core responsibility to carry out the values of national rejuvenation, which further includes sentiments of disrupting the global status-quo and the re-distribution of global power. Chinese SOEs are organisational agents of the state, directed by state mandates with a strong responsibility to complete government objectives. Thus it is argued that the motivation to conduct OFDI is not simply from the organisational level strategy—rather the motivation is also deeply embedded with the state. It is argued then that the embedded nature of the state on SOE OFDI activity needs to be considered and highlighted. In doing so, it can be seen that the significance of China's past historical achievements, national pride, and identity; all act to drive the collective desire to achieve national rejuvenation. These sentiments can specifically be reflected in China's national BRI strategy.

By examining SOE and private driven OFDI, India will now have a holistic informed understanding of the differences in a global integrated versus local responsive strategies respectively. This should in turn, facilitate a more informed understanding of the state-level versus organisation-level dynamics underpinning these investment strategies. With private-led Chinese investments, reassurance in knowing that private Chinese OFDI are localised with long-term contributions made to the local Indian economy. Decisions for OFDI are made at the organisational level, thus there are no further motives to internationalise in India other than market-seeking purposes. In the case of SOE global integrated driven investments, understanding the dynamics should help the target Indian organisations better prepare themselves for Chinese SOEs OFDI process. In the SOE-led scenario, Indian firms are encouraged to carry out thorough screening and vetting of proposals put forward by Chinese SOEs. To this end, national policies focused on the safeguarding of Indian organisations in strategic industries can be developed, and thus, shield nations from any undesirable political outcomes by Chinese SOEs.

India has followed a different development path from most other successful Asian economies in not prioritising export-led manufacturing. Despite India's long history of sophisticated manufacturing, strong engineering capabilities and abundant affordable labour, misdirected government policy, poor infrastructure and complicated regulations have historically contributed to the unrealised potential of India as a manufacturing hub. However, in saying this, there is also a growing interest from Chinese companies in manufacturing in India. In the case of private company Sany, it has recently announced several hundred millions worth of investment to expand its factory in Pune, India. In view of the mutual benefit of Chinese investment in India, it is concluded that there is huge potential in India to receive China's OFDI both economically and strategically. However, there lies complicated political bottlenecks ahead that must be considered and resolved diplomatically; if not, the business sentiments may be adversely affected and therefore eventually altering the course of Chinese FDI in India.

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Chapter 8
Assessing the Role of Local Governments in Line with the 'Special Economic Zones' Agenda: Case on Shenzhen in Guangdong and Kandla Export Processing Zone in Gujarat, India

Young-Chan Kim

8.1 Introduction

Forty years of repeated success should make every historical fact correct and understandable—because we know the result. Rewatching famous football matches brings great entertainment, as we are happy and willing to watch the games and trophies our country and team won. The discourse on the 'Special Economic Zones' (hereafter SEZs), was much alike watching the World Cup winning match; again, and again and again. There are a considerable number of publications about the process that made the present Shenzhen or Zhuhai in China; an exemplar of one of the greatest economic policies that signified an ideal economic transition. Yet, there continues to be little research carried out on how the mechanics of the so-called planning behind the scheme was initiated, that allowed it to develop and survive during the turbulent social transitionary period in the history of the People's Republic of China. In addition, it was during the time when the Communist Party (hereafter known as the Party), faced two opposing ideological debates—between the officially labelled successor Hua Guo-feng and unrepentant capitalist roader Deng Xiaoping. It was the founding member of the Chinese Communist Party (hereafter referred to as the CCP) that was entrusted with training and nurturing the young entrepreneurial spirit in the forthcoming government technocrats—integrating people from rural and urban areas alike. One can always turn to history for the results; yet, conducting this research allowed me to analyse individual cases based on their timely merits, rather than from retrospect. Such cases are now visible in India also, since the outset of the Modi administration—with the power being channeled from his days leading the local Gujarat government, similar to the rise of Deng in China throughout the 1980s.

There are significant similarities and differences between the respective SEZ projects under Deng in Shenzhen and Modi in Gujarat. Both leaders had chosen

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foreign economies in order to break the political deadlock, which initially seemed rather complicated and unnecessarily time consuming.

This research therefore founded much of its investigation on daily reports from the *Beijing Review* (hereafter known as the BR) as a main archival source of material for research between July 1973 to December 1980, the period where China was on the brink; politically, economically and otherwise—upon the death of the three founding members. The final phases of the Cultural Revolution and the rioting caused by the 'Gang of Four,' and the efforts of Hua and Deng to bring them back from the brink, will be explicated. Further, fieldwork was conducted across China, focusing especially across its southern parts, and was assisted in-part by reports from several local governments; ranging from those in Guangdong, Fujian and Meizhou. The BR was the only English weekly newspaper published by the China International Publishing Group, and the main tool for Beijing to communicate to the rest of world. When Deng eventually secured his regime through a blend of economic pragmatism that was bolstered by the success of the SEZ; this was understood and replicated by Modi in India—from his time as the governor of Gujarat that galvanized his eventual rise to power, to his successful campaign that guaranteed his second term. Hence, the ways in which this paper addresses the SEZ policies, will be analysed through four different phases;

- How the SEZ policy drove Deng's rise and signaled Hua's fall after the end of the Cultural Revolution.
- Why Deng chose the small 'fish-town' of Shenzhen to be the core of his new open policy.
- Modi's understanding and challenge of entrepreneurship via the implementation of the SEZ plans across India.
- Parallels between Deng and Modi—in politics and otherwise.

8.2 SEZ Policy in China

8.2.1 Run to the Power

After the end of the Cultural Revolution in China and the arrest of the 'Gang of Four' in 1976, there were aggregated opinions about the somewhat distorted future of China, and how Socialist China could possibly serve as the engine of future economic growth (MacFarquhar 2011, p. 315; Domes 1985, p. 130). However, it was soon be known that facilitating economic growth and maintaining the socialistic regime would not be that easy—as was the case with the USSR in the early 1970s. Thereafter, from the beginning of the 1980s, Deng held the thought that Mao's achievements in China were '70% good and 30% bad' (Beijing Review hereafter BR, April 1981). It was a rather extraordinary stance to take against his predecessor, yet, Mao may have envisaged such a result—which may have been the reason behind choosing Hua Guo-feng, as his recognized successor, who was a proponent of Mao's kindness and actively cherished his teachings.

Indeed, there were multiple cases that outlined Hua as the rightful one to follow on from Mao; whilst serving in Mao's native province of Hunan, Hua devoted much of his efforts to pursue agricultural reformation objectives based on Mao's reported 'On the Question of Agricultural Co-operation' agenda, which was published in July 1955 (BR, 25 Feb. 1977). It was the period when Liu/Deng's Right Opportunists line was the dominant economic ideology that drove the Chinese economy into pursuing the quasi-capitalistic mode of development; Hua was one of the few leaders to follow Mao's instruction in this way (BR, June 1976). Secondly, during the Cultural Revolution, Hua insisted in following Mao's instructions saying, 'Chairman Mao's instruction must be followed, namely, when there is a debate, it should be carried out by reasoning and not by coercion or force' (BR, 25 Feb 1977). Indeed, this was lauded by Mao when he visited Hunan, with him exclaiming 'you have followed the right course' (25 Feb 1977).

From cadres to the senior members of the CCP, the belief that Hua had a mastery of Marxism-Leninism, knowing the actual conditions in the area under his control, gave him greater insight in such complex struggles (BR, 11 Jun. 1976). 'He is resolute in implementing and defending Chairman Mao's proletarian revolutionary line and wholeheartedly works for the people's interests. Comrade Hua is the reliable successor selected by Chairman Mao and the long-tested worthy leader of our Party' (25 Feb. 1977).

From the view of the general public, Deng was typically perceived as being an 'unrepentant capitalist roader', while Hua was explained by Mao as being '... kind and honest' (p. 382). Before his death, Mao remembered the incident in Russia after the death of Stalin through the actions of his successor, Khrushchev.[1] His own expectations were that Maoism would be cherished across China too, long after his death (Wilson Center 2019). In order to maintain this Maoist ideology, he opted for the 'easy man' rather than a man of 'cool and remoteness' (Brown and Van Nieuwenhuizen 2009). His official authorization boosted the role of Hua as an official successor, alleviating his status amongst the founding Party members as well as the general public.

Deng was well aware of the critics about both his demeanor as well as his status within the Party—emphasizing to the Politburo Standing Committee before the third Plenum meeting on 2 Dec 1978 that he would not become 'China's Khrushchev' (Vogel, 241); to obtain the support of Marshall Ye Jianying and Li Xiannian, necessary to broaden his appeal with the founding members of the Party. The question arises then, as to why he did not appeal to the Party committee right before the death of Mao or indeed immediately thereafter? Deng too knew that despite him being a part of the first generation of the CCP, he had limited space to initiate the 'closure of the Cultural Revolution' and order the arrest of the 'Gang of Four'. It

[1]Khrushchev's de-Stalinization was continuously criticized by Mao (Wilson Center) and it served as one of the main concerns for Mao in choosing his successor.

could be a thorn in his political future rather than the catalyst he so desired. Although he was a founding member, he needed the support of both sides, especially the military which was then under the control of Marshall Ye. However, his radical operation in dealing with the 'Gang of Four', meant that he was likely to face huge challenges from Mao's old guard (Yang 1997, p. 314). His life in politics taught him that pragmatism and fulfillment needed supporters, whether they were friend or foe (*reinterpretation of his well-known white and black cats' theory*) (Central Chinese Communist Party 2009, Deng's Speech).

A one month long memorial service to commemorate Mao's death seemed a lifetime for Deng and the other 'core members' of the 'second Party generation' in China (Teiwes and Sun 2011, p. 1). Although there were several minor rows[2] from the so-called 'Gang of Four' in Beijing and Shanghai (BR, Sept. 1976) this was not a major concern for Hua (Domes 1985, p. 143), simply because of Mao's assertion that he and not Deng—were to be his successor (BR, 28 April 1976), writing that 'with you (Hua) in charge, I am at ease!' (*ni ban shi, wo fang xin!*), which had been officially approved by the founding members. Marshall Ye, on the 13th Aug. 1977 at the CCP Party statute at the 11th Party Congress—stated that "Chairman Hua Guofeng is worthy of being called Chairman Mao's good student and rightful successor, the wise leader of our Party and People, and the brilliant Supreme Commander of our army" (Domes 1985, p. 1). The main media also, such as *People's Daily* and *Red Flag* took turns to praise 'Hua as being the next wise leader' (Ying-Ming ling-Hsiang) (ibid., p. 142) and befitting to take the Party forward.

At that moment however, the ready-to-go leader, Deng Xiaoping was not shown any place within this given political frame. As a founding member of the CCP and the cohort of eight wise persons,[3] Hua's promotion was ultimately a cause of humiliation for Deng (Gao 2009, p. 23), however he was still a central member of the Party and he knew how to wait.

It was the Renmin newspaper and the Military Liberty newspaper that initially launched political propaganda on Hua on 29 Oct. 1976. The content of the newspaper report was simple and easy to read; 'Mao had chosen Hua and united China under his leadership' (Renmin Newspaper, 1976). During his regime, Hua's image was shown next to Mao's picture on the BR magazine until December 1978, at the day of the 11th Third plenary meeting. Such propaganda could be personalized and be seen as being a harm to the Party however, which was why it was eventually taken down. Yet, his appearance on the BR, was getting increasingly alike to the portrayal of Mao—even changing his hairstyle to give off such a vibe.

The first time Deng was mentioned on the BR about his official seat was during the Third Plenary Session of the Tenth Central Committee of the Communist Party

[2]There were several songs in Beijing and Shanghai that talked about Jang Chung and her romance with Mao.

[3]According to the Chinese Communist Party index, there were eight wise persons in the party; Deng Xiaoping, Chen Yun, Li Xiannian, Ye Jianying, Peng Zhen, Yang Shangkun, Bo Yibo and Deng Ingchao (Zhou Enlai's wife).

of China between 16 and 21 July 1977 in Beijing. It was reported that "Comrade Hua Kuo-feng, Chairman of the Central Committee of the Communist Party of China, presided over this session, which was of tremendous historic significance, and made an important speech. . .Comrade Yeh Chien-ying and Teng Hsiao-ping, Vice-Chairmen of the Central Committee of the Communist Party of China, attended the session and they also made important speeches" (BR, 29 Jul. 1977 p. 3). Simultaneously, the name of Liu was not mentioned when the session discussed the 'Gang of Four' and the 'Lin Piao case' which were one of main points raised by the BR across the last 2 years (ibid., p. 6).

During the 11th Party Congress on 18 Aug. 1977, it was clearly exhibited that Hua was the natural continuation of Mao's line. Of the 23 full members and three alternates of the new Politburo, twelve full members and two alternates had survived the Cultural Revolution in office. Six full members had advanced in their careers as a result of the Cultural Revolution, whereas five members and one alternate belonged to the proto-secondary group of purges. Twenty of the full members had joined the CCP between 1921 and 1935; two between 1936 and 1949, and only one after 1949. Under this formulae, Deng's position in the Politburo was relatively weak—despite him having nine royal supporters including himself, whilst Hua had seven strong supporters including himself. There were swings amongst seven members, led by Ye and Li who tended their support to Hua (Domes 1985, pp. 150–151).[4]

Aside from the numbers of supporters, age too was another key issue. Amongst the five Politburo Standing Committee members, Hua was then 56, while Deng 73, Ye 80, Li 72 and General Wang Tung-hosing, 61, and Ye and Li strongly hinted that the old generation should give space to the younger—which should in-turn be led by Hua (Kenji 1993, p. 147). It seemed highly unlikely that Deng would wait until the end of Hua's regime, like what he had endured during the Mao era. Ye and Li showed ambivalence about Deng's return to the political scene in 1977 (Domes 1985, p. 311) as despite his better traits, the second capitalist roader (after Zhou) and fundamental pragmatist had his doubters, who worried that he would bring down the socialist regime under the now potent veil of capitalism.

There were two main concerns from the founding members of the CCP; Deng was a pro-programmatic diplomat, swinging the Chinese role between that of the Russian and US perspectives—both diplomatically and otherwise. Such a role had been pursued by Zhou Enlai, until his subsequent death. However, there existed underlying concerns on the role of China in world politics—from the founding members, including Ye and Li who preferred to remain a 'revolutionary isolationist' in international politics Goldman and MacFarquhar (1999), rather than a burgeoning capitalist, a position which Deng endeavored to pursue.

In addition, adopting such an open-door policy[5] was a highly sensitive and critical issue from the view of the public; as the *Renmin Newspaper* reported on

[4]In his article, MacFarquhar said (p. 290) 'Deng Xiaoping and his principal supporters, Ye Jianying and Li Xiannian' both founding members, were fundamentalists and did not show any specific favors to Deng until 1984 when the SEZs had presented successful progress.

[5]It was designed and serious contended by Hua.

2 January 1977 that 'we never permit the use of foreign capital to develop our domestic resources as the Soviet revisionists do, never run undertakings in concert with other countries and also never accept foreign loans. China has neither domestic nor external debts…' It was a necessary policy for Chinese economic growth, however it was difficult to fathom from the perspectives of the leading Party members, especially considering the socio-economic chaos that had ensued from the Cultural Revolution and indeed from the crisis involving the 'Gang of Four' that had dented the outlook of the Party. As an inherent follower of Maoist ideology, Hua was not crafted to capitalize on his political aptitude, unlike Deng who was left to depend solely on his political versatility.

Throughout the course of the SEZs, Deng essentially pretended to know what to do, when to do it, and how to do it. Despite this, there was little observation on his attitude during the 3rd Plenum of the 11th Party Congress. From the outset of the SEZs, Deng was much orientated towards Chen's view of the plan, mentioning that 'China had to clearly think through the implications of borrowing' (Bachman 1985, p. 155). Before 1984, there was only one official comment on the progress of the SEZs from Deng, which was in Sept. 1978, when he met regional leaders from the Jilin Province. Thereafter, there was no further comment on the SEZs until 1984. Subsequently, Deng never explicitly mentioned expanding the role of the market in the reformation of the economy (ibid., p. 157), vying instead to endorse Chen's proposed 3-year period of selective readjustment. Until 1984, Deng was unsure of the exact consequences of this open policy. During the second annual Open Coastal Cities and Special Economic Zone Conference, held in Beijing between 25 and 31 January 1985, Deng showed his confidence on the policy and ordered the Pearl river and Yangzi deltas to open along with the triangle in Southern Fujian; composed of Xiamen, Zhangzhou and Quanzhou (McKenney 1993, p. 11). On January 26, 1984, Comrade Xiaoping wrote the inscriptions for the Shenzhen Special Economic Zone, which read, "The development and experiences of Shenzhen have proved the correctness of our policy on the establishment of special economic zones" (China Daily, 9 Sep. 2010). It had been 5 years since Hua introduced the first of the SEZ plans to the Party, and Deng was the only eventual benefactor of this reformist economic plan.

It is needless to say that Hua's vision of this new China must have emulated that of his predecessor, Mao. Soon after, it was branded as the 'Two Whatevers' (*liang ge fan shi*),[6] Hua was determined to follow what he had learnt. Therefore, under his regime, the economy was heavily reliant on the strong agricultural sector, where Mao's support had been the most potent. On 13 November 1976, the *Renmin Newspaper* highlighted the increasing dependence on the 'rural markets' as observed through the Rural Economic Policy that sought to 'activate the collective economy by promoting the agricultural sector under the guise of the commune members.'

[6]It meant that 'support firmly whatever decisions Chairman Mao made, and to follow persistently whatever directives Chairman Mao gave' and it was regarded as a golden rule for Hua when he came to power (BR, Jan. 1979).

Following Mao's 'two whatevers' initiative clearly indicated that Hua was incapable of more than a slavish imitation of Mao, and that it was Mao that had dragged Hua into the brink immediately after the 11th CCP 3rd Plenary Meeting on 18 Dec. 1978 (Domes 1985, p. 168). In line with the 'two whatevers' program, Hua refused Chen's proposal to solicit foreign capital to cultivate the Chinese economy. Mao told Hua that 'Chen was a rightist and should not be given a position of authority' (Bachman 1985, p. 81). This proved hugely costly for Hua as Chen was the most experienced economist among the founding members of the Party and was regarded as both a pragmatic and programmatic reformer within the Party hierarchy. It was, therefore, an evident lesson to the younger technocrats that Hua was not going to change the underlying economic system and that he would merely seek to continue Mao's agenda. Compared to Hua's stubbornness towards Chen, Deng sought to quickly accept Chen's critics about the country's balance of payments and the need for the SEZ plan to be actioned with ease, especially in the southern parts of China considering the lack of sufficient development (ibid., pp. 82–84).

Post the forced dissolution of the 'Gang of Four', Comrade Chen Yun was the only one remaining of the "eight great" vice-Chairmen [i.e., the last surviving vice-chairman of the Eighth Central Committee], and the whole Party and indeed the whole nation felt an ever increasing sense of respect for him. Despite his popular support, there were still some within the Party ranks who fervently opposed Chairman Hua's decision to bring Comrade Chen 'back from seclusion' (Xue and Bachman *requoted*, p. 82). Hua's hesitation in the formalization of Chen's rehabilitation, alongside Chen's apparent popularity proved to be simultaneously depleting; with younger technocrats unwilling to support Hua's Modernization Plan, becoming disenfranchised.

As a reformer, Deng was the right person to understand what Mao had intended in his economic plan. Twenty-seven years of Mao Tse-tung's economic policies (1949–1976) left an indelible mark on China's ability to modernize. No one from within the Party ranks, understood Mao's politico-economic legacy better than Deng Xiaoping (McKenney 1993, p. 5). It was with Deng that Hua's 'Two Whatevers' would experience its first shortfall—given the unfeasible nature of its agenda on China's route towards modernization.

In order to aggregate support from the older generation within the Party and the new cohort of technocrats, Deng made clear his vision on the economic reformations necessary to take China forward, consequently opening fire on Hua's 'Two Whatevers' blunder. During the second session of the fifth National Committee of the Chinese People's Political Consultative Conference (CPPCC) in Beijing, in front of more than 2000 attendees—he emphasized;

> We must ensure the free airing of views and make full use of all talents, uphold the principle of the 'three-nots'—not picking on people for their faults, not putting labels on people and not using the big stick, encouraging instead for the full expression of opinions, demands, criticisms and suggestions by all circles. This would further lessen the need of the government in correcting ideas, promptly discovering and analysing shortcomings and mistakes in its work, instead focusing on pushing all kinds of the country's work forwards (BR, 22 Jun. 1979, p. 15).

It was however, the decision of several government technocrats from the Communist Party—led by Gu Mu, who visited Japan and western Europe a year prior to the 11th CCP 3rd meeting, held during December 1978, that essentially forced Hua's hand in opting for a more active 'open policy' (BR, 23 Sept. 1977, pp. 24–25). Yet, the Chinese historian Zhung (2013) posits an alternative argument, whereby he suggests that the open policy era started in 1974 when Deng introduced *zungdon* into the rural areas. This was confirmed by Deng when he met Janos Kadar, Head of the Workers' Party from Hungary on 13 Oct. 1987, where he said that 'the open policy began between 1974 and 1975 in Xuzhou Jiangsu province.[7] We called it *zungdon* (or the Xuzhou model/Document no. 9) which meant that all resources were focused and aggregated into the pursuit of economic growth' (Vogel 2011, pp. 101–105). The issue is subject to much debate to date; however, Deng's comments were shown to refer to an initiative that was introduced almost 10 years after the beginning of the open policy. Further, the evident progress of Shenzhen as an economic hub, was a testament to Hua's achievements in moving the Chinese economy to the international stage.

Despite the power struggle between Hua and Deng, their economic goals had the same trajectory, such as the 'Industrial Plan 20' or the 'Four Modernization Plan', with both being designed and planned by Deng before his fall, but adopted and soon instigated by Hua under a revised banner of his 'New Economic' agenda, after his subsequent rise to power. The only disparities on economic policy was on the notion of opening the Chinese economy to foreign companies—where ideological differences were apparent.

One of the critical turning points from Deng's side was the increasing amount of foreign goods entering the country which aided the flailing balance of payments—which experienced significant difficulties especially during Hua's second year, mainly due to his inexperience in managing the process (Jaggi et al. 1996, p. 7). This trade balance deficit was harshly criticized by Deng (ibid., p. 6), and it drove him to expedite his quest for power before the introduction of Chen Yun's conservative economic policies. Deng's somewhat terse comment on Hua was deemed harsh as he said "Hua's time in office was just a transition, not an epoch: his policies were a continuation of the late Mao, and there was nothing original about him" (Teiwes 1995, p. 61).

During the December 1980, CCP Politburo meeting, there was an ultimatum on Hua's regime from Marshall Ye—who had been the one to officially announce Hua as Mao's imminent successor—who exclaimed 'during the last four years, comrade Hua Kuo-feng has done some successful work, but it is extremely clear that he lacks the political and organizational ability to be the chairman of the Party… he should never have been appointed chairman of the Military Commission, as everybody knows' (Domes 1985, p. 1). Indeed, it was Hua who planned and designed the 'open-door' policy, yet, his Maoist dogma that had once propelled him to the

[7] This was designed and implemented by one of Deng's favorite reformers, Wan Li. He started the railway construction in Xuzhou, where the main junctions of the eastern and middle parts of China were facilitated under the name of 'zungdon' (Vogel 2011, p. 114).

chairmanship, was now a hurdle that resulted in him falling out of favor with the CCP. During the transitionary period, Hua was 'too kind and too honest'—qualities that galvanized his eventual downfall.

8.2.2 Why Shenzhen?

On 3 June 1978, several technocrats visiting Hong Kong and Macau suggested that '*Baoan* (present day Shenzhen) and Zhuhai would be the ideal place to implement the special economic zone' (BR, June 1978) and it was immediately reaffirmed by the Party leaders, including Hua. He knew that foreign money would be a vital tool in rebuilding the Chinese economy, to recover from the 10 years of humiliating economic stagnation, stemming from the Cultural Revolution. On the choice of location, four of the suggested SEZs were deliberately located far from the epicenter of political power, Beijing, minimizing potential risks should any problems or political side effects be generated during their functioning (Yeung et al. 2009, p. 223).

"One pattern will not do!" (BR, 3 Nov. 1980). This was a popular comment when people talked about China's ongoing economic reforms that were proposed by Deng. On the 3rd Plenary Session of the 11th Party Central Committee in 1978, the government began a series of reforms targeting the highly centralized economic management system, opting to adopt a number of flexible policies to activate the economy, especially pertaining to agricultural production, which was based on the grass-root units in the rural countryside.

The primary reasoning behind Shenzhen becoming the central site for the SEZ was political as much as it was geographical. Indeed, support from both the public and from two leading CCP Politburo members; Hsu Shih-yu and Wei Kuo-ching penned a joint letter proclaiming the provinces rehabilitation as posited by Deng, which was accepted—albeit reluctantly by Hua after more than seven other provincial leadership groups joined in, subsequently forcing his hand. In comparison to Hua, who was widely supported by those in the innermost regions of China, (Hunan, Sichuan, Hubei and Guizhou), Deng got strong support from the coastal regions (such as Guangdong, Fuzhou and Zhejiang) (BR, *several issues*). Guangdong and Fuzhou in particular, were ardent provincial supporters of Deng's economic reforms, largely drawn from their broader ethnic network (Hakka and Chaichou) with overseas Chinese individuals who worked in South East Asia further playing a part (Yeung and Chu 1994, p. 377).

Another political factor in relation to the choice of location was down to the variations in political resistance among the founding members of the CCP, there was die-hard resistance from the grass-root party members in local regions, especially in the provinces where Hua prevailed in support. Deng's approach to preventing grass-root political resistance via his 'stop-intervention policy' which stemmed from the open policy initiative, proved to be one of the main reasons why Shenzhen was chosen as the focus of the new Chinese economic platform (Goodman and Segal 1994, p. 180).

Secondly, there were enough political allies from Deng's side; Xi Zhongxu (Governor of the Guangdong province), Yang Shangkun (Mayor of Guangzhou) and several entrepreneurial young government technocrats including Wu, who was in charge of instigating the SEZ. Xi was a known radical reformer on economic policy as he emphasized open policy ever since the initial Strategic Unit meeting in Beijing in November 1978; Guangdong province had regional preferences that facilitated greater trade between Hong Kong and Macau. At the same time, those two cities had produced a considerable number of successful business individuals, with varied origins, including Chaicho and Hakka—one of the most diligent and recognized workaholic ethnics in China (Wu 2010, p. 177). Xi was the first person to bring forth the notion of ethnic collaboration amongst the local Han in China, especially within the Guangdong province and those of ethnics from other parts of the Asian countries, ranging from Hong Kong, Macau, Singapore, Malaysia, Thailand and even Vietnam. The financial support from such Chinese ethnics abroad was a great win for Deng, who had begun to worry about the lack of sufficient foreign capital injections—upon the abrupt stalling of Japanese investment funds in the Baoshan Steel Construction Project. After such an experience, Deng held that Chinese money would serve as a more effective foundation for the new economic zone. Although he was still keen for foreign investors, he understood that Chinese businesspeople too, could wield similar influence—eventually utilizing the extensive Chinese diaspora to his advantage. A well-known example was when he met Li Ka-shing, requesting him to nurture the Shantou region where new cash injections were desperately needed (20 Jun. 1986, *Li Ka-shing foundation archive material*). When the Luthuli District (site of the first SEZ in Shenzhen) underwent a revival, it left a considerable impression both socially as well as economically. The comprehensive involvement of compatriots of Hong Kong, and Macao origin, reinvigorated the patriotic Chinese sentiment; proving more efficacious than the influence of foreign entrepreneurs (Li 2009, p. 124).

Another interesting proposal from Xi during this period was 'administrative efficiency' in order to bring foreign money into the Guangdong province (ibid., p. 177). As the pioneer of the new reformation policy, Guangdong needed administrative independence, involving a 'free hand on the SEZ plan from the central government in Beijing' (Crane 1990, p. 205). It was a dangerous yet highly rewarding challenge, one that many of the founding members were reluctant to approve—providing 'quasi-independent authorities' with such power without proper empirical evidence (Liu 1992, p. 81). It was soon accepted and officially confirmed by the CCP on Feb. 1979 through the 'Committee Document No. 38'; with the document serving as a continuous source of reference for open policy, in other provinces for their own revival projects. In addition, Shenzhen was recognized as a first-tier city in the Guangdong province and quasi-independent authority was given. Shenzhen had relatively poor fishing regions with a broad 'no-man's land' (Li, p. 119) which was ideal to avoid any ideological altercations between communist local residents and migrated workers in the construction of a quasi-capitalist city.

Despite the legislative and administrative measures being put in place in the new city, there was still a lack of necessary financial supplementation that Shenzhen had originally promised.[8] On the financial terms, the only measures that the Shenzhen local government could do were; one, mouth-to-mouth negotiation strategies, which several technocrats pressed on with, and two, extending invites to various foreign corporations considering the site as a platform for outside investment. Exclusive treatment for foreign investors and free-tax policies were further devised to fuel interest in the region (Wu, p. 185). It was good news for western investors, but it was great news for the Chinese businesspeople who were intrigued by the emergence of various international business projects in their local provinces (Groves 1991, p. 592). Otherwise, the 'rent-land scheme' was drawn up to provide specific and certain parts of the area for property development or manufacturing sites purposes. The 'rent land scheme' (Zheng 1991, p. 18) was especially welcomed by the ethnic-led businesses who were willing to build apartments for not only investors but for the locals also, working in the areas. Despite the considerable revenue generated, it raised various concerns for the Central government due to the possibilities of corruption and bribery in the regions (Shenzhen Special Zone Daily, 20 Nov. 1990).

Throughout April 1979, the Central Working Conference dealt accordingly with the implementation of these special policies across various provincial areas. In the Guangdong and Fujian provinces, Xi Zhongxun expressed his hope that the Central government would allow these two regions to be part of the special region plan. Upon completion of his presentation to the committee, Deng Xiaoping sought to emphasize the following;

> Applying some special policies in Guangdong and Fujian, using the money and technology of overseas Chinese, and allowing them to run factories there will not turn us into capitalists, because the money we make will not go into the pockets of Comrade Hua Guofeng or the others among us. Ours is ownership by all the people... which is what constitutes these 'special zones'... (Li 2009, p. 93).

One of the main concerns at the introductory stages of the SEZs was its identity. Not only among senior politicians, but the public media also questioned whether such zones were 'socialist or capitalist?' On this specific question, Deng indicated to the press that 'it did not matter whether X (socialist view) or Z (capitalism) presided, as regardless of how it is denounced, it is just a mechanism to make people rich...' (*interpreted from his white and black cat ideology*) (Deng's Speech 2009). The Governor of Guangdong, Ren Zhongyi further emphasized that the term 'national capitalist' was applicable to every enterprise, be it a joint venture or a wholly foreign-owned company. However, in the case of our special economic zones, he exclaimed, 'you cannot say they are national capitalist, because they are under the leadership of a socialist country, practice special policies and take flexible steps. They are socialist economic zones' (Li, p. 134).

[8]The Central Government promised to pledge 2% of the total investment, however it proved to be less than the overall 2% of the total investment finances Wen Wie Po (1990).

"At the grass-roots level, we must make up our mind to change the situation in which party members dominate the masses, party branch secretaries dominate all other cadres, and party organizations dominate all other organizations. Our party committees should no longer take on and intervene in everything". 'No squabbling on my reforms', were his words which sought to bring together both the Party members and the young government technocrats via the 'open door' process (Zhao 2009, p. 119).

Further, a continued cause of worry for Deng throughout the preparation of the SEZs was the sites of these economic reformation plans. Indeed, ensuring that farming—a central tenet Chinese communist ideology—was not impeded, was critical; more so, as the agricultural sector was still the foundation of the Communist China. The inherent sensitivity of the issue meant that greater time was spent deliberating on how the Land Law should be legislated and enforced. The notion of 'Land Rent' conveyed a somewhat daunting image in the Chinese farming-based society—it was therefore rebranded as 'free land use' which was a direct reference drawn from Lenin's 'the State and Resolution' (Li, p. 122). Also, there was an influx of illegal migration—with the SEZs drawing vast numbers of illegal migrant workers to regions like Shenzhen through to Hong Kong. According to local municipal reports from Wu Nansung, 'there were big income gaps arising in places like the Laofang, where the area was subdivided in wealth and in development between the Janggang river. Labor who lived in the Chinese side of the Laofang earned 134 yuan per year compared to the 13,000 yuan of those who were on the Hong Kong side'. Not only labor cost issues, but rural migration brought about considerable social ramifications also, for those in the affected regions, which were perhaps further galvanized by the Hong Kong factor.

The somewhat colorful debate on whether SEZs were in-fact products of capitalist or socialist schools of thought, was officially closed through the May–June 1981 State Council conference, where Deng announced that "different opinions about the SEZs were already there from the beginning, and people worried about whether we were embracing capitalism, but what has been accomplished in Shenzhen has given a definite answer to those who were worried. The special zones are socialist, not capitalist" (Li, p. 151).

In comparison to Hua's approach, Deng wanted to maximize the use of foreign capital whilst the western countries' economies were struggling from the oil shock in 1972 , and it was broadly accepted by young technocrats from the Party and by the overseas investors, especially those of Chinese ethnicity, who were already conducting business in Hong Kong, Singapore and Malaysia. In addition, his seasoned staff had already initiated the motions for development; individuals such as Wan Li in Anhui, Zhao Ziyang in Sichuan and Xi Zhongxun in Guangdong—were deemed the engines of the revised open policy under Deng's regime. This definitive support was what Hua dearly lacked, in developing and launching his own iteration of the open policy.

It was in 1984, when Deng finally confirmed the successful progress of the SEZs plan in the southern part of China and brought Li to showcase what he had achieved in the region. Even for Deng himself, it took 5 years to confirm that the SEZs plan

(Crane 1994, p. 78) would function in developing China—which allowed him to cement his status in the Party hierarchy.

8.3 SEZ Policy in India (Under the Modi Administration)

Modi's attempt to emulate the SEZ policy formed a critical part of his 'Make in India' initiative, which was deemed to be the economic future of India under his regime. Indeed, his aim to transform India into a global manufacturing hub, driven by these export-orientated regions aimed—much like Deng—to capitalize on foreign investment, through various fiscal incentives to potential manufacturers. Yet, despite the introduction of a framework aimed to promote extensive economic activity within these SEZs, many of the presently operational SEZs showed to be functioning considerably below their full capacities. It was tackling these deficiencies, which were evident since the outset of the SEZ Act—formalized in June 2005, that served as one the core objectives of his government's economic agenda.

India was one of the first countries to introduce dedicated export processing zones (hereafter EPZs) as a mechanism to stimulate economic development. The Kandla EPZ in Gujarat, where Modi served as the Chief Minister prior to becoming Prime Minister, was only the third of its kind across the world. However, despite the introduction of subsequent SEZs in regions such as Mumbai, Cochin and Chennai—the absence of sufficient infrastructure, facilitating linkages with the greater domestic economy in India, meant that the impact was often minimal with capacity failing to reach the intended levels (Mukherjee et al. 2016). Comparatively, the Chinese SEZs—many of which served as the blueprint to Modi's revised economic policies, were functioning impressively at often maximum capacity—driving and consequently modernizing their domestic economy. Propositions for a new generation of these SEZs, inspired by the successes of their Chinese counterparts, involved a broader range of monetary incentives—endeavoring to produce high-yield sources of investment for both domestic and foreign developers. Indeed, the relaxation of the taxation system, offering income-tax holidays and exemption from various duties and excise taxes, aimed to regenerate India as the future site for investment-worthy manufacturing centers. Greater willingness of banks and other credit facilities to fund such industrial development, further increased the appeal of the SEZs policy from the outset of Modi's term.

Much like Deng, Modi too faced increasing concerns in determining the relative locations of his SEZs initiative. The reluctance of certain regional governments, coupled with the ardent local political resistance to ceding land for such private-sector development projects, were major obstacles that inhibited the progression of the early SEZ plan. As such, the Modi government's projected revisions to the Land Act to accommodate foreign investors in particular, were welcomed but it is still facing domestic hurdles, with the opposition parties failing to agree to a working consensus to date.

Recent policy amendments by the Modi administration however, towards a more streamlined taxation system has further decreased the appeal of his SEZs policy. The likely discontinuation of previous tax exemptions is projected to divert both domestic and foreign investors and manufacturing development bodies, from actively engaging in the regions (Soundarapandian 2012). Additionally, the latest passing of an amendment to the law presiding over the SEZ arrangement—an attempt by Modi to rally support from across the diverse political aisle, broadened the type of businesses that could operate within the SEZs, permitting greater applicability to foreign corporations including trusts. Indeed, Modi's commerce minister, Piyush Goyal exclaimed in June 2019 the following, "...a small amendment can have large impacts on investment in jobs, and consequently economic growth". Thus, widening the bylaws in the SEZ Act to include individual entities, increased the scope for greater diversity in the applicable operating bodies, to drive the new generation of the SEZ initiative.

Further, the administration's efforts to integrate financial centers within the SEZs, is presently in the works to be established via a regulatory framework to blend financial services with the needs of the manufacturing sector, to capture a broader market. Ultimately, the addition of such international financial sectors in these regions would allow for greater opportunities through, for instance, the relaxation of existing offshore banking and currency convertibility regulations—to facilitate transactions of a larger scale. Coupled with the restructuring of the tax regime, Modi's government has cited the goal of attracting foreign investment back into India—as a primary opportunity to gain a foothold in the financial services market also, while preventing the previously imminent export of India's securities industry. Success in this sense, as Modi expressed, would give the economy the drive it needs to benefit from the export boom that began Shenzhen's rise to a global financial district.

8.4 Deng to Modi; A Worthy Parallel?

Modi's comparisons to Deng Xiaoping—both self-proclaimed and externally expressed, has often been used as a means to assess the relative successes of his administration in their domestic and foreign socio-political policy objectives. Indeed, although there exists evident disparities in their party and country's political structures, parallels in their resolve against antiquated land and labor regulations, have seemingly posited Modi as the reformer that Deng once was. However, despite having a somewhat comfortable majority in the lower house of parliament, India's complicated ruling system implies that lawmakers will not purposely comply with his legislative endeavors. Hence, the backing of regional political powerhouses; ranging from Mamata Banerjee, the Chief Minister of West Bengal to Naveen Patnaik, the current Chief Minister of Odisha, is crucial in enhancing and maintaining Modi's appeal going forward.

Asymmetrical power imbalances ingrained within the Indian parliamentary power hierarchy, stresses the need for Modi and his government to have the backing of the regional political bodies as well as the central government—to enforce any legislative or politico-economic policies. Additionally, the growing middle classes in Indian society have caused further concerns for the Modi government. Given the significant disparities in living conditions to those who are yet to completely be drawn out from poverty, extensive administrative policy efforts are necessary to shelter both groups from such 'vulnerable shocks'—that are inevitable to any developing economy. Rising unemployment and increases in food and transportation costs, the effects of which have been compounded by the lack of appropriate social funding, have resulted in the need for a proactive policy that tends to the welfare of every individual across the social strata.

On the contrary, Deng's pursuit of economic reforms, which were grounded on far more favorable domestic circumstances, were backed by efficient institutions that were founded on the premise of accountability. Such differences were apparent in Modi's efforts to facilitate the development of these designated economic zones. India's outdated labor regulations and land acquisition legislature further substantially impeded his efforts to replicate Deng's mastery in Shenzhen—instead, prolonging his administration's ability to achieve similar levels of socio-economic progression.

India's failure to tackle issues pertaining to the absence of economic autonomy, meant that the majority of Modi's first term in office was spent combatting existing financial and legislative structures that previous administrations had been reluctant to change. Practical and progressive financial discipline, which India lacked thereof; had been critical to establishing Deng's economic agenda that had propelled his SEZs plan into place. Strains on the national budget, in supplementing the welfare schemes that had been instilled by prior governments, and issues related to disenfranchised government expenditure, tailored for the few—have resulted in a cycle of debilitating financial pressure on the large majority in India. Imminent liberation from these unnecessary fiscal pressures is therefore paramount, and it is only through the establishment of more efficient legislative structures that Modi could envisage a result close to that of Deng.

Modi's record however, from his tenures as Chief Minister of Gujarat, justify the high expectations which had been given from the beginning of his time in office. Similarly, such comparisons with Deng were only made possible from the successful economic reformations—albeit incremental, that had been instigated throughout Gujarat. The plethora of economic complications which continue to complicate any proposed initiatives, such as the inefficient public sector and incessant bureaucracy, all require a complete rejuvenation of the system to solve. Yet, the weakness and little leverage that is held by the central government remains a thaw in achieving such goals—compared to his relative triumphs in pushing through his regional policies. Thus, Modi's adoption of Deng's "cross the river by feeling the stones" saying, alongside his dexterity in approaching underlying structural reformations is likely to place India on an ideal route towards achieving its geopolitical and socio-economic aspirations. The timing of these presumed successes, however, remains in doubt.

8.5 Conclusion

In China, the SEZs plan was a form of 'de-institutionalization' in instigating economic reform. According to Hutton, 'China admitted ideological defeat; from now on it intended to develop a market economy, though the economy would have strong Chinese characteristics' (Hutton 2007, p. 99). It would not be an inherently Chinese economy, due to the extensive de-institutionalization that had been necessitated by the digital era. It was not a defeat entirely, but a transitional phase into modernizing the economy in the Chinese way, which Deng had envisaged, and Xi would go on to achieve during his regime.

Deng was neither an economist nor even a free-market supporter. Bachman posited that 'evidence of Liu Shaoqi's activities in the economic realm is scarcer, and there is no data whatsoever about Deng Xiaoping's role in dictating or determining economic policy' (p. 136). From a politico-economic perspective, the economic implementer however, was not important. Especially for emerging countries like China and India, the SEZs policy was vital in guiding its economic transition for China, and crucial in introducing a new phase of development for India—that was both politically and socially forward-looking. The plan was fundamental in reviving both countries' stagnated economies. Compared to Deng, Modi had chosen a more radical currency-orientated agenda, as a tool of compelling economic change mainly because of the increasing income divisions and the absence of a distinct target in rejuvenating India's finances.

"All of us need models to help understand the world around us. Models are a way to gain clarity and analytical power through simplification. Without such a simplification we flounder in confusion. Modeling has been a promising strategy in the natural sciences, as well as in economics" (Scott 2006, p. 18). There were several publications which sought to apply a single model that defined both the political and economic impact of the SEZs plan in China and India; yet, it was profoundly difficult to encompass the differences in even the way in which the plans were received, with it serving as a mode of political maneuvering by leading figures in the Party, and as a mechanism of garnering politico-economic support that paved the way for Modi's concurrent terms in office. The SEZs were given unprecedented local autonomy—albeit to varying degrees, and wide-ranging authority regarding the encouragement and approval of foreign investment (Sheng and Tang 2013, p. 72), and therefore it was highly significant in the political decision-making process for both countries (Moberg 2015, p. 171). Ultimately, this required Deng in 1978 through to 1984 and Modi thereafter from 2017, to gather support from the regional and indeed central governments—to collectively pursue an agenda of development and growth that had been unforeseen since the Hua and Singh eras.

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Chapter 9
Examining China and India's Path to a Gender- (Im)Balanced Growth: Reflections from the Post-Reform Eras

Srivatsan Manivannan and Deepanshu Mohan

9.1 Introduction

A common example of the stereotypes surrounding the masculinization of *brawn* labour and the feminization of unpaid care is that of the coal miner. It has since been established that the reduced participation of women in such industrial labor is not due to an aversion to the 'hard' and 'dirty' jobs, yet rather a system of selective exclusion, which institutionally denied women entry into work that they engage in, in the absence of such barriers. Economic theory has similarly long since moved away from the *Homo economicus*, evolving to a more holistic understanding of the world which not only considers the housewife's labor on par with the coal miner's, but attempts to rework the structural biases that pervade the study of economics, politics, and policymaking.

Beyond the privileges of academic theorizing, praxis has since caught up, with world governments, international organizations, and activists directing their efforts to include gender equality as an instrumental goal in a country's path to greater economic and social development. The focus on core areas around gender equality (and minimizing inequities based on gendered lines) has enabled significant changes in developing nations' economic and social policies along with revisions in methods of data gathering and analysis.

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At the same time, this has allowed for a more critical discussion and academic dialogue on the intersectionality of areas around feminist economics, inclusive growth and the rights of women,[1] in becoming entwined with policies for developmental growth.[2] However, is it possible to identify trends in the economic histories of these countries, where the very lack of focus on actively *feminizing* growth was responsible for the seeds of crisis to be planted? To take a step further—does our current methodology of data collection, analysis, and critique provide space for a nuanced application of non-masculine perspectives to the struggle to achieve not merely equality of 'opportunity', but an equality of 'outcomes'?[3]

Despite global attention on addressing key concerns around gender inequality, in large developing nations like India and China, adverse conditions faced by women—across classes and other social groups—in attaining equality are largely unaddressed by macroeconomic policy changes (especially in discussions around developmental growth).

Economic reforms in the post-liberalization periods did benefit various sectors of their economies, liberalized markets and globalized systems of trade and exchange, yet the increase in labor force participation of women has fallen in many sectors and the gender pay gap persists in both China and India-albeit, in varying degrees.

In the time between 2000 and 2015, multiple policies have been enacted recognizing the need for gender inequality reduction. Organizations including the IMF, the World Bank, and the United Nations have released statements and set international goals to integrate growth and development with the empowerment of women. Yet, current data reveals the need for revised standards of gender empowerment which compliment economic growth. The World Bank's collection of Gender Statistics reveal that women are less likely to participate in the labor market, more likely to work without pay, and less likely to have financial autonomy on average throughout the world.[4] There no longer exists a doubt that the participation, empowerment and equality of women play a crucial role in the growth of a nation. The lack of labor force participation, lower rates of education, higher dropout rates and dwindling financial independence of women are concerns for most developing countries.

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[1]*See* Becker, Gary S., Kevin M. Murphy, and Robert Tamura. "Human capital, fertility, and economic growth." *Journal of political economy* 98.5, Part 2 (1990): S12–S37; Ehrlich, Isaac, and Francis T. Lui. "Intergenerational trade, longevity, and economic growth." *Journal of Political Economy* 99.5 (1991): 1029–1059; Fernandez, Raquel, and Alessandra Fogli. "Culture: An empirical investigation of beliefs, work, and fertility." *American Economic Journal: Macroeconomics* 1.1 (2009): 146–177; Dollar, David, and Roberta Gatti. *Gender inequality, income, and growth: are good times good for women?*. Vol. 1. Washington, DC: Development Research Group, The World Bank, 1999; Steinberg, Chad, and Mr. Masato Nakane. *Can women save Japan?*. No. 12–248. International Monetary Fund, 2012.

[2]Developmental Growth must be seen as a process where productivity growth—in terms of increase in economic production and consumption-compliments the development processes in areas of social and economic indicators (say, reduction in absolute poverty and improved access to basic social services, healthcare, education).

[3]Gatti, s*upra* note 1.

[4]Gender Statistics, The World Bank.

At a national level, China and India have tried to highlight efforts on trying to reduce gender inequality in terms of wage earnings and (female-male) labor force participation in formal, organized employment opportunities. It is critical to point how, each of these nations, has experienced varying degrees of success in achieving this goal (minimizing gender inequality), while emerging as two of the fastest growing economies in the world.

In this context, while significant attention has been given to indicators like male-female wage gap, gendered distribution of earnings, female participation in higher positions of entrepreneurial activity and low labor force participation rate, there has been far lesser mainstream development focus on issues around unpaid labor, the care economy, and interconnected social dynamics that dis-incentivize and inhibit women from attaining an equal role in some of the developing economies like India and China.[5] Critical discourses and feminist economic scholarship has risen in the past few decades, yet in the most recent years, there is a pressing gap in the literature that ties in India and China's post-reform experience with its most recent statistics on economic gender equality.

This chapter makes an attempt to provide a critical feminist economic historiography of two countries, China and India in their post reform years. Specifically, it considers the post-reform growth experiences for India (post 1990) and China (post 1978), present indicators between the year 2000 and 2015 on female labour force participation, sector-wise gendered distribution of labour, and unemployment, and finally attempts to present a feminist outlook towards development narratives.

While studying the growth pathways towards a more inclusive development for all, our research hopes to combine past experiences to consider an ungendered future to economics, yet at the same time, we are conscious and cognizant of lived realities, histories of oppression and exclusion of women and minority groups in each country's own respective histories.

Our findings suggest the need for sustainable long-term policymaking that addresses the stark differentiation between brawn-based 'masculine' labour and care-based 'feminine' work. This requires a cultural and social transformation of the stigma associated with male participation in the care economy and domestic labour, alongside the incentivization of female land-ownership, and the lifting of gendered socio-legal restrictions.

We argue here that both, India and China require a reimagination of growth that accounts for the unpaid work of women, looking not only to bring them into the fold of formalized employment through education and skilling initiatives, but to also provide importance to the role of care in the household and for the elderly, through schemes that incentivize men to equally participate in such roles and reduce the time poverty faced by women.

Ultimately, both countries require more affordable care services, which will improve access to the formal labor market, and finally aid in a process of economic

[5]Cuberes, David, and Marc Teignier. "Gender inequality and economic growth: A critical review." *Journal of International Development* 26.2 (2014): 260–276.

restructuring that distributes costs equally between the unpaid household economy and the formal paid economy. This will pave a path to an intersecting and intertwined economic and gender empowerment, for both men and women, to combine the utilitarianism of growth with the inclusivity of a post-patriarchal norm.

The following sections of the chapter highlight the methodology used, the indicators identified to understand the female-male participation processes in years after the market reforms undertaken in China and India, and the analytical findings drawn from observed trends.

9.2 Methodological Overview

China and India's different national contexts, foreign policies, and vastly different economic environments, set them aside as apt case studies to understand the factors of gender inequality underpinning their respective growth stories. Social and cultural norms in these countries inhibit the mobility of women in the economic sphere. Economic growth in both countries has been accompanied by policy frameworks which attempt to equalize the gendered distribution of labor, alongside other reforms which are cognizant of the tradeoffs women make to engage in formal employment.

While there exist many indicators from which data can be drawn to analyze varying scales and forms of social and income inequality—in gendered terms—**three** have been selected in this chapter for their ability to reveal trends and consequences beyond merely the economic realm—**(1) female labor force participation rates**; **(2) gendered distribution of earnings across various sectors**, and; **(3) unpaid work and the care economy**.

9.2.1 Female Labor Force Participation

The **first** theme of **female labor force participation (FLFP)** is linked to the decisions of women, especially in rural areas, which depend on balancing home-based production of goods and services, caring for children, managing the household, and balancing the human right of leisure.[6] Women must look at the labor tradeoffs associated with working for a wage alongside these other responsibilities. There is implied a higher elasticity of female labor supply to wages, where earning is usually taken up only if it is equivalent or more than the lost home-production.[7] Education, child-bearing, social norms against employed women, and gender-based

[6]Ibid.

[7]Jaumotte, Florence. "Female labour force participation: past trends and main determinants in OECD countries." (2003).

legal restrictions or impediments (to the right to property, inheritance, owning a bank account, pursuing a profession) all further affect the labor force participation.[8]

The barriers to FLFP exist both on the supply-side and the demand-side. Supply-side barriers include societal norms of women as caregivers limited to the household which result in greater difficulty for women to access formal employment opportunities. These norms are linked to patriarchal expectations of fertility, marriage, and childbearing as well as beliefs in the lesser capability of women to engage in formal employment. These norms extend to the demand side where employers are less likely to employ a woman compared to an equally skilled man.

Other demand-side restrictions include the lower education of women resulting in a lesser skilled labor pool. Women in India and China spend much more time in housework and unpaid labor than in formal employment.[9] Various models have developed explaining the impact of gender inequality on economic growth. Most studies and analyses point to a negative correlation between economic growth and gender inequality,[10] where a reduced gender gap will only aid in promoting growth.

Klassen and Lamanna summarize the existing literature into four distinct arguments.[11] Firstly, gender gaps in education as well as in employment lead to a reduced talent pool from which employment can be sought, thus lessening the average skill and ability of the workforce.[12] They argue that these distortions will affect both the dependent employed as well as self-employed in various sectors (agricultural and non-agricultural), resulting in a disproportionate access to important resources and technologies. This would in turn reduce the mean productivity and thereby lower the pace of economic growth.[13] Secondly, higher labor force participation rates of women and gendered employment inequality results in lower fertility levels and higher economic growth.[14]

Thirdly, Seguino's studies demonstrate the role of international competitiveness (particularly in developing countries), where an export-oriented growth strategy would benefit from the reduction of gender gaps in employment access, and the

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[8]Gonzales, Mr. Christian, et al. *Fair Play: More Equal Laws Boost Female Labor Force Participation*. International Monetary Fund, 2015.

[9]Berniell, M. I., and Sánchez-Páramo, C. (2011). "Overview of Time Use Data Used for the Analysis of Gender Differences in Time Use Patterns." Background Paper for the World Development Report 2012.

[10]Oded Galor and David N. Weil [1996] and Nils-Petter Lagerlöf [2003]; Cavalcanti, Tiago V. de and José Tavares. 2007. "The Output Costs of Gender Discrimination: A Model-Based Macroeconomic Estimate." Mimeograph, University of Lisbon.

[11]Klasen and Lamanna *supra* note 10.

[12]*See* Dollar, David, and Roberta Gatti. *Gender inequality, income, and growth: are good times good for women?*. Vol. 1. Washington, DC: Development Research Group, The World Bank, 1999.

[13]See Mark Blackden, Sudharshan Canagarajah, Stephen Klasen, and David Lawson [2007].

[14]Cavalcanti and Tavares (2007).

presence of women's labor as a competitive advantage.[15] Fourthly, female labor force participation and reduction of the wage gap improves the financial autonomy of women and their ability to take decisions with respect to their household or family.[16] This, in turn enhances economic growth through greater savings,[17] where studies have demonstrated women to make more productive investments, particularly with respect to the education and well-being of their children, resulting in a higher quality human capital of the next generation.[18]

9.2.2 Gendered Distribution of Labor and Earnings

The **second** theme is associated with two other crucial factors including the **gendered distribution of labor and earnings** across various sectors. With respect to the former, there are specific sectors in China and India respectively with much larger percentages of female employment, and other sectors which would benefit from an increased proportion of women workers. The large involvement of women in small-scale manufacturing points to greater focus required in improving the sectors.

Paul, Tanusree and Raju find that the disproportionate involvement of women in largely underpaid or unpaid work in agriculture, particularly in rural areas in developing countries require specific policy initiatives to exacerbate and equalize with male rates.[19] Chaudhury, Ruchika and Verick further, upon study of the creation of segregated occupation sectors which are male-dominated and female-dominated lead to a loss of economic productivity, due to the insufficient capitalization of the work-force, due to social norms regarding the "suitability" of certain genders to certain labour tasks.[20]

The causes of such gendered segregation of both labor and earnings has been explored by feminist economists in different cases. Bina Aggarwal, in her work,

[15]Seguino, Stephanie. "Gender inequality and economic growth: A cross-country analysis." *World Development* 28.7 (2000): 1211–1230.); Seguino, Stephanie. "Accounting for gender in Asian economic growth." *Feminist Economics* 6.3 (2000): 27–58.

[16]Amartya Sen [1990]; Lawrence James Haddad, John Hoddinott, and Harold Alderman [1997]; Duncan Thomas [1997]; World Bank [2001]; Stephan Klasen and Claudia Wink [2003]; and King, Klasen, and Porter [2008]).

[17]*See* Seguino, Stephanie, and Maria Sagrario Floro. "Does gender have any effect on aggregate saving? An empirical analysis." *International Review of Applied Economics* 17.2 (2003): 147–166.

[18]See Thomas, Duncan. "Incomes, expenditures, and health outcomes: Evidence on intrahousehold resource allocation." *Intrahousehold resource allocation in developing countries* (1997): 142–164; and World Bank [2001].

[19]See Paul, Tanusree, and Saraswati Raju. "Gendered labour in India." *Economic & Political Weekly* 49.29 (2014): 197.

[20]See Chaudhary, Ruchika, and Sher Verick. Female labour force participation in India and beyond. New Delhi: *ILO*, 2014.

Table 9.1 Unpaid work and care economy—policy themes

Domestic work	Eldercare	Childcare
• Monetization of domestic labor • Incentivize men to share domestic labor • Rural schemes for women in employment	• Subsidized housing services • Pension schemes • Public healthcare • Retirees' service centers	• Maternity leave • On-site breastfeeding • Subsidized childcare provision • Community childcare

demonstrated the microcosmic occurrences of gendered norms which affect bargaining power by reviewing a case of fish trading in South India, where it the loud haggling is considered traditionally masculine, resulting in women who engage in the profession being harassed and abuse in different forms, due to the loudness being considered "sexually provocative".[21]

From another perspective, Devaki Jain discusses the case of the *Amul* milk cooperative, also in India, where despite a village's cooperative arising through the work of a woman sarpanch, due to the overarching male hierarchy of experts who make most larger decisions, the model is exploitative of women's labour.[22] As a prime example of gendered segregation on the basis of norms and standards, women perform the most unskilled, labour-intensive and lowest paid work such as collecting fodder and caring for the cattle, with their work being unnoticed since, in the Amul plant, aside from the receptionist, all other technicians and operators are men.[23] These cases reveal the need to consider statistics on gendered distribution of labour in a manner that keeps a balanced view of the micro-level conditions that affect decision-making, bargaining power, and effective inclusion (Table 9.1).

9.2.3 Care Economy

The **third** identified theme is of special relevance to our analysis here, that is, gaining more importance and attention in the last decade as a key focus of a feminist reimagination of growth. The '**care economy**' refers to ways in which care is regulated, financed and provided. Governments play a crucial role in providing and regulating care work. 75% of the world's unpaid labor and care work is performed by women, around 10–12 times more than men.[24]

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[21] See Agarwal, Bina. ""Bargaining" and gender relations: Within and beyond the household." *Feminist economics* 3.1 (1997): 1–51.

[22] See Jain, Devaki. "Women's quest for power." *Five Case Studies Sponsored by Indian Council for Social Science Research, New Delhi, Vikas* (1979).

[23] Ibid.

[24] Connelly, Rachel, et al. "The Care Economy in Post-Reform China: Feminist Research on Unpaid and Paid Work and Well-Being." (2018): 1–30.

Care can be purchased or obtained either form the community, the household, or other societal arrangements.[25] In most countries around the world women are the primary caregivers. Feminist literature attempts to understand attributes such as care work which are unrecognized in models of development such as GDP growth rates, alongside the importance of investment in human capital for the development of future generations, which is also largely performed by women.[26]

The importance of care work is ultimately rooted in the notion of time as a limited resource. Çağatay, Nilüfer, and Şule Özler define **time poverty** as a consequence of the limited amount of time that each person possesses daily to conduct their activities—leisure, the consumption of food, working, or resting. The disproportionate investment of time in unpaid care work results in the limitation of women to engage in employment or the market economy and participate equally with men.[27]

Scholarship has evolved to adopt a feminist consideration of the economy, tackling the two interconnected issues of growth and inequality in a pluralistic fashion. This requires a sociological analysis of gendered environments, patriarchal barriers, and socialized bodies alongside an economic understanding of informal labor, the care economy, and access to employment. This builds upon Gary Becker's initial postulation of a need to understand female labor supply through a lens viewing the allocation and the poverty of time.[28]

All these **three** themes—female labor force participation, gendered and sectoral distribution of labour, and the care economy—are closely intertwined and critical to the process of involving a more equal and participative process of growth for women (and other gendered categories).

9.2.4 Analytical Outline

Analyzing these three themes in the contexts of India and China firstly reveals the futility of attempting a comparative analysis between the two countries. Thus, our study independently treats each of these nations—owing to their cultural distinctiveness and diverse civilizational history—and keeps it contemporarily relevant to the 2000–2015 period (in the post-reform era of both nations). We have divided our quantitative analysis in two parts—Sect. 9.3.1 of the chapter highlights the different histories of economic development, cultures, socio-economic-policy environments, and political climates in India and China, and Sect. 9.3.2 interprets some of the data

[25]United Nations Research Institute for Social Development [UNRISD] 2010.

[26]Becker, Gary S., and H. Gregg Lewis. "On the Interaction between the Quantity and Quality of Children." *Journal of political Economy* 81.2, Part 2 (1973): S279–S288.

[27]Çağatay, Nilüfer, and Şule Özler. "Feminization of the labor force: The effects of long-term development and structural adjustment." *World development* 23.11 (1995): 1883–1894; Van Staveren, Irene, et al., eds. *The feminist economics of trade*. Routledge, 2012.

[28]Becker, Gary S. "A Theory of the Allocation of Time." *The economic journal* (1965): 493–517.

available around the three specified themes (explained earlier) and ascertains the gaps in policy reform.

This provides the possibility to map prior attempts at inclusive growth and also understand (with cognizance of the study's limitations) the reforms that the future requires. The journey to gender equality and inclusive growth requires us to reflect upon the relationship between social security schemes, social norms, economic policy implementation, and household-level difficulties faced by women. Further, we attempt to analyze this relationship through existing secondary literature, statistics from national surveys, International Labor Organization estimates, and World Bank data on gender equality metrics.

The analysis thus hinges upon the need for unpaid work to be dealt with as a key policy concern. It is not merely a matter of economics or sociology, but, is as Fineman states, about the "inter-connection and cross-fertilization between feminist economics, feminist legal theory, theorizations of care, care-work and dependency, in philosophy as well as comparative welfare state research, and the reinvigoration and new theorizations of human rights".[29] This chapter attempts such an interconnection by presenting an independent analysis of the 2000–2015 post-reform periods in China and India, linking their growth experiences during the period with their effects on reducing gender inequality. Much of the analysis brings into consideration the importance of incorporating elements such as unpaid work and care labor which are attributes not quantified in GDP, GNI and most popular economic indices.

The economic value of achieving gender equality has been propounded by a close study of the liberalization and privatization of reforms. Care has been taken to not adopt a comparative approach between the two countries, due to the vast differences in political, social, demographic, cultural, and economic environments. The unique growth experiences have presented with important lessons with regards to three primary themes analyzed—labor force participation, gendered sector-wise distribution of earnings and labor, and the care economy.

Lastly, our analysis attempts to be both 'inside' and 'outside' the realm of existing macroeconomic theories and knowledge structures. Diane Elson refers to the dangers of working on purely 'insider' or 'outsider' politics, where the former runs the risk of merely achieving minor developments that do not result in considerable progress or change, and the latter could result in an echo chamber of similar perspectives that does not engage with ground realities, critique, or the intricacies of macro-economic policymaking.[30] The chapter hopes to bring into dialogue the two spheres of analysis, to bridge the language of (largely male) economists and academics with new paradigms that incorporate the feminist narratives, inclusive discourses, and participatory models of public debate and policy-making.[31]

[29] *Supra* note 82.

[30] See Elson, Diane. "Talking to the boys. C. Jackson, and R." (1998).

[31] Ibid.

9.3 Post-Reform Growth Years and Gendered Experience: India and China

Numerous studies have attempted to discover patterns in the results of growth reforms in Asian countries. Developing countries are viewed as the most important subjects of the paradigm of fusing gender empowerment goals with economic ones. India and China are the most popular choices for economists and academics due to their proximity, speed of development, and similar trends of market liberalization. An additional reason for the importance of India and China as case studies is the dynamic and diverse macroeconomic approaches taken to recover from the 2008 recession. The years between 2000 and 2015 have the Great Recession positioned as a midpoint of reference. Between 2000 and 2008, either country realized the results of the economic reforms enacted in the prior decades.

Following the recession, data reveals the paths taken for recovery were coupled with greater awareness on the need to include equity and social welfare on their respective policy agendas. In India, for example, the period immediately precedes the year of largescale reforms such as the currency demonetization, the implementation of the Goods and Services Tax (GST), and that of the Insolvency and Bankruptcy Code (IBC) in 2016 in India. Any analysis of the period will provide the opportunity for future scholars to analyze the vast differences in policies pre-2015 and post-2015.

With these considerations in mind, we will limit our discussion to India and China (exclusive of one another) and will utilize indicators drawn from the period between 2000 and 2015.

9.3.1 Reform Experience of China and India

9.3.1.1 China

The decade following the Chinese reform-era saw increased economic growth and reduced poverty. The 1978 transition from a planned to a market economy, marked the beginning of two decades of reforms, and resulted in greater concerns arising with respect to increasing inequalities of various socioeconomic groups. Between 1949 and 1976, paid maternity leave, on-site breastfeeding, and subsidized childcare were granted through employers via the work-unit system. Between 2000 and 2015, the reforms undid the previous structures which had normalized and socialized the importance of care labor in the Maoist era.

As Yee reports, Confucian patriarchal norms of the past resurfaced, and stereotypical gender roles were reinforced.[32] The flames of growth and efficiency kindled

[32]Ho, Yee Lim. "Women on the Edges of Hong Kong Modernity." *Spaces of Their Own: Women's Public Sphere in Transnational China* (2001): 162–190.

by the reform era came at a cost of multiple tradeoffs including the disproportionate loss of employment for women workers in public and state enterprises, the weakening of land rights for women, rising gender disparities in urban and rural wage employment, income insecurity, and the declining access to healthcare.[33] Newly created jobs had poor working environments, with equity and welfare waning in importance within the state's policy agenda. Further, as childcare and eldercare grew more expensive, the elderly became traditional caregivers for infant children.

Recognizing this occurrence, the Chinese government in 2010 introduced schemes to improve early childhood education (ECE) in rural areas in the western and central provinces, as well as to include migrant children in the urban areas.[34] In 2008, the Labor Contract Law was enacted which prohibited the termination of labor contracts of women who are pregnant or caring for a baby, thus providing female workers with the entitlement for job protected maternity leave. In 2012, the paid maternity leave duration was extended to 98 days, where in addition to the paid leave women were entitled to a reimbursement of costs incurred for pre-natal examinations, medicines, hospital care, and more.[35]

While the *hukou* system previously limited the access to such social security benefits to urban residents, the State Council's decision in June 2012 to replace it with a system of residence permits allowed for migrants and those in the rural areas to enjoy similar benefits. This delinking of social security access from the *hukou* status has increased family migration.[36] The *dibao* system further provides a minimum living allowance, as a part of a social security system for people and workers in the rural areas, including cooperate healthcare programmes and rural pension programmes.[37]

Yet despite these schemes, inequalities increased, and the growth rates further fell during the period. Estimates show that China's GDP growth percentage was at a peak of around 14% in 2007 and dropped to approximately 9% following the 2008 recession. Since then, China's growth percentage has dropped to around 7% in 2015. The proportion of women who were contributing family workers changed from an incredible 41% in 2000 to a much lower 14% of the total female employment in 2015. The reduction in male family workers was from 11% to 4% of the total male employment, a much lower value compared to its female equivalent.[38] This demonstrates the larger occurrence of women undertaking unpaid labor over a period of time.

Hu and Wu state that with the progress of growth reforms and the rise of the competitive labor market, women in China have lost the institutional protections

[33] Berik, Günseli, Xiao-yuan Dong, and Gale Summerfield. "China's transition and feminist economics." *Feminist Economics* 13.3–13.4 (2007): 1–33.

[34] State Council, 2010.

[35] Lie et al. 2008 + that article.

[36] Yang and Chen 2013.

[37] Li 2011.

[38] *Supra* note 3 (modeled ILO estimate).

once awarded to them by the work-unit system, and now have to undergo more barriers in labor markets. This is a contrast to many developed countries, where there is a lack of government regulations and legal protections in China against gender discrimination in the labor market, and an absence of social or welfare policy that aids in the redistribution of care work or reduces conflict between work and the household or family.[39] The motherhood penalty still persists.

9.3.1.2 India

In developing countries such as India, home-based work is widespread as an inherent structure which macroeconomic reforms, while briefly attempting to address, are usually left outside the realm of policy considerations. India's economic and trade liberalization are seen to have had a greater impact on men with respect to domestic work with more men taking up home-based work specifically in import-competing industries.[40] This, as a consequence, resulted in men being brought closer to women with a downward harmonization of environments and wages.[41]

Broadly, India's growth story mostly begins following the liberalization reforms of the 1990s. Following this, India's GDP improved consistently between 2000 and 2007 to reach a peak of 9.8%.[42] India's improving growth between 2000 and 2015 is rooted in the early growth stage of its economy coupled with the "demographic gift" of a young population. Further, the post-reform era was punctuated by the Great Recession and policies adopted to recover from it. These policies however, failed to account for the disproportionate gendered distribution of labor and wages. When the 2008 economic crisis brought down growth levels sharply, recovery efforts and policies well mitigated the recession. This resulted in a temporary rise of the GDP growth rates to a peak of 10.25% in 2010.

During the 5 years up till 2015, GDP growth percentages recovered to 8.15%.[43] Since 2000, the labor markets have undergone reforms—there has been a tightening of rural casual labor markets, rising real wage rates and a narrowing of the urban-rural wage gap.[44] Datt, Ravallion and Murgai identify three factors to explain the disproportionate sector-wise distribution of wages and workers in India—the expansion of schooling and the subsequent reduction in the supply of unskilled labor

[39] *Supra* note 35.

[40] See Rani, Uma and Jeemol Unni. 2009. "Do Economic Reforms Influence Home-Based Work? Evidence from India." Feminist Economics 15(3): 191–225.

[41] See Berik, Günseli, Yana van der Meulen Rodgers, and Stephanie Seguino. "Feminist economics of inequality, development, and growth." *Feminist economics* 15.3 (2009): 1–33.

[42] *Supra* note 3.

[43] Ibid.

[44] Hnatkovska, Viktoria, and Amartya Lahiri. "Structural transformation and the rural-urban divide." *University of British Columbia, typescript* (2013).

primarily in rural areas, the decline in female labor force participation rates,[45] and the construction boom in India mainly in infrastructure.[46]

Along the same time as the construction boom, the technological boom of the 2000s created greater demand for skilled labor, where education and employment in the Information Technology and Engineering fields developed with the younger population. Questions arose with the continuing trends of liberalization, where the provision of domestic firms with capital, technology, improved ability to enter the market, increased competition and the subsequent further need for better technology led to greater level of imports. This transfer of technology resulted in productivity growing in the service sector and industry sector, and declining labor participation in agriculture. This drain of labor from agriculture to more productive sectors increases growth and has, in theory, tightened the labor markets in agriculture and improved real wages for the workers there. However, further surveys reveal the wages for agricultural laborers to be decreasing, calling to question the authenticity of the data and reliability of information.[47]

Most importantly, during this period, India has responded to several calls for increased labor participation of women and reduction of the wage gap. Sustainable Development Goals such as those calling for equal education and employment opportunities for men and women have been reacted to with policies such as the '*Beti Bachao Beti Padhao*' scheme, aiming to improve fertility and also the education of girl children.[48] Intensive research which strongly suggested that raising female labor force participation will improve the economy, not merely with GDP growth but also productivity and profits in the private sector have been heeded to, with employment in non-agricultural sectors improving in the 15-year period.

One major area which emerged as a positive recipient of growth reforms was that of vulnerable employment, particularly with women. The percentage of vulnerable employment of women (see Fig. 9.1) has dropped from 90% in 2000 to approximately 82% in 2015.[49] However, this still persists as a significantly large proportion of the total female employment. Female workers' vulnerability stems from their high concentration in the informal sector without social or employment security, and lower wages compared to their male counterparts.[50]

With regards to male vulnerable employment, the number has fallen from 81% in 2000 to 77% in 2015.[51] A similar concern exists with the employment to population

[45]Klasen, Stephan, and Janneke Pieters. *What explains the stagnation of female labor force participation in urban India?*. The World Bank, 2015.

[46]Datt, Gaurav, Martin Ravallion, and Rinku Murgai. *Growth, urbanization, and poverty reduction in India*. The World Bank, 2016.

[47]Ibid.

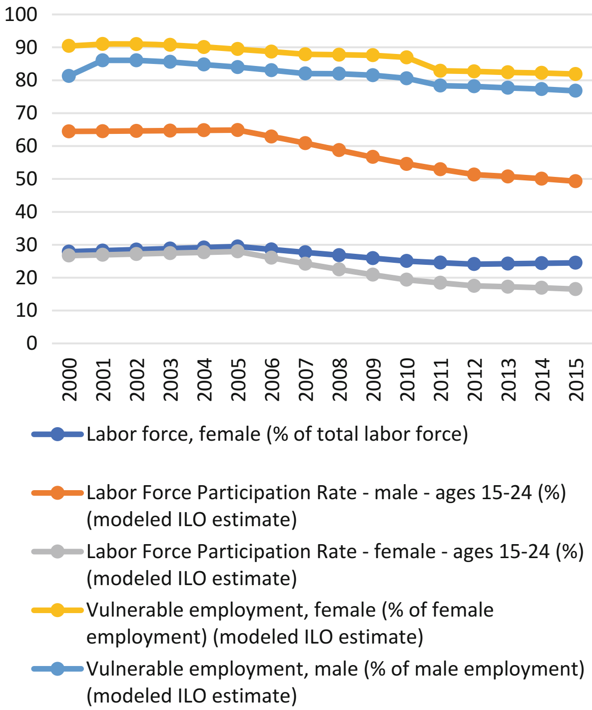
[48]Ibid.; MHRD, India.

[49]*Supra* note 3 (modeled ILO estimate).

[50]Ara, Shamim. "Globalisation and Gender Inequality: Evidence from Labour Market in India." *Journal of Quantitative Economics* (2018): 1–28.

[51]Ibid.

Fig 9.1 India—gendered distribution of employment scenario (LFPR vs. vulnerable ratio)



ratio, which for women has reduced at a rate much higher than for men. Women's employment to population ratio has reduced from approximately 35% in 2005 to 26% in 2015, yet for men it is a relatively lesser change from 79% to 76%.[52] Through the same time period, the Indian female labor force participation rate has stagnated, being lower than other emerging market economies, and on the decline since the mid-2000s.[53] Labor reforms directed to address this issue have faced barriers to implementation. Older reforms such as the 1976 Equal Remuneration Act aimed to equalize pay and reduce discrimination still face diffused application. The Supreme Court of India has held in multiple cases that gendered discrimination with respect to wages is applicable only when women and men perform similar work, however, the definition of equivalent work is insufficient to address the socialized gender stereotypes associated with different kinds of work.

For examples: manufacturing, agriculture and construction in India are still considered in the realm of brawn-based production limited to male comparative advantage. However, increased involvement in female labor productivity with development is an aim which the government is yet to address. The demand for

[52]Ibid.

[53]Das, Mr. Sonali, et al. *Women workers in India: why so few among so many?*. No. 15–55. International Monetary Fund, 2015.

female labor is further reduced by the lack of alternative jobs available to workers transitioning away from agriculture.[54] It is thus possible to conclude that the high economic growth rate in India during the period has left women workers behind, where the growth did not necessarily even create new jobs.[55] The jobless growth which has occurred in sectors which are likely more women-friendly has limited India's FLFP growth. Once again, the root of women-friendly work lies in that which reduces the time poverty faced; yet with jobless growth, there is a loss of formalized benefits that could help reduce the burden of performing work in a limited period of time during the day.

In such a context, it is key to analytically consider the different indicators in China and India, both, considering the consequences of the reform era in juxtaposition with the labor force participation, unemployment, and the care economy.

9.3.2 Performing Indicators on Gender (In)Equality in China-India

9.3.2.1 China

Labor Force Participation Rate

Initially in the year 2000, the female and male labor force participation rates were nearly equal. However, over the next 15 years, female labor force participation rate (FLFPR) has consistently and disproportionately decreased (see Fig. 9.1).[56] FLFPR fell from 68% to 47% while the male rate fell from 69% to 50%.[57] Maurer-Fazio et al.[58] found that in 2000, rural women of prime age living in urban areas had almost 10% greater labor force participation rate than urban residents of the demographic.

Post-reform era FLFPR was affected by various other factors. The 2010 National Dynamic Monitoring Survey of Floating Populations demonstrates a negative link between the labor force participation (both migrant and local mothers) that childcare costs have. A 1% increase in childcare costs decreases local women's labor force participation by 0.229%.[59] This is explainable as an obvious consequence of the motherhood penalty, where increase in childcare costs increases the burden of care labor and reduces the percentage of time allocated to formal employment. While schemes and pensions have attempted to reduce Post-reform reduction of low-cost

[54]Chatterjee, 2015.

[55]Bhalotra, 1998; Papola and Sahu, 2012; Kannen and Raveendran, 2009; Chowdhury, 2011.

[56]*Supra* note 3.

[57]Ibid.

[58]Maurer-Fazio, Margaret, et al. "Childcare, eldercare, and labor force participation of married women in urban China, 1982–2000." *Journal of Human Resources* 46.2 (2011): 261–294.

[59]2010 National Dynamic Monitoring Survey of Floating Populations.

provision of childcare services by the state as well as local collectives (*danwei*) has adversely affected FLFPR. This is directly linked to the disproportionality observed in work opted for by women, alongside the roles played by norms in affecting women's choice of employment.

Gendered Distribution of Workforce

While there has been a creation of jobs and new employment opportunities across sectors as a result of the economic growth reforms, data reveals a rising gender gap and disproportionate benefit received by male employees both with respect to earnings and employment rates.[60] The 2010 SCWSS reports show a falling of employment rates for men and women in the urban sectors.[61] The male rates have fallen from around 90% at the beginning of the twenty-first century to 80.5% in 2010, and the female rates have dropped from 61% to 60%.[62] There is hence a clear increase of the gender employment gap by approximately 6–7%, as well as an increase in the earnings gap.

Employment in agriculture as a percentage of the gender-wise employment has dropped sharply between 2000 and 2015, from 41% to 17% and 47% to 23% for males and females respectively.[63] Besides the analytical relevance of the large percentage drop over 15 years, one notices the greater percentage of women employed in agriculture industries than men.[64] Off-farm labor participation, on the other hand, has risen steadily since the early 2000s until 2015. Yet, there are different trends for men and women. Employment in industry as a percentage of female employment has reduced from 30% in 2000 to 22% in 2015 but has grown for men from 26% in 2000 to an average of around 31% in the 2010s (refer Fig. 9.2).[65] Employment in the services industry has further increased to a large extent, from around 33% to 52% for men and from 22% to around 54% for women.[66]

[60] *Supra* note 1.

[61] Jia, Nan, Xiao-yuan Dong, and Yue-ping Song. "Paid Maternity Leave and Breastfeeding in Urban China." *Feminist Economics* 24.2 (2018): 31–53; Liu, Lan, Xiao-yuan Dong, and Xiaoying Zheng. "Parental care and married women's labor supply in urban China." *Feminist Economics* 16.3 (2010): 169–192.

[62] Ibid.

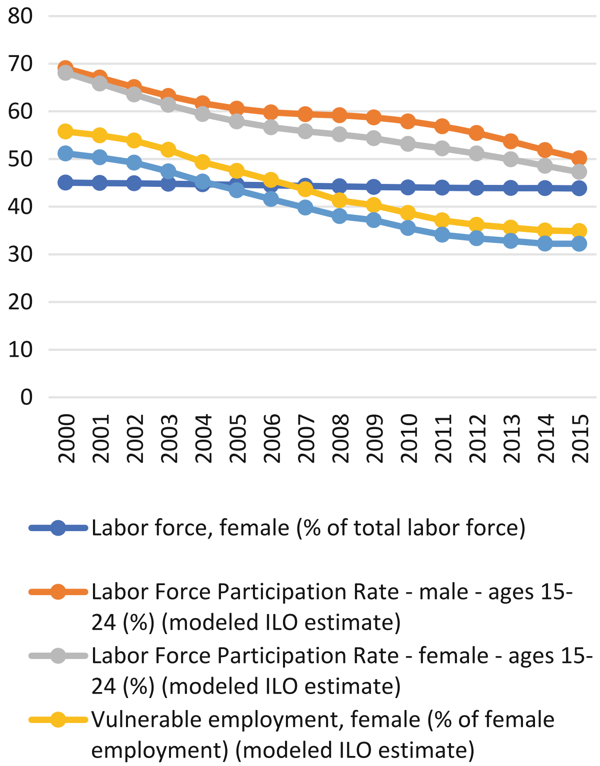
[63] *Supra* note 3.

[64] Ibid.

[65] Ibid (modeled ILO estimate).

[66] Ibid.

Fig. 9.2 China—gendered distribution of employment scenario (LFPR vs. vulnerable employment ratios)



Care Labor and Unpaid Work

Previous sections have provided arguments for the compromises in the care economy which have accompanied China's rapid economic growth in the post-reform period. The increase in employment and earnings gap is largely affected by women's unpaid care responsibilities. Jia and Don found that mothers earn much lesser than women without children in urban China, even if they possess the same skills and human capital quality.[67] The economic transition and restructuring of the state-sector companies resulted in largescale wage losses that are related directly to caregiving and motherhood.[68]

Social welfare schemes such as maternity leave benefits have changed post-reforms and improved, such that they are more effective than those of many other developing countries. Paid maternity leave duration was extended to 98 days in 2012, and further extended to a minimum of 128 days in 2016, which was linked to

[67] *Supra* note 21; Du, Fenglian, and Xiao-yuan Dong. "Women's employment and child care choices in urban China during the economic transition." *Economic Development and Cultural Change* 62.1 (2013): 131–155.

[68] Ibid.

the replacement of the one-child policy with the two-child policy. However, such provisions do not uniformly benefit women and mothers—state-sector employees who are not in permanent employment but contracted for a short-term are in most cases refused such benefits. Furthermore, the lack of effective enforcement of labor regulations and policies in private sectors result in a lesser coverage of paid leave.[69] Furthermore, the concern with care labor is not merely that women spend greater number of hours in a day doing so and the associated time-poverty, but also that much of women's paid work time is interrupted by unpaid care work.[70] This emphasis of taking care of the household, childcare and eldercare is even to this day highly justified by referring to old Confucian cultures and traditions.[71]

9.3.2.2 India

Labor Force Participation Rate

Both India's male and female labor force participation rates (of the ages 15–24) have been on a downward slope since 2000 (see Fig. 9.1). Only around 24% of the existing labor force is female. The male participation rate has reduced from around 64% to 49%, and the female labor force participation has seen a dwindling curve since the year 2000, reducing from approximately 26% to 16% in 2015.[72] The United Nations Human Development Report shows that only 32.8% of women formally participate in the labor force, whereas men constitute 81.1%.[73] As previously mentioned, both barriers and improvements have arisen on both the *supply-side* and *the demand-side*. The rise of male incomes has been followed by a reduction in female labor force participation, where the income effect is visible particularly in urban areas where the earning of one family member disincentivizes the other, usually the woman, from the need to seek employment. The low importance given to financial autonomy of women is a contributing factor to this.

The rising rate of female education is seen to have a more complicated effect on labor force participation, where Klasen explains the counteraction and moderation of the latter by opposing effects.[74] These opposing effects (suggested by a strong conditional U-shape patter of the effect of education on labor force participation) substantiates the existence of societal stigmas which inhibit female participation in

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[69] *Supra* note 1.

[70] Qi, Liangshu, and Xiao-yuan Dong. "Unpaid Care Work's Interference with Paid Work and the Gender Earnings Gap in China." *Feminist Economics* 22.2 (2016): 143–167.

[71] Cook, Sarah, and Xiao-yuan Dong. "Gender, welfare and the economy of care in reform era China: How the welfare system shapes women's opportunities and gender equality." *Handbook of Welfare in China* (2017): 266–268; Shang, Xiaoyuan, and Xiaoming Wu. "The care regime in China: Elder and child care." *Journal of Comparative Social Welfare* 27.2 (2011): 123–131.

[72] *Supra* note 3.

[73] United Nations Human Development Report, 2016.

[74] *Supra* note 45.

the market economy. However, Klasen furthermore goes to propound that this stigma has begun to decline since 2009, with a parallel increase in the manufacturing sector's employment of women.[75] Another element pointed out by their study is the dilution of positive selection effects which contribute to reducing labor force participation even with women who have attained higher education. Female labor force participation has also been affected by the gendered sectoral structure of employment—most growth in employment has occurred in low-skilled service industry and construction, whereas the growth in high-skill (white-collar) service industries have been insufficient from the demand side to draw in the growing number of working-age women.[76]

Observations from the 2000 to 2015 period suggest that the India's high growth and the benefits of its demographic dividend are unlikely to be sustained over the future if current trends continue, without an intensive inclusive policy to raise female labor force participation. Merely improving the education rates of women has proven to be an ineffective strategy to reduce the gender wage-gap, due to various opposing forces which cancel its positive effects.

Gendered Distribution of Workforce

With one of the largest pay gaps in the world, where women earn around 25% lesser than men as of 2016, a considerable study of gendered distribution of employment as well as earnings, with associate wage gaps is necessary for an economic and sectoral understanding of gender inequality. The percentage of female employment in agriculture has been on a steady decline in most developing countries, yet the sheer difference in magnitude between male and female employment in the sector in India is relevant for growth policy. In 2000, a large 74% of women employees worked in agriculture. The decline of the ratio of women employees in agriculture has been gradual and seemingly unaffected even by the 2008 crisis, landing at 57.7% in 2015.[77] The employment of men in agriculture has been of a far lesser proportion, with 54% in 2000 and 40% in 2015.[78]

Policy concerns that focus on improving female labor force participation rates in many cases are unmindful of the sector-specific gendered concerns. Within the agricultural industry, while women constitute 33% of cultivators and 47% of agricultural laborers, only 13% of women have ownership of the land on which they work. They are furthermore paid 22% less than their male counterparts.[79] Agriculture's vale as a share of India's GDP has reduced by 11% from the early 1990s, to arrive at around 17% in 2014. Similarly, the share of workers in agriculture has

[75] Ibid.

[76] Ibid.

[77] *Supra* note 3 (modeled ILO estimate).

[78] Ibid.

[79] Ibid. (modeled ILO estimate).

reduced from 60% in 1995 to 47% in 2012, where the liberalization reforms have resulted in the redistribution of workers to other sectors. Other sectors have also seen changes, where in 2011–2012 the construction sector accounted for 13% of rural males, increasing by around 10% over the past two decades. Liberalization reforms in India resulted in shifts primarily to construction and manufacturing sectors, albeit to a small level with the latter. The demand for labor in the construction sector, predominantly considered a masculine brawn-based activity, has increased resulting in a relative wage increase of unskilled laborers as compared to skilled laborers, particularly in rural areas.[80] The observations here call for a resounding need to incentivize women's ownership of land, schemes for equal pay in the construction and agricultural sector, and other regulations that cancel liberalization's after-effects of impeding the access of women to brawn-based unskilled labor.

Care Economy and Unpaid Work

In India, the OECD (Organization for Economic Cooperation and Development) reports that a woman, on average spends 5.8 h on unpaid work each day as compared to the average man who spends barely 52 min per day on similar work.[81] The care economy in the country is one of the largest considerations for gender equality and growth, being mindful of the traditional family structures which enforce the social norms of women performing household roles, with the masculinize norms of men being considered incompatible with caregiving or unpaid work. 51% of the work done by women in the country is unpaid.[82]

The care economy's relevance thus prompts a reevaluation of the aggregate value of work in the post-reform years of India. There is a sector-wise distribution of such unpaid work, where particularly in the agricultural work, the labor of women is undervalued, underpaid, and detrimental to their participation in paid labor.[83] Largescale informal employment further exacerbates this issue. Women in agriculture must provide nutrition, partake in subsistence agriculture, perform eldercare—with an average of 25 h a week spent on household work, and 5 h in care and community work, women are afflicted by significant time poverty in India.[84] Data shows that despite this, women and men spend an equal average time in agricultural work.[85] Not only is this economically relevant to a lapse in

[80]Jacoby, Hanan G., and Basab Dasgupta. *Changing wage structure in India in the post-reform era: 1993–2011*. The World Bank, 2015.

[81]Organization for Economic Cooperation and Development (*mention year*).

[82]United Nations Human Development Report, 2016.

[83]*Supra* note 78.

[84]Dixon-Mueller, Ruth B. *Rural women at work: Strategies for development in South Asia*. RFF Press, 2013; "Pay Parity Sought For Women In Agriculture." *The Times of India*. N.p., 2012. Web. 8 Dec. 2018.

[85]Ibid.

productivity, it further affects the family environment which has generational effects—daughters of women in such situations typically must either aid with or perform an equivalent quantity of unpaid work, thus increasing the opportunity costs for their time in school, leading to compromise in the attainment of skills. This leads to a reduced quality of human capital and skilled labor in the future.[86]

9.4 Towards a Feminist Outlook to Developmental Growth

9.4.1 Gender, Identity, Vulnerability

Womanhood is an *identity*.

Political theorists have specifically attempted to define what one would call a single identity, with numerous theories of identity formation attached to the same. If we, as economists, would agree that the social norms and standards of womanhood are constructed, we can also agree that certain differences in this identity, we can adopt a largely constructivist viewpoint towards approaching the identity of women. Womanhood, further, holds multiple *vulnerabilities* attached to it from an economic perspective. These vulnerabilities are a result of the aforementioned social norms, exclusionist government policies, as well as historical patriarchal oppression.

George Akerlof and Rachel Kranton in their canonical work on identity economics state:

> people have identity-based payoffs derived from their own actions; people have identity-based payoffs derived from others' actions; third parties can generate persistent changes in these payoffs, and some people may choose their identity, but choice may be prescribed for others.[87]

In this context, Bjørnholt and McKay contrast and define vulnerability and resilience, based on the works of Martha Fineman. Vulnerability is "constant, inevitable and universal", and it is characterized by the "imminent or ever-present possibility of harm, injury, or misfortune".[88] It can have implications ranging from unemployment and poverty to a wage-gap and unequal gender distribution. Resilience, on the other hand, is defined by Fineman as having the means to address and confront the harms caused by vulnerability.[89] There are various manners of acquiring resilience, and various resources. The government has a crucial role in the

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[86] *Supra* note 1.

[87] Akerlof, George A., and Rachel E. Kranton. "Economics and identity." *The Quarterly Journal of Economics* 115, no. 3 (2000): 715–753.

[88] Bjørnholt, Margunn, and Ailsa McKay. "Advances in feminist economics in times of economic crisis." *Counting on Marilyn Waring: New Advances in Feminist Economics. Canada: Demeter* (2014): 7–20.

[89] Fineman, Martha Albertson. "The vulnerable subject: Anchoring equality in the human condition." In *Transcending the Boundaries of Law*, pp. 177–191. Routledge-Cavendish, 2010.

allocation of such resources, and hence play a role in the levels of privilege or discrimination that different groups face.

Time is the most crucial resource in that regard. The presence of care services directly ties together the themes of wage distribution and LFPR. On this matter, Bjørnholt and McKay state that that what is truly required is:

> . . .an examination of patterns of distribution both within and across households; an assessment of how a lack of affordable care services impacts on access to the formal labor market and an evaluation of how patterns of social reproduction are affected by a process of economic restructuring that transfers costs from the formal paid economy to the unpaid household economy.[90]

A feminist reimagination of growth thereby requires examining in tandem the gendered identity-based payoffs and the vulnerability (and resilience) of women in developing countries. The role of the State in distributing the tools of resilience involves not only a legal and economic responsibility towards sustainable growth and equal rights, but further a moral and social role of creating access for an incredibly large populace whose (unpaid) work has been denied legitimacy. This requires the de-masculinization of brawn labor, the de-feminization of care labor, and the education of a constitutional morality of equality that is learnt and not assumedly socialized. The prioritization of such goals will automatically result in the creation of laws that provide affordable or free care services, improved access to formal labor, and the reduction of gendered occupational segregation.

Feminist economics has demonstrated the perpetuation of social norms and systems that disincentivize, exclude, and oppress women while utilizing collective action to continue create environments that benefit men. This is intrinsically tied to the reduced bargaining power of women, such as in the case of wage gaps and job integration. Male workers, in order to enjoy the benefits they are currently accorded, are thus more likely to reduce the integration of more women workers in their labour force and thereby increase their bargaining power with respect to wage gaps. These gendered dynamics together, in a larger scale, result in a macroeconomy that is itself gendered and segregated.

This is visible in the commonplace pattern of seasonal, informal, temporary, and unstable jobs being allotted more often to women, with sectors such as manufacturing being dead-ends without the opportunity to skill development, more wages, or better positions.[91] It is in such a scenario that the equality of outcomes becomes just as relevant as the equality of opportunity that is so often used in growth discourses. It is important to provide equal importance to both areas, without which it is seen that growth reforms could worsen the problem of inequality as opposed to improving the conditions for women and underrepresented minorities. Manifold subtle influences, such as the assumption that female workers are dependent on men, are secondary wage earners, that men are the heads of families and chief earners, that housework

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[90] *Supra* note 81.

[91] See Balakrishnan, Radhika, ed. 2001. The Hidden Assembly Line: Gender Dynamics of Subcontracted Work in a Global Economy. Bloomfield, CN: Kumarian Press.

and care is the woman's job, manifest as a barriers that make it nearly impossible for many women, specifically in urban areas, to maintain stable employment, let alone achieve upward mobility.[92] It is these nearly invisible barriers that later manifest as very visible wage gaps, sector-wise segregation, and unemployment.

9.4.2 Guidelines for Future Policymaking and Questioning

Viewing this need to reduce gender gap in wage and labor participation and its relevant importance in improving economic growth, future policies must address areas that are directly relevant to the dual issues. Cuberes and Teignier[93] present three channels for economic policy reforms that are inclusive of women and the poor, and others such as Steinberg and Nakane,[94] Dollar and Gatti,[95] and Fernandez[96] present further models of cultural and religious reform required for female labor force participation's improvement. Firstly, there is required an increase in income elasticity[97]; secondly, policy that focuses on research in infrastructure and technological progress[98]; and thirdly, improvements in women's property rights and reducing gendered legal restrictions.[99]

The promotion of maternity leave, recognition of the disproportionate care labor performed by women by employers particularly in rural areas, and schemes enacted to redistribute care labor are furthermore crucial. Policies that improve the acceptability of female employment outside the private sector, aid the balance of female employment with domestic responsibilities, and regulations to effectively increase the safety of women in workspaces could further aid in the development of labor participation and economic growth.[100] Cultural and social gender biases in child-raising, access to education, improvement of women's bargaining power in home production and reduction of labor market discrimination must be focused upon to achieve inclusive and sustainable growth.

Furthermore, future policymaking must take into account lessons learned from the past. Patterns could be observed from other countries and periods. For example, the trend of socialist governments to promote gender equality in the economy, and to

[92]Ibid.

[93]Cuberes, David, and Marc Teignier-Baqué. "Gender inequality and economic growth." (2012).

[94]Steinberg and Nakane, *supra* note 1.

[95]*Supra* note 1.

[96]*Supra* note 1.

[97]*Supra* note 23.

[98]Greenwood, Jeremy, Ananth Seshadri, and Mehmet Yorukoglu. "Engines of liberation." *The Review of Economic Studies* 72.1 (2005): 109–133.

[99]Doepke, Matthias, and Michele Tertilt. "Women's Liberation: What's in it for Men?" *The Quarterly Journal of Economics* 124.4 (2009): 1541–1591.

[100]*Supra* note 77.

subsidize social welfare schemes such as childcare and eldercare in accordance with their ideology does not do enough to incentivize the contribution of men to unpaid care labor.[101] Only by doing so can care work be equally distributed across genders. Other aspects include the need to increase the percentage of women in public decision-making posts, something which has till now remained largely male-dominated.[102] Not doing so creates a risk of policies being repealed, and care work losing importance in macroeconomic reforms, as governments and regimes change.

There exists an urgent need to go beyond mere socio-economic policy analysis. A feminist reimagination of growth must consider the limitations of a quantitative approach to studying gender inequality in the economy. The impact of internalized misogyny and patriarchal standards of strength, productivity and efficiency must be incorporated into our hypotheses for progressive and inclusive future reform. Lessons must be learned from the attempts of other countries to solve issues of unpaid work, jobless growth, time poverty and stagnating labor force participation. Finally, the question of whether and how unpaid work must be quantified into existing growth indicators must be answered.

The 2000–2015 period in India and in China have separately lit up new avenues to the barriers of gendered labor participation, distribution of work and earnings, and the need for redistribution of care labor from women to men as a parallel function of reducing the gender pay gap. Studying it could provide answers that not only improve economic growth, but promote an egalitarian future that is sustainable, inclusive, and progressive. Future studies can pay heed to the gendered relationship between paid and unpaid work in developing countries like China and India. Socialized gender roles mandating a majority of the unpaid work to be performed by one gender, the perceived 'femininity' of care labor, and the 'masculinity' of brawn-based production are all distinct areas where social and economic reforms must take more creative and inclusive paths to deconstruct.

9.5 Limitations and Conclusion

No singular analysis is sufficient to account for and explain decades of an environment where women have been considered unproductive, less capable members of the economy. The myth that women do not work as much as men is immediately destroyed when unpaid work is accounted for. The gendered distribution of earnings and labor force participation stagnation are also explained by all-pervasive norms which contribute to the belief that men are better investments than women for labor.

[101] Molyneux, Maxine. "Mobilisation without emancipation? Women's interests, the state and revolution in Nicaragua." In *Women's Movements in International Perspective*, pp. 38–59. Palgrave Macmillan, London, 2001.

[102] Goetz, Anne Marie, and Rob Jenkins. "Feminist Activism and the Politics of Reform: When and Why Do States Respond to Demands for Gender Equality Policies?." *Development and Change* 49, no. 3 (2018): 714–734.

This chapter intended to entirely dispel that myth, putting forth questions that require much greater retrospection and scholarship to truly answer—can economic growth be termed development if it causes inequality?

There are, however, limitations to the study, specifically with the data used. The ILO estimates with respect to female labor force participation rates, employment to population ratios and gendered sector-wise distribution of labor have numerous gaps—the filling of which is performed using margins and information sources which are not always uniform or internationally comparable. This is a primary restriction to all studies done in this specific field, with the lack of reliable data holding the largest potential error margin. In India, there exists greater than average survey data with respect to labor force and households, which are unfortunately not entirely incorporated by the ILO to form international comparable data on the elements covered in this chapter (labor force participation rate, gendered wage gap, sector-wise distribution of labor and earnings, employment, etc.). However, India is also presented with gaps in survey data regarding unpaid labor, informal employment, and vulnerable employment. With national estimates of vulnerable employment and annual GDP growth in China, there are questions of the authenticity of data provided by the government. The lack of access to largescale household data and the consequent excess of data from private corporations and employers further distorts the reliability of the information. This chapter had to take into consideration the lack of access to data in this regard and attempt to view multiple credible sources to at least partially verify the existing data, in whatever limited fashion it may be.

Even with the limited data, the study has revealed alarming patterns and trends. The undeniable gendered occupational segregation, the severe lapse in female labor force participation, and the gender pay-gap have all revealed a direct connection to the masculinization and feminization of different labor categories, and the consequent lack of importance provided to the incredible magnitude of unpaid labor performed by women in both India and China. The two separate case studies have revealed a need to focus future scholarship on methods of reducing the time poverty of women in the country, to view an unequal and discriminatory environment through a lens that aims for the possibility of an intersectional and gender-equal world.

There are many questions left to be answered. There is data yet to be mined. Feminist economics must now shift its focus away from the flesh to the skeletal structures that hold the flesh together—comprehensive, unbiased, and feminized data gathering methodologies, applied with a knowledge of the factors that have until now limited such data, can provide us with the potential for scholarship that isn't sanitized of subaltern, alternative, and oppressed histories. Feminist and critical methodology, however, is only possible when coupled with grassroots level ethnographic study, political activism, and careful navigation of bureaucratic red tapes. Yet, even in climates when bureaucracies seem impossible to penetrate, there are new discourses, new conversations, and old rebellions that are remembered in the quest for the truly elusive and truly inclusive growth.

Economic study is left to persist in a new world—a new world that is probably not yet "brave" but holds the potential to be. This, perhaps, would be a world that would in the amended words of Charlie Chaplin, give "*women* a chance to work—that will give youth a future, and old age a security".[103]

[103]Chaplin, Charlie. "The Great Dictator's Speech." *Charlie Chaplin—Official Website* (2016).

Chapter 10
China and Bollywood: The Potential for Building the World's Largest Film Market

Kavita Karan and David J. Schaefer

10.1 The Rise of Bollywood in the Middle Kingdom

The year was 2009. The country was China. And the film was *Chandni Chowk to China* (Advani 2009), an Indian-Chinese-American co-production about a lowly Indian cook mistaken for a reincarnated Chinese warrior that producers hoped would reap huge profits in a newly emerging "Chindian" film market. Heavily criticized by reviewers and audiences in both countries, the film flopped and the future of cinematic cooperation among Asia's two largest neighbors was thrown into doubt. Fast forward to 2016. Popular Bollywood actor Aamir Khan enlisted the aid of Mumbai-based UTV-Disney's marketing prowess and released a heavily nationalistic film about two female Indian wrestling champions entitled *Dangal* (Tiwari 2016). The film reportedly caused a sensation—rocketing to the top of the Chinese box office (Qin 2017)—and raised the possibility of a regional cinematic alliance between both countries.

Since the release of *Dangal*, it has been frequently reported in general news sites and the trade press that Chinese interest in the Indian film industry has expanded. Chinese audiences apparently began to flock to newly available Bollywood blockbusters at their local multiplexes, cultivating fan bases for mainstream Indian stars like Aamir Khan, Salman Khan, and Akshay Kumar, among others (FICCI 2019). Meanwhile, China's domestic cinematic market appeal continued to grow, with the country dominating the global box office for the first quarter of 2018, collecting more ticket revenue than Hollywood (Frater 2018). China also witnessed a major

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expansion in the number of movie screens available for domestic exhibition as developers raced to build multiplex theaters in new shopping malls catering to the rapidly rising Chinese middle class (Hoyle 2017). Additionally, China's Dalian Wanda group, a prominent real estate developer, purchased the U.S. theatrical chain AMC to become the world's largest film exhibitor (Jones and Thomas 2012). They also opened a massive studio complex in the coastal city of Qingdao, complete with spacious soundstages, hotels, and a theme park designed to rival Disneyland (BBC 2018). The Chinese government supported these efforts as part of its soft power[1] strategy (Schilling 2018; Sun 2019).

What accounts for the reported rise of Bollywood films in the middle kingdom? In this chapter, we review the development of the Chinese and Indian film industries, then examine some of the reported causes of the expanding market for Indian films in China as the two countries attempt to establish a "Chindian" center for global film production (FICCI 2019).

10.2 The Rise of Chinese Cinema on the Global Stage

The Chinese film industry has experienced many changes since its inception in 1905 (Cook 2016). Although early motion pictures were presented primarily as morality-based Shadow Plays ("*ying she*"; Cook 2016, p. 603), the young industry was pressed into service to produce anti-Japanese propaganda films between the two world wars. After World War II and the rise of communism in 1949, filmmakers emphasized "100 Flowers" films that offered constructive criticism to the government, alongside more popular operatic and socially oriented films. During Chairman Mao's repressive Cultural Revolution in the 1960s and 1970s, filmmakers were sent for communist "re-education" and filmmaking was heavily controlled (Cook 2016). When the revolution ended in the mid-1970s, new Chinese leaders recognized the economic need to reconnect with the West, expanding diplomatic channels and openly adopting market-based practices promoted by American and European governments and businesses.

By the end of the 1970s, filmmaking began to flourish at the Beijing Film Academy (Clark 1989; Cook 2016). In the 1980s, economic liberalization continued to expand under leader Deng Xiaoping, impeded briefly during the Tiananmen Square political crackdown in 1989. However, it was fifth generation[2] directors like Chen Kaige [*Yellow Earth* (1984); *Farewell My Concubine* (1993)] and Yimou Zhang [*Raise the Red Lantern* (1991) and *Hero* (2002)] who brought Chinese

[1]According to Nye (2004), soft power is the strength of a country's values, culture, and educational resources to influence residents in other countries without resorting to the use of hard power (e.g., military threats or economic sanctions).

[2]As noted by Cook (2016), film historians generally separate Chinese directors into six "generations."

cinema to international prominence after winning awards and securing international distribution deals (Cook 2016). Some films by fifth generation directors also scored major returns at the international box office: For example, Zhang's *Hero* (2002) became the third highest grossing foreign-language film in North America (boxofficemojo.com 2019). Additionally, fifth generation filmmakers increasingly sought international collaborations and talent: noted director He Ping hired A-list Indian film composer A. R. Rahman, who later won an Oscar for his musical contribution to the global hit *Slumdog Millionaire*, to score his Wuxia-styled epic *Warriors of Heaven and Earth* (Ping 2003).

As the international reputation of Chinese cinema grew, sixth generation filmmakers began to address more complex themes and structures. For example, Wang Xiaoshuai (e.g., *Beijing Bicycle*, 2001) adopted independent/low budget/neo-realist production techniques to tell edgier stories focusing on urban struggles in the shadow of rapid economic expansion (Cook 2016). Additionally, the rise of the so-called "d-Generation" included filmmakers who wielded low-cost digital equipment to tell documentary-style stories that challenged authority and social norms.

By the second decade of the new millennium, however, Chinese directors increasingly adopted big-budget/Computer-Generated Imagery (C.G.I.) filmmaking techniques typical of contemporary global cinema (Rawle 2018), resulting in the rise of major Chinese blockbusters like the science-fiction phenomenon *The Wandering Earth* ("Liu lang di qiu", Guo 2019) and the animated family hit *Ne Zha* (Yang 2019). The Dalian Wanda Group became China's largest filmmaking company, owned by real estate developer Wang Jianlin. The company purchased Hollywood's Legendary Pictures, co-producing big budget, C.G.I. spectacles like Zhang's *The Great Wall* (2016), Vogt-Roberts *Kong: Skull Island* (2017), and Bayona's *Jurassic World: Fallen Kingdom* (2018).

However, in a move that concerned critics, the government established a Cabinet-level office in 2018 to closely monitor developments in the film sector: the State Administration of Radio, Film, and Television (SARFT). The office was set up to review films and report directly to the State Council (Frater 2018; Embassy of China 2019) and was given direct control over China Film Group Corporation, among other industry leaders. Central to their review process was the censorship of morally or politically sensitive content, a theme we address later in this chapter.

As the government's commitment to big budget domestic production intensified, so, too, did its desire to exert more influence on two regional neighbors: Hong Kong and Taiwan. Throughout most of the twentieth century, Hong Kong was an independent British Crown Colony, ceded by the Chinese in the nineteenth century Opium Wars. It thrived as one of the most prolific filmmaking regions in the world, with an annual output that at one point reached nearly 600 films per year—second only to India (Cook 2016). Two major studios propelled the island to international fame: Shaw Brothers and Golden Harvest (Cook 2016; Curtin 2007; Mazumdar 2013). Shaw Brothers was established in the late 1950s and brought martial arts films to worldwide attention; the company later established TVB as a major domestic television producer. Golden Harvest emerged in 1970, headed by former Shaw executives who sought creative freedom in launching the international careers of

Bruce Lee and Jackie Chan, among other stars. Stylistically, Hong Kong directors produced exemplary works in four main genres: Gong Fu/Kung Fu, which showcased martial arts narratives set in modern contexts; Wuxia, or mythological swordplay films set in ancient times; family melodramas or social dramas centering on contemporary life issues; and gangster or "heroic bloodshed" films (Cook 2016, p. 611) spotlighting the city's seedy criminal underworld and police corruption. Arguably, Hong Kong's most famous star was Bruce Lee, who was born in San Francisco but grew up in the British crown colony. After briefly appearing as the supporting character Kato in the Hollywood television series *The Green Hornet*, which ran on CBS 1966 and 1967, Lee returned to Hong Kong and was offered a lucrative contract by Golden Harvest to star in martial arts films. Although he made only a few films at the studio, the final film before his death was Robert Clouse's *Enter the Dragon* (1973), a Golden Harvest and Warner Brothers co-production that has earned millions at the global box office (Cook 2016).

Following Lee, Jackie Chan once again brought Hong Kong cinema to the attention of global audiences by mixing comedy and martial arts prowess, starring in a series of films on both sides of the Pacific. Other major stars of the period included Jet Li and Chow Yung-Fat, along with acclaimed directors like Jon Woo, who worked in both Hong Kong [e.g., *Bullet in the Head* (1990)] and Hollywood (e.g., *Mission Impossible II* [2000]), Stephen Chow [*Shaolin Soccer* (2001); *Kung Fu Hustle* (2004)], and auteur Kar-Wai Wong [*Chunking Express* (1994); *2046* (2004)]. Additionally, the climate for production continued to improve as digital techniques proliferated, prompting Hong Kong producers increasingly to seek international deals to diversify costs and reap the benefits of global box office returns:

> [T]he industry turned towards global markets, exploring options beyond overseas Chinese audiences… Thus co-productions became a prominent industrial trend, signifying close coordination between Hong Kong, the rest of East Asia and Hollywood. These production practices were consistent with global film production patterns and deemed essential for success in new markets. (Mazumdar 2013, p. 50)

During this time, Gorfinkel and Su (2016) noted that the Chinese press increasingly sought to paint the mainland as the economic savior of Hong Kong's film industry, which needed to recover financially following reunification. Chinese-Hong Kong co-productions like Stephen Chow's *The Mermaid* (2016) were held up as financially successful examples of Sino-HK cooperation in a "one country, two systems" era.

Further north, Taiwan's first major post-World War II production company was the Taipei-based Central Motion Picture Company (CMPC), which focused on filmmaking for domestic and international distribution (Cook 2016). Additionally, the Grand Motion Picture Company (GMPC) was set up with assistance from Hong Kong's Shaw Brothers (Lee 2013). Popular genres included Gong fu, Wuxia, social melodramas, and comedies. By the end of the 1990s, the most important Taiwanese director to emerge out of CMPC was Ang Lee, who—after earning an MFA in filmmaking at New York University in the 1980s—rose to international prominence with movies like *The Wedding Banquet* (1993) and *Eat Drink Man Woman* (1994). Lee catered to audiences on both side of the Pacific with films in both Mandarin and English. His first major international hit was *Crouching Tiger, Hidden Dragon* (2000), a Taiwanese-Chinese-Hong-Kong-American co-production that became the highest-grossing foreign language film at the North American box office, a record it retains as of this writing (IMDB.com). The film featured veteran performers, including Hong Kong's Chow Yun-Fat, Malaysia's Michele Yeoh, and mainland China's Zhang Ziyi (Cook 2016).

Thus, the new millennium saw the rise of regional cooperation between China, Hong Kong, and Taiwan despite political tensions that arose over Hong Kong's defense of democratic principles and Taiwan's assertion of independence (Ai 2019). Given China's goals of exerting greater influence in Asia, the emergence of closer cinematic ties was not unexpected. For example, early in the 2000s, the three nations joined forces to produce films like *Crouching Tiger, Hidden Dragon* (2001) which saw massive returns at the global box office, encouraging additional regional collaborations. As noted by Gorfinkel and Su (2016),

> [g]lobally renowned stars like Jackie Chan [were] sometimes framed in general terms as "Chinese" rather than as specifically "Hong Kong" stars, which may [have worked] to soften the boundaries between Hong Kong and the mainland. At the same time, stars from Hong Kong, who [were] better known and may [have seemed] less "political" to international audiences than the mainland's homegrown stars, [were] also used to educate the audiences... on the need to recognize China's cultural development. (p. 287)

While much has been written about China's current "one belt, one road" initiative designed to strengthen the country's role in developing Western China, Eurasia, and Africa, Ferdinand (2016) pointed out that the belt-and-road plan included the use of media to promote the "China dream"—a strategic vision of a "successful, modern China" (p. 943) rising to global political-economic dominance as a counter to the "American Dream." The Chinese dream posited China's core values as

> prosperity, democracy, civility, harmony, freedom, equality, justice, the rule of law, patriotism, dedication, integrity, and friendship... Media and educational establishments in China are now enjoined to uphold these values, however vague and platitudinous they may seem. (Ferdinand 2016, p. 945)

Thus, having succeeded in asserting influence within both the Hong Kong and Taiwanese film industries, the mainland's next step appeared to be forging closer ties with its chief economic rival to the south: India.

10.3 India and the Global Rise of Bollywood Cinema

Like China, in the 1990s India also had begun to advance soft power goals through the global marketing of its film industry (Roy 2012; Schaefer and Karan 2013; Thussu 2013). Such actions stemmed from a long history of positioning filmmaking, in part, as political praxis. As early as 1913, south Asian filmmaker D.G. Phalke—often labeled as the father of Indian cinema—believed that the industry should disseminate Indian values and ideals. His first feature film, the full-length silent classic *Raja Harischandra* (Phalke 1913) was dedicated to launching *swadeshi* ("all-Indian") filmmaking to counter the influence of imported Western films (Roy 2012). The movie's narrative was based on a story found in the Sanskrit religious epic *Mahabharata* and focused on the trials endured by an Indian King. While the original film was lost shortly after its initial release, a remake that Phalke directed in 1917 became available to scholars at the National Film Archives in Pune and excerpts subsequently were uploaded to streaming sites like Youtube.com (e.g., https://www.youtube.com/watch?v=Go7fH6Q2bVk).

Despite this initial political angle, India's film industry, like Hollywood's, soon became commercially oriented, a trend that accelerated after Independence in 1947. Although soviet realism, rooted in Marxist ideology (Cook 2016), influenced many of the first auteur Indian filmmakers like Raj Kapoor, Bimal Roy, and Satyajit Ray, popular storytelling featuring major stars and song and dance routines became the dominant format. Many postcolonial films raised social issues but tempered the criticism by wrapping the narrative in nationalist themes punctuated by attractive song-and-dance sequences:

> Thus cinema [found] in the song sequence a formal device to accommodate the competing demands placed on it. While the narrative [sought] social legitimacy by reproducing the paternalistic ideology of elite nationalism... the song sequence retain[ed] the prerogative of a commercial enterprise to capitalize on the mobilizing potential of cinema. (Gopal 2011, p. 39)

Although the industry flourished as a commercial entity, official interference in the filmmaking process ebbed and flowed over the years, often increasing during political crises like the emergency of 1975–1977, when Indira Gandhi's government imposed hefty tariffs on film stock and censored films that did not support official policies.

In the 1980s and 1990s as Hindu nationalism began to exert more political influence on production, directors sought to project a more wholesome image of Indian values through family films like *Hum Aapke Hain Koun...!* (Barjatya 1994) and *Dilwale Dulhania Le Jayenge* (Chopra 1995; see Mishra 2002). After economic liberalization in 1991, the government allowed foreign direct investment (Luce 2008). During this time the term "Bollywood" emerged as a popular marketing phrase promoting Hindi-language popular filmmaking in order to advance the country's use of soft power to attract investment (Devasundaram 2016; Roy 2012; Schaefer and Karan 2013; Thussu 2013). Despite the presence of a large number of regional filmmaking industries catering to various languages—e.g., Tamil, Telugu, Malayalam, and Bengali, among others—Devasundaram (2016) noted that Hindi-based Bollywood cinema soon accounted for nearly half of Indian box office revenues and proved to be excellent at promoting a

> monolithic post-globalization master narrative of consumer capitalism and affluence whilst retaining gendered roles and 'traditional Indian values' ... [Additionally] Bollywood's role in the meta-hegemony [was] its validation as a state-endorsed instrument of national soft power, signifying Bollywood's branding as a national and global commodity (p. 33)

Thussu (2013) pointed out that the government was quick to seize upon the growing name-recognition value of the term "Bollywood," organizing star performances and screenings as part of its public diplomacy efforts. Such efforts capitalized on India's historical legacy as one of the world's longest-running continuous cultures:

> India's soft power has a civilization dimension to it: the Indic civilization, dating back more than 5,000 years, being one of the major cultural formations in the world. Its manifestation takes diverse forms—religion and philosophy, arts and architecture, language and literature, trade and travel. (p. 9)

Thus, public appearances by stars like Priyanka Chopra, Aamir Khan, Amitabh Bachchan, Salman Khan, Shah Rukh Khan, or Rajnikanth, among other cinematic ambassadors became commonplace at official events. Such efforts increasingly showcased India's national pride in an era of globalization (Virdi 2017) in an effort to attract foreign investment.

10.4 The Rise of "Chindia": Competition or Cooperation?

Since the global economic crisis of 2007, the notion of further Chinese-Indian economic-political-social cooperation emerged as an important theme in the literature (Banerjee 2008; Mazumdar 2013; Nordenstreng and Thussu 2015; Ramesh 2005; Thussu 2013). Banerjee (2008) noted that ties between the two nations stretched at least 3000 years into the past, beginning when Chinese Buddhists first sought Indian teachers. He argued that both countries had solid reasons for seeking closer cooperative ties:

> Foremost [was] the fact that unlike general perceptions, there actually was a great deal of interaction between India and China through history, that both sides benefited from it and that finally, this relationship flourished entirely without conflict. The two largest civilizations of the time coexisted peacefully, in what was after all an era of arms and conquest, but instead of war fused their energies for mutual benefit. (p. 194)

In the 1950s, Prime Minister Nehru called for economic cooperation through the notion of "Hindi-Chini-bhai-bhai" ("Indians and Chinese are brothers"). In the new millennium global cooperation was considered essential due to the ever-rising tide of globalization. Discussion of Chindian soft power abounded in scholarly circles, as noted by Thussu (2010):

> [A] significant, though largely unrecognized, change in the academic world [was] also taking place as China and India emerge[d] as global players in media and communication. Away from the Western media spotlight, there [were] growing links developing between the two countries, despite unresolved border disputes, as well as differing aspirations for leadership of the global South. (p. 243)

The concept of "mutual benefit" had been succinctly encapsulated in the term "Chindia," made popular by India's Minister for the Environment Jairam Ramesh (2005). In an oft-cited collection of essays, he presented a series of arguments detailing the challenges and opportunities of a "Chindian" (Kindle location 124–125) alliance. Thussu (2013) questioned how the concept of Chindia might impact the establishment of international information flows realigned to favor the developing world: "How [would] 'Chindia' affect global communication? [Would] their combined economic and cultural impact, aided by extensive and increasingly vocal and visible global diasporas, create globalization with an Asian accent? (p. 243). It was posited that a "Chindian" cinematic marketplace that commanded the largest share of global revenues would provide the proposed alliance with definite soft power bragging rights.

10.5 Indian and Chinese Film Industries in the Digital Era

By 2018 India's overall Media and Entertainment (M&E) industry was experiencing 13% annual growth and was valued at more than US$23 billion (FICCI 2019). According to recently reported numbers, the combined Chinese-Indian 2018 box office of US$11.3 billion—US$8.9 billion and US$2.4 billion, respectively (Shackleton 2019; FICCI 2019)—nearly topped that of the largest film market in the world: North America, which earned US$11.8 billion the same year. Further, in 2018, India's domestic box office grew 12% while China's expanded by 9% (FICCI 2019; Shackleton 2019). Thirteen Indian films earned more than Rs 1 billion (approximately US$14.1 million) in total theatrical revenue; of that total, Indian films earned US$424 million in the international box office, which accounted for 17.8% of India's total film revenue of US$2.4 billion for 2018 (FICCI 2019).

Previous research has highlighted the link between Bollywood's international box office revenues and large diasporic populations in North America (USA and Canada), UK, South Africa, Malaysia, Indonesia, Singapore, Fiji, Trinidad and Tobago, Nigeria (Chitrapu 2013; Roy 2013; Karan 2013; Uppal 2011). Scholars argued that diasporic audiences sought culturally proxemic content as a means of reinforcing shared cultural, language, or religious identities (Straubhaar, cited in Burch 2002). However, publicly available box office data has challenged such arguments. In particular, according to recent published reports, it is China—despite the fact that it harbors a very small population of only 56,000 Indians (Ministry of External Affairs 2018)—that now has become the largest external market for Indian films (FICCI 2019). In 2008, 10 Indian films were released in China and they collectively earned US$272.3 million, representing 64% of India's international box office take that year, as illustrated in Fig. 10.1 (FICCI 2018). Conversely, those same films earned only 10.4% of that total—US$28.5 million—at the North American box office. Ranked in order of total Chinese collections, as illustrated in Fig. 10.1, *Secret Superstar* (Chandan 2017), an Aamir Khan film about a teenaged Indian Muslim girl's aspiration to become a Youtube singing sensation, earned the most: US$117 million, which accounted for nearly 43% of the 2018 Chinese total for Indian films; in the US the film only earned $2.2 million despite the fact that the country has an exponentially larger diasporic population. The unusual nature of that

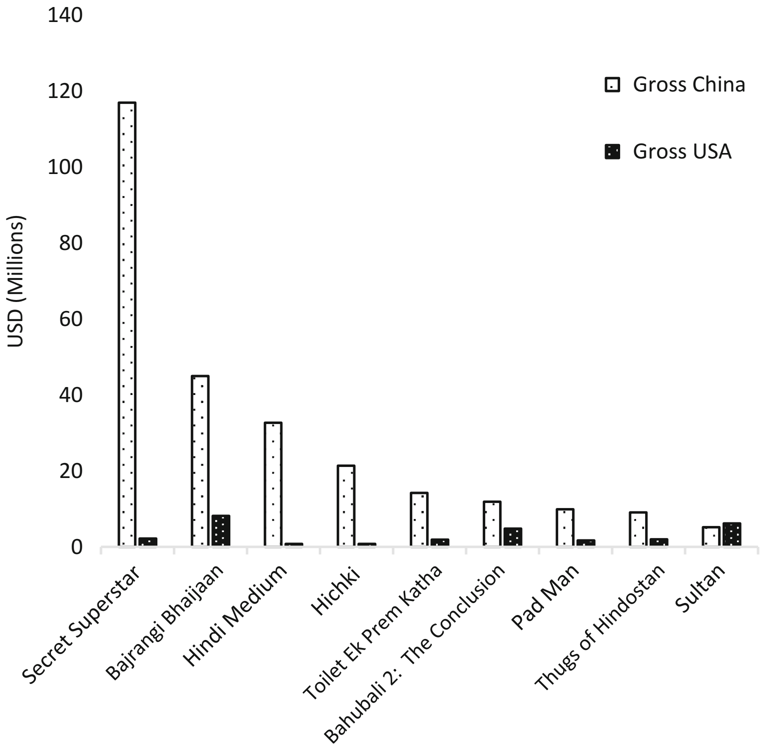

Fig. 10.1 Top grossing Indian films in China (2018) Compared to USA grosses for the same titles

feat was not lost on Siddiqi (2018), who noted that "the low-budget *Secret Superstar* fared far better in China than in India and made much more than Hollywood blockbusters in the first 3 months of 2018. Earning 760 million yuan (US$119.4 million) in China, 10 times more than it made [in India], this film topped the list of cinematic imports into the country" (para 6).

Bollywood's second-highest grosser in 2018 was the Chinese rerelease of the Salman-Khan starrer *Bajrangi Bhaijaan* (Khan 2015), which focused on a Hanuman devotee who sought to reunite a lost Pakistani Muslim girl with her family, reportedly collecting US$45 million in China and US$8.1 million in North America, respectively, followed by *Hindi Medium* (Chaudhary 2017; US$32.7 million in China vs. $780,000 in North America), *Hichki* (Malhotra 2018; US$21.4 million vs. $780,000), *Toilet Ek Prem Katha* (Singh 2017; US$14.2 vs. $1.9 million), *Bahubali 2: The Conclusion* (Rajamouli 2017; US$11.9 vs. $4.8 million), *Pad Man* (Balki 2018; US$9.9 vs. $1.7 million), *Thugs of Hindostan* (Acharya 2018; US $9.1 vs. $2 million), and the *Sultan* rerelease (Zafar 2016; US$5.2 vs. $6.2 million) (see BoxofficeIndia.com 2019; Boxofficemojo.com 2018). Of these ten films, only *Sultan* appeared to have earned more money in North America than in China.

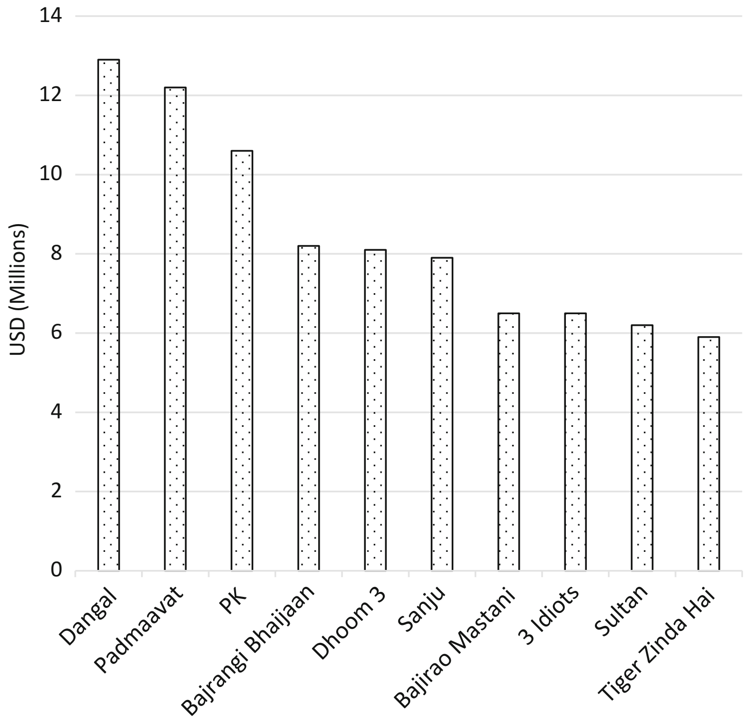

Fig. 10.2 Top-10 all-time grosses for Indian films in the North American Box Office (Data Source: boxofficeindia.com)

Given that the US and Canada have traditionally been considered highly lucrative international markets for Bollywood fare (Devasundaram 2016; Kaur and Sinha 2005; Ganti 2012, 2014; Gopal and Moorti 2008; Punathambekar 2013; Mishra 2002), it is illuminating to compare the 2018 Chinese total for Indian films to the North American list of all-time Indian film revenues. As indicated in Fig. 10.2, the ten highest-grossing Indian films *of all time* in North America totaled only US$84.6 million, or 31.1% of the 2018 Chinese box office collection for Indian cinema (Boxofficemojo.com 2018). Although the highest grossing Indian film of all time in the Chinese and North American box office was the same title—the Aamir Khan-produced mega-hit *Dangal* (2016), its Chinese-reported gross of US$190 million (Yau 2018) far surpassed its reported US revenues of $12.4 million (Boxofficeindia.com 2019).

These figures would suggest that the center of gravity for Bollywood cinema's international soft power has quickly and decidedly pivoted away from the Indian diaspora towards China—a country with very few Indian residents. Although early attempts to target Chindian audiences like *Chandni Chowk to China* (Advani 2009) failed at the box office (Roy 2012), the recent wave of Indian revenues in China would appear to indicate that –somehow—India's soft power has ignited interest in

China on an unprecedented scale, raising a compelling question: How did the Chinese filmgoing public singlehandedly achieve what more than three decades of concerted effort by Bollywood producers failed to do: that is, create a massive fan base for Indian films outside of the diaspora?

10.6 The Rapid Rise of Bollywood's Soft Power in China

Examining recently published trade reports, five main themes have been suggested as explanations for the unexpected rise of Indian film interest among Chinese audiences: the major expansion of multiplex screens in China; the rise of digital streaming; the signing of co-production deals; growing Chinese interest in Indian culture, particularly among underserved or religious minority communities that identify with the portrayed values and social issues; and the public's appreciation of government-censored films.

10.6.1 Multiplex Expansion

Throughout the past two decades, increased multiplex construction has resulted in a large increase in the number of Chinese screens available for domestic exhibition. China now has the world's largest number of movie screens, expanding from 41,176 in 2016 (Zhang 2017) to more than 60,000 in 2018 (Xinhua 2019), surpassing the North American total of 41,172 screens (NATO 2020). However, commentators have also reported that many new Chinese theaters have failed to attract significant audiences (Watt 2017). Regardless, it is possible that because producers now can benefit from day-and-date releases on many more screens than in the past, and can charge higher ticket prices in China, such strategies may have contributed to the reported rise in box office collections.

10.6.2 Digital Streaming

Another potential factor may be the priming of Chinese audiences for Indian films through the expansion of content available online. It is estimated that there are nearly half-a-billion Chinese consumers of video streaming services in China (CGTN 2019). According to the state-run China Global Television Network, three companies dominate the video streaming landscape at present: Baidu's iQiyi service, which has nearly 100 million subscribers; Tencent Video, with 89 million subscribers; and Alibaba's Youku Tudo, which was reported in 2016 to have around 30 million subscribers (CGTN 2019; Wang and Lobato 2019). Currently, governmental regulators have blocked citizens from accessing the US's major streamers Netflix, Amazon Prime, or YouTube. However, Tencent has established licensing deals with the BBC in the UK and HBO in the US, among other companies, for streaming video content (Sun 2018). However, Indian producer Eros International has sold movie packages to both iQiyi and Wasu Media (Frater 2019), potentially exposing young Chinese audiences to a wide range of Bollywood films. Meanwhile the Chinese firm Alibaba previously invested in the Indian-based movie ticketing company TicketNew.com, which subsequently was sold to India's PayTM (FICCI 2019). The Indian firm integrated the service into its existing online platform, allowing 300 million online users to purchase cinema tickets digitally.

10.6.3 Co-production Treaty

In September 2014, India and China inked a co-production treaty as part of their "year of exchanges" (Bhushan 2014, para. 3). Agreed to by representatives of the Ministry of Information and Broadcasting in India and the State Administration of Press, Publication, Radio, Film and Television in China (2012), the document established

> a framework for the development of [each country's] audio visual co-productions; conscious that quality co-productions can contribute to the further expansion of the audio visual production and distribution of both countries as well as to the development of their cultural and economic exchanges; [and] convinced that these exchanges will contribute to the enhancement of relations between the two countries in the audio visual field. (p. 1)

The result was an immediate increase in the number of Indian films released in China from as few as one or two per year to ten in 2018. Interestingly, while Indian films have reportedly done well at the Chinese box office, Chinese films have not generated similar results in India. For example, Jackie Chan's *Kung Fu Yoga* (Tong 2017) was a hit with Chinese and international audiences, earning US$179 million, but did not impress Indian viewers: it earned less than a million dollars in the subcontinent despite heavy promotion (Hindustan Times 2017).

10.6.4 Shared Cultural Values

One oft-repeated explanation for Chinese interest in Indian cinema is that both cultures share similar values, particularly the importance of family, filial piety, and love of song-and-dance sequences. Yau (2018) interviewed *Pad Man* director R. Balki, noting that

> Indian movies, which often pack a powerful emotional punch, appeal to Chinese audiences. "The culture of India and China is similar in a lot of ways," [Balki] says. "The emotions of Indians and Chinese are similar. They connect with the Indian characters." That hugely popular Indian movies often focus on conservative rural practices also helps them appeal to

> the Chinese who, having their own share of traditional values hindering urban progress, are accustomed to films with a social message . . . (paras. 6–7)

Also, the Western region of China is home to the country's largest Muslim audiences, who often identify with the themes and struggles depicted in Indian films, particularly as many Uighur Muslims have been detained and/or persecuted in recent years (Smith 2019). Su (2019) reported that the release of Bollywood superstar Shah Rukh Khan's 2018 film *Zero* (Rai 2018) attracted loyal Uighur viewers:

> At the only public screening of "*Zero*" during the [Beijing International Film] Festival—in a large Beijing mall on April 20—some of the Khan fans who showed up were Uighur students who'd bonded over their mutual love of Bollywood while studying in Beijing. "All people in Xinjiang are his fans. Our generation, we grew up from childhood watching these movies," said a 23-year-old Uighur from Kashgar who asked to go by his online name, Aire. As a kid, he'd binge-watched pirated Bollywood DVDs dubbed in Uighur. At weddings, they'd play a mixture of Uighur and Hindi songs. (paras. 18–20)

However, past scholarship has pointed to the central role that cultural proximity has played in popularizing Bollywood among diasporic publics in places like Fiji, South Africa, the UK, so it remains open for further analysis as to why a country with a vastly different political outlook would still feel such a close affinity for Indian content.

10.6.5 Censorship: Challenge for Chindian Development

Other reports suggest that Chinese audiences appreciate the fact that Indian films have already been censored for culturally sensitive religious or sexual material, thus adding to its popularity. According to Su (2019), "Indian films are also already censored, so they typically don't need additional Chinese censorship" (para. 26). India has censored films throughout most of its history, often requiring cuts on moral grounds in order for the film to obtain a license. One famous case involved the 70mm western epic *Sholay* (Sippy 1975), which originally included a scene with a vengeful police officer trapping and killing a terrorist who had shot most of the officer's family. Upset with the depiction of a vigilante police officer, government censors insisted that the director shoot a new ending featuring the police arriving just-in-time to stop the revenge killing and reminding the officer that it was his duty to uphold the law, not ignore it (Chopra 2000). However, in recent years, India has adopted a more lenient censorship policy, allowing depictions of kissing, partial nudity, or explicit forms of sexuality and violence (Schaefer and Karan 2013). Additionally, the Indian government currently prohibits censorship of online content, so streamers like Hotstar, Netflix, or Amazon Prime (Kalra and Jamkhandikar 2019) have shifted edgier fare to online platforms, attracting local and global audiences for programs like *Sacred Games* or *Lust Stories* on Netflix (SCMP 2018).

The story is quite different in China. Like India, the Chinese government has censored content for moral or political reasons for decades, but more recently they have initiated heavy censorship of Internet content behind the "Great Firewall of China." Bayles (2019) outlined the bureaucratic maze involved in reviewing material:

> That censorship is increasing because, in keeping with President Xi's decree, every film released in China must now be vetted not only by the Central Propaganda Department but also (depending on its subject matter) by the Ministry of State Security, the State Ethnic Affairs Commission, the Ministry of Public Security, the State Bureau of Religious Affairs, the Ministry of Education, the Ministry of Justice, the Ministry of Foreign Affairs, and numerous other bureaucratic entities. (para. 8)

Further, Indian filmmakers can debate censorship practices openly in public media, but Xie (2014) reported that in China, "censorship is censored" (p. 73) because Chinese authorities reportedly discourage public discussion about the practice. Such actions have angered some Western critics. For example, American filmmaker Quentin Tarantino refused to submit to the regulatory regime and withheld the release of his critically acclaimed film *Once Upon a Time in Hollywood* (Tarantino 2019) in China; other Western producers have also expressed misgivings about the Chinese censorship requirement (Lang 2019). Also, there has been public criticism of North American corporations like Paramount or Disney when they agree to the demands of Chinese censors in exchange for distribution access (Fund 2019).

Thus, while cinematic censorship may promote social harmony among Chinese and Indian audiences, the practice could harm Chindian objectives outside of the region. Further, since Indian film producers have gotten used to an uncensored online environment, they may become less willing to sacrifice their artistic vision for the whims of Chinese censors as general viewing habits shift online. Additional policy analysis will be needed to understand these issues as the Chindian market develops.

10.7 Conclusion

In summary, a review of the reported rise of Bollywood cinema's revenues in China suggests that India may be emerging as the dominant Chindian soft power holder since Indian films reportedly earned large profits in China but Chinese films have failed to make much of an impact in India. While the rise of digital streaming and the construction of new multiplex theaters has expanded the possible audiences for the films of both countries, it would appear that India's unique culture, exploitation of multiplex and online distribution modes, strong Bollywood storytelling skills, and acceptance of censorship have contributed to the popularity of Indian films among Chinese audiences. The economic returns generated by Indian films in China reportedly towers above those in diasporic markets like North America, the UK, South Africa, and southeast Asia.

However, these intriguing findings suggest that additional research methods should be employed to triangulate and confirm the impact of Bollywood's reported appeal in China, including grounded field research with interviews, case studies, and focus groups. Such research conducted within China would no doubt shed additional light on the motives and desires of Chinese filmgoers, which would be useful information for Bollywood producers looking to further their reach within an emerging Chindian marketplace, and for scholars seeking to understand the role of cultural proximity on Bollywood's popularity among non-diasporic audiences in China.

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Chapter 11
Conclusion: An Indian Perspective on the Belt and Road Initiative

Kishan S. Rana

11.1 Introduction

In 2009 Ben Simpfendorfer published a bestselling book titled *The New Silk Road: How a Rising Arab World is Turning Away From the West and Rediscovering China.* He wrote: "The Silk Road is about more than a trading route. It is about the historical, geographical, and religious ties that have bound the Silk Road economies together. The rise of China, the rise of oil prices, and the events after September 11 have reinvigorated them, making the Silk Road relevant once again" (Osiewicz 2018). Was it coincidence or prescience? Or, was someone in China listening to Simpfendorfer?

The 'Belt-and-Road Initiative' (BRI) was earlier better known as the 'One-Belt-One-Road' project (OBOR); the latter name is incorporated into the Chinese Communist Party (CCP) Constitution, via an amendment moved at the 19th CCP Congress in October 2017. But in the past year and more BRI has become the rubric for an omnibus collection of activities that are at the center of China's external actions. Launched in 2013, during President Xi Jinping's visit to Central Asia—with a marine adjunct, '21st Century Maritime Silk Road', unveiled when he visited Indonesia the following year—BRI might appear a grand master plan that unfolds in logical, highly planned fashion, with projects dove-tailed into one another, country-by-country. The reality is far more heterogeneous, even unplanned, erratic and confused. A recent analysis proclaimed: 'Belt and Road Is More Chaos Than Conspiracy' (Bloomberg 2019a). This has become evident through the administrative reorganization out in March 2018, and some candor that marked the official statements at the Second BRI Forum held in Beijing in April 2019.

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The range and reach of BRI undertaking is so vast that if all its projects are taken together, they number much over a thousand, and counting. The total value can only be guesstimated. One account: '. . .many numbers are tossed around—particularly with the BRI label being accorded retrospectively to all manner of projects. . .could be around 2000 projects totaling US$1 trillion. In different countries, announced projects do not always materialize, while some expand greatly after implementation commences' (Bhoothalingam 2019). Another estimate: Morgan Stanley has predicted China's overall expenses over the life of the BRI could reach $1.2–1.3 trillion by 2027; so far more than 70 countries—representing for two-thirds of the world's population—have signed on to projects or indicated an interest in doing so (Chatzky and McBride 2019). BRI resembles a vast edifice that is a cross between a jigsaw puzzle and a many-armed mobile that shifts continually.

India was among the first countries to criticize BRI, on the eve of the First BRI Forum held in May 2017. Since then it has moderated that criticism, but not its basic standpoint, as we see below. In the past 2 years, the EU and the US have spoken out about BRI over the debt burden it is creating for borrowing countries, as also poor choice and inadequate due diligence of projects, plus predatory pricing. Example: taking a position of reserve during the Belt and Road Forum meeting in Beijing on 11–12 May 2017, 'We made it clear that for Europe the Belt and Road initiative can only be a success if it's based on transparency and co-ownership' according to one high level EU diplomat. An EU trade panel expressed reserve over a statement issued at the end of that Forum meeting, asking for 'guarantees on transparency, sustainability and tendering process' (The Guardian 2017). The EU Parliament has also expressed reserve; a July 2016 document said: '. . .skepticism regarding China's potential hegemonic ambitions has prevailed notably among regional rivals India and Japan as well as the US. Whether OBOR will be mutually beneficial. . .will depend on the "rules of the game" for joint projects in third countries' (EU 2016).

As we shall see, these are relevant issues; some borrowers have run into problems. But we should also consider a wider frame, especially other borrower country perspectives. With voluminous lending, overtaking the monies lent by the World Bank and IMF in Africa, China is challenging a West-dominated international politico-ecosystem. Not all the Western criticism is objective. Not all of China's partner countries are as unhappy with BRI projects as the critics would want us to believe. Can we assess where the balance lies?

11.2 Official Discourse

The key foreign policy theme of Xi Jinping's 18 October 2017 opening speech at the 19th Congress of the Chinese Communist Party was restoration of 'China's rightful place at the center of the world'. China's development presents a new choice for other countries; Xi spoke of 'blazing a trail for other developing countries. . .Chinese wisdom and a Chinese approach to solving problems'. He added: 'China will actively promote international cooperation through the Belt and Road Initiative. In doing so, we hope to achieve policy, infrastructure, trade, financial, and people-to-people connectivity and thus build a new platform for international cooperation to create new drivers of shared development.' (Xi 2017).

The Economist of 20 April 2019 carried and advertorial on BRI titled 'For the public good'. Written by Li Ziguo on behalf of Beijing Review, it presented the shared benefits that BRI would deliver. It highlighted new BRI railway lines: Mombasa-Nairobi, Addis Ababa-Djibouti, China-Laos, Hungary-Serbia, and China-Thailand. In 2018, the 6363 cargo train trips were made between China and Europe, an increase of 73% over the previous year. Further, 82 industrial parks had been built in 24 countries, with an investment of $30.45 billion. It added: BRI 'has been facing critical questions by some countries... some projects might be implemented with varying quality...The emphasis is on guidance for Chinese enterprises... with a clear line between dos and don'ts. Further, new guidelines on taxation are intended to help Chinese enterprises working overseas 'become better equipped to cope with the uncertainties in foreign markets'. The article also noted that Japan 'which was previously reluctant to participate' began to work with China in third-party markets; a 20 October 2018 meeting with Japan produced 52 agreements with a combined value of $18 billion. China signed in January 2018 the first free trade agreement linked with BRI (with Georgia); by March 2019 China had signed 17 new FTAs with 25 countries and regions.

Views offered by scholars are rather more critical. For some BRI projects have '...included poor due diligence of projects, rampant corruption, risky if not "predatory" loan financing, and scant regard for environmental sensitivities, safety and employment. Behind these worries loomed an even more serious concern—that the BRI was China's key geopolitical project masquerading as a development initiative...' (Bhoothalingam 2019). Another view, assessing the Second BRI Forum of April 2019: '...in contrast to its first summit two years ago, the Belt and Road Initiative (BRI) takes place in a much less welcoming environment. Critics say the initiative is an effort to cement Chinese influence around the world by financially binding countries to Beijing by way of "debt trap diplomacy".' (The Guardian 2019). In a fashion, BRI has come of age.

11.3 A SWOT Analysis

Assembling hard facts on BRI is difficult, given the secrecy that China has imposed on its partner countries, plus conflicting reports, and a wide rift that prevails between the approving and critical narratives. In order to frame our discussion here, let us consider its strengths, weaknesses, opportunities and threats. As this essay was written over some months in February-June 2019, I have retained here the following section drafted in early April, before the Second BRI Forum that met in Beijing, 25–27 April, at which some changes to the schema were announced. Those are also examined further on.

Strengths:

1. China has vast financial resources ($3 trillion in foreign reserves) and the will to implement a national-international eco-political program that develops its interior provinces, utilizes excess industrial capacity, with a foreign investment program giving long-term returns.
2. BRI projects also create deep political connections with foreign countries that are also tied into Chinese technology, ensuring a permanent market for spare parts and upgrades.
3. New land routes across Central Asia into Europe breaks China out of its quasi-landlocked bonds, gives alternate logistic routes, access to gas and oil via pipelines, plus internet-data routing hubs untied from Western controls.
4. Major boost is given to the development of its interior provinces, and to domestic logistics connectivity.
5. Creates vast new streams of investment income, and future earnings through technology upgrades and spare parts, as with its railway and other 'tied' projects.

Weaknesses:

1. The early BRI projects involved mismanagement: inflated costs, diversion of investments into illegal personal accounts, payment of bribes to local partners, and poor choice of projects.
2. Terms of official lending and credits given to foreign partners remain secret, and are believed to be onerous; early published reports on CPEC projects in Pakistan spoke of guaranteed high rates of return on power projects, repayment in foreign exchange and limited use of local expertise or training.
3. Infrastructure projects are high on social value, but often low on direct financial returns. Combined with excessive focus on China's gains, and low concern for the partner country's gains leads to future problems.
4. While connectivity projects and some others as well amount to 'global public goods', China has not engaged in consultation with potential third country partners. France, other EU states and the US, have been critical of this.
5. India remains a non-participant and critic; Russia, despite supportive statements, has not directly joined many BRI projects or received major Chinese investments, which can undermine China's position in the former CIS states.

Opportunities:

1. Reinforces China as a global industrial power and a major technology state with a presence across all regions. It also gains vast new project execution expertise.
2. Gets guaranteed diversity in energy and global connectivity, and is relieved from its 'Malacca Dilemma', and one-dimensional eastern sea access.
3. Handled with vision, it is building strong, longterm eco-political connections in the Global South as also in Central and East Europe.

4. BRI helps to build and strengthen multi-billion dollar state and private enterprises, in effect circumventing the technology sourcing and investment controls that Western countries have imposed in recent years.

Threats:

1. Potential for backlash in all partner countries, especially whenever regime change takes place, with skeletons tumbling out.
2. Repression of Uighur Muslim minority in Xinjiang, and forcible indoctrination against their religious-ethnic practices will create long-lasting backlash across Central Asia, starting with Kazakhstan, and all the Turkic states, including Turkey.
3. Excessive domination of BRI makes this a focal point for future domestic dissent, especially over costs, rates of return and levels of mismanagement and corruption.
4. As events in the Maldives, Sri Lanka, and Malaysia and elsewhere have shown, China has a finite capacity, plus relatively limited ability, for managing the political environment in its partner countries. This can threaten its vast investments.

11.4 Asian Dimension

Six Asian sub-regions are crucial to BRI, given that they are the most proximate to China: East, South East, South, Central, what the British and Europeans call the ‘Middle East’, but for which the better geographic appellation is West Asia, and finally Australasia and the Pacific Islands. Let us examine each in turn.

East Asia Japan is the great power closest to China on several counts, location, culture and language, and history, though not in contemporary logistic links—that place goes to Russia. Japan’s initial posture towards BRI was one of caution, though it was represented at the First BRI Forum in 2017 at a high political level. But it has viewed BRI as a competing strategic move, and has advocated a ‘Free and Open Indo–Pacific’. Tokyo put forward an ‘Africa–Asia Growth Corridor’ project (AAGC) to link Africa with the Pacific region, not exactly as a competitor, but as its own vision of low profile cooperation. Yet, visiting China at the end of October 2018, Japanese Prime Minister Abe seemingly put aside earlier reservations to declare that it would actively participate in BRI projects. A driving impulse is that Japanese companies do not want to miss out on contracts.

Japan has also pursued its own projects to counter China. When Beijing proposed a deep sea port project on Sonadia Island in Bangladesh, Japan advanced its own proposal for Matarbari port, 25 km. away. Bangladesh cancelled the Sonadia project and took up the Japanese offer. Japan and India are collaborating on a container facility at Colombo port. In March 2019 Abe advanced four conditions for Japan’s cooperation with the BRI, ‘including repayable debt, transparency, openness, and contribution toward the regional economy'. But mutual tension remains; in December 2018 Japan had banned Huawei and ZTE, major telecom companies from participation in government contracts. (Nagao 2019). In April 2019, looking to the China-Japan encounter at the June 2019 G-20 Kyoto Summit, one comment noted: 'The two will enact a kind of "shadow play," in which they put on a show of friendship while subplots develop offstage.' (SCMP 2019e).

South Korea's position on BRI has been even more ambivalent. It wants the economic benefits, but fears too close an engagement. One report concluded: '. . .the reward of the participation is very uncertain and the opportunity cost is very high. South Korea doesn't need to participate in this initiative' (Jang 2019). China clearly wants South Korean endorsement, and Seoul is equally anxious not to affirm this; after newly appointed ambassadors presented their credentials in Beijing in early June 2019, a Chinese press report attributed to them endorsement of BRI; the new South Korean ambassador put out a statement affirming that he had not endorsed BRI (Economic Times 2019b).

Russia, is China's far east neighbor, and should be seen as integral to Asia. At a strategic level, Russia is now Beijing's close partner and a supporter of BRI. On his June 2019 visit to Moscow President Xi spoke of his 'deep personal friendship' with President Putin and called him his 'best friend'. President Putin echoed the praise saying he was 'pleased to say that Russian-Chinese relations have reached an unprecedented level. It is a global partnership and strategic cooperation.' (BBC 2019b). Russia has also exhorted India to join BRI, according to press reports on the meeting between President Putin and Indian PM Modi at Bishkek at the time of the mid-June 2019 SCO summit meeting. But we should not be surprised if behind that strategic convergence between Beijing and Moscow, impelled by their parallel problems with Trump's hard policy towards each, Russia retains unstated reserve towards China's strong incursion into the former CIS states in Central Asia, its soft underbelly. Nor have sizable Chinese investments flowed into Russia.

SE Asia is mainly on board with BRI projects. Thailand is positioned as ASEAN's key transportation hub. A $12 billion, multi-phase, 873-km high-speed rail line linking central and northeastern Thailand is to be completed in 2021. It will connect with a $7 billion rail line being built from Kunming in China's Yunnan province to Vientiane, Laos, which was reported half-completed in March 2019. Southward, it is to go along the Malay peninsula, and connect with Singapore. After PM Mahathir assumed power in Kuala Lumpur in 2018, he announced cancellation of a $20 billion rail project, the Eastern Coast Rail Link. But thereafter, Malaysia managed to renegotiate the budget and route. 'The two sides have agreed to cut the cost of the 688-km (430-mile) rail project to 44 billion ringgit ($10.7 billion) from the original 65.5 billion ringgit, Mahathir's office said in a statement.' (Escobar 2019; SCMP 2019a–e; Reuters 2019).

It is striking that the East Coast Rail Link, with its north-south axis, would bisect the long-planned Asian Railway project that has figured in many discussions at ESCAP and ADB; that is to run through India, Bangladesh, Myanmar and Thailand, but the paper plan has made only slow headway. Even between India and

Bangladesh, an operational rail link is just a few years old. Perhaps China's BRI-inspired southern rail line might give new push to the east-west Asian link, which can only produce synergy and major logistic benefit for all the concerned Asian countries.

China and Myanmar are pursuing a multitude of projects; they are said to be renegotiating the $3.6 billion Myitsone Dam project. Extensive pipeline and transport networks are under development. Oil and natural gas pipelines have been constructed between the Chinese-developed port of Kyaukpyu in Myanmar and Yunnan province in China (Garlik 2018). But Myanmar remains wary of China; it also pursues alternate project activities with it's ASEAN partners, and with India.

In Indonesia, the $6 billion, 150 km Jakarta-Bandung high-speed rail has faced accusations of non-transparency by Indonesia's Investment Coordination Board. But the project is moving forward, perhaps with a 2-year delay. According to one report, 'Joko Widowo administration's second term may be involved in no less than $91 billion worth of BRI-related projects, for the development of different economic corridors.' (Jakarta Post 2019).

Vietnam remains wary of BRI, given its fraught relationship with Beijing over their South China Sea dispute and other issue. The two sides have held frequent consultations and Vietnam has not rejected its participation in BRI, but it awaits more information. It has also been cautious in seeking loans from China. In a statement Assistant Minister of Foreign Affairs Nguyen Van Thao said that Vietnam supports economic cooperation and connections within the framework of the BRI, on the basis of development and prosperity for all countries based on the principles of international law, mutual respect, equality and mutual benefit, adding that 'cooperation would contribute to the development of both countries' (VN Express 2019). Vietnam's PM attended the two BRI forum meetings of 2017 and 2019, but it has not moved forward on projects, except that a 2011 metro rail project has been relabeled as a BRI venture. One assessment: '…a lack of trust about China's activities in South China Sea, unattractive commercial terms and conditions of Chinese loans and better alternatives available, say from countries like Japan and South Korea.' (Anand 2019).

How does the vaunted ASEAN unified policy consultation method deal with BRI? There is little ostensible evidence of a coordinated standpoint among the ten member-states, though BRI and China's SE Asia ambitions surely figure in the intensive internal discourse of this regional group. During a debate on the TV Channel *NewsAsia* in Singapore on 9 May 2018 which I happened to watch, 48% of the Singaporeian participants felt that ASEAN should have greater centralized control over BRI projects. One panelist commented: for those involved in BRI projects, not only is China a bigger player now in world affairs, 'it is also now involved much more in your backyard'. But the reality is that each ASEAN country has pursed its own policy in coping with China's investment proposals.

South Asia The picture is mixed. India, and Bhutan, have stayed away from BRI. India has not attended any of its meetings in China. Might India revise its stand, in the light of a slow warming of the bilateral relationship after mid-2018? Some Indian analysts have long advocated that the ostensible barrier to India's opposition to BRI, the fact that the alignment of the Gwadar-Xinjiang road-rail-pipeline route (a vital element in the 'China-Pakistan Economic Corridor, CPEC') traverses Pakistan-occupied Kashmir (POK), violating Indian territorial sovereignty, can be overcome. We examine this below.

Another obstacle in India's BRI role is Pakistan's refusal to allow land transit across its territory, i.e. for India to access land-locked Afghanistan and eastern Iran. This is in violation of evolving international law on the rights of land-locked states, but Islamabad pays scant attention to such niceties. When India raises this issue with Beijing, the latter disingenuously responds that this is a bilateral matter for the two countries. Incidentally, the long-planned TAPI oil & gas pipeline to bring Turkmenistan's energy resources to the three countries, Afghanistan, Pakistan and India lingers in slow death over the same kind of transit obstacles. How can any Indian government make investments into downstream processing of gas and oil, in an environment where the tap can be turned off anytime? There are many other parallels where countries cooperate despite differences, even disputes. Perhaps South Asia ('the least integrated region in the world' in the World Bank's memorable words, often quoted from an old report) has yet to mature to a point where such transit arrangements become feasible. This South Asian imbroglio, virtual impasse, pleases some and dismays others.

The China-Pakistan Economic Corridor (CPEC) is so far the biggest single country component of BRI. 'The CPEC, finalised in April 2015 with 51 agreements, consists of a series of highway, railway and energy projects, emanating from the newly developed port of Gwadar on the Arabian Sea, all of which taken together will be valued at about $50 billion. These projects will generate about a million jobs in Pakistan and, when completed, add nearly 2.5% to the country's GDP' (Ahmed 2018). The full cost of the CPEC projects has risen from an original 2013 figure of $46 billion, to a reported $62 billion in 2019 (Business Line 2019).

A major analysis of CPEC published in June 2018 said in its executive summary:

> What's new? Pakistani leaders say the China-Pakistan Economic Corridor (CPEC), launched in 2015, is a "game changer" for the country's ailing economy. But opaque plans for the corridor, the upheaval likely to affect locals along its route, and profits flowing mostly to outsiders could stir unrest. The government has repressed CPEC critics.
>
> Why does it matter? CPEC could help revive Pakistan's economy. But if it moves ahead without more thorough debate in parliament and provincial legislatures and consultation with locals, it will deepen friction between the federal centre and periphery, roil provinces already long neglected, widen social divides and potentially create new sources of conflict.
>
> What should be done? The government that assumes power after the July 2018 elections should encourage debate about CPEC; consult with business leaders, civil society and locals affected; ensure landowners receive fair compensation; encourage hiring local labour; and allow space for dissent. Beijing and Chinese companies involved should support such measures (International Crisis Group 2018).

IMF had demanded that Pakistan should be transparent on the CPEC project and wants a written guarantee that it's assistance will not be used to repay loans to China. Pakistan had sought $8 billion from the IMF to deal with its severe balance of payments crisis. This was to be IMF's 14th aid package for Pakistan. IMF sought details of the $6.5 billion of commercial loans received from China in the past 2½ years. In July 2018 China had deposited $2 billion with the State bank of Pakistan (Business Line 2019). Press reports had also spoken of similar loans given by Saudi Arabia and the UAE. In the end the IMF gave in, agreeing to lend $6 billion, but without Pakistan revealing the terms of China's lending. IMF was quoted to say that Pakistan faces a 'challenging economic environment, with lacklustre growth, elevated inflation, high indebtedness, and a weak external position' (BBC 2019a).

In Maldives, BRI has become enmeshed in that country's domestic politics, after the April 2019 election of former President Mohamed Nasheed, when skeletons from the previous regime of President Abdulla Yameen came tumbling out. Nasheed had said in a press interview, on 19 February 2019, before the elections: 'We are unable to find equivalent assets for some of the money that came from China and we now feel the need to buy back our sovereignty from China.' He added that they did not anticipate a debt repayment crisis, 'but we do have resources but not to pay for what we didn't receive, which is the figure of $3.4 billion which is being talked about' (The Hindu 2019a). This issue awaits a settlement.

Where does this leave India? Speaking in the Maldives on his first foreign visit after winning the May 2019 general elections, PM Modi spoke of India's aid to the archipelago state, adding that financial assistance granted by the Indian government to the archipelago India's financial assistance to the nation 'would not push the future generations of Maldivians into debilitating debt. Instead, India shared its progress and development to empower its neighbours, and not to force them into dependency' (ORF 2019). India has already given $1.4 billion dollars as budgetary support to the Maldives, which has been weighed under debt to China. This is besides a $800 million Line of Credit signed in March 2019.

Sri Lanka was an early participant in the BRI project, with Sri Lanka handing over to China the Hambantota port and 15,000 acres of land for development in December 2015. This became 'one of the most vivid examples of China's ambitious use of loans and aid to gain influence around the world—and of its willingness to play hardball to collect'. Sri Lanka's debt to China was officially put at $3 billion, but some of it was listed under individual projects, and the total came to $5 billion in 2018 and growing each year. Against this background Sri Lanka agreed in June 2017 to handover 85% control to China for 99 years, while retaining a fig leaf of Sri Lankan ownership via a company in which it had only a 15% share (NYT 2018). One should also remember that the viability of Hambantota container port hinges on transshipment of India trade containers, which represent over 70% of the traffic.

But both India and Japan are in play in developing Sri Lankan infrastructure. They signed an agreement in May 2019 signed an agreement to jointly develop the East Container Terminal at the Colombo Port. This initiative is estimated to cost between $500 million and $700 million (The Hindu 2019b).

China's relationship with Bangladesh is strong, even while Dhaka pursues improved relations with India, especially after the Modi government came to power in 2014. China is the only country with which it has a defense agreement, and depends greatly on Chinese arms supplies. In 2016, Bangladesh and China had signed 27 agreements during President Xi's Dhaka visit, with a total of $24 billion as

Chinese loans. The terms of the loans were not disclosed (ORF 2018). In April 2019, the Bangladesh Foreign Affairs Minister of State Mohammed Shahriar Alam said in an interview on the sidelines of the Second BRI Forum in Beijing, 'Bangladesh "never will" ask China for more loans as it looks for ways to finance its future development'. He also alluded to the problem of rising debt and its potential impact on economic development (SCMP 2019a–e).

Central Asia Central Asia has a population of about 72 million, in its five republics: Kazakhstan (18 million), Kyrgyzstan (6 million), Tajikistan (9 million), Turkmenistan (6 million), and Uzbekistan (33 million). And Afghanistan has another 35 million, taking the total in six states to 107 million. They cover a territory of 4.65 million sq. km. They are all near-neighbors to China and Russia.

It is not an accident that the Silk Road Economic Belt, later renamed OBOR/BRI, was launched with President Xi Jinping's speech at Kazakhstan in 2013. After all, this was the original location of that part-history part-myth 'Silk Road' of times long past. Evoking that name and linkage has been a brilliant branding move, notwithstanding the fact that there actually existed multiple silk, cotton and spice roads, some from India to Central Asia and China, and from India to the Arab world, and still others along the Indian and SE Asian sea routes towards a colonizing Europe. Modern day BRI goes hugely beyond that hoary past.

Three elements drive China's relationship with these and all the dozen-odd former CIS states to the west of Xinjiang province. First, they are vital providers of oil and gas, or lie along the access routes to Europe, via the pipelines constructed in the past 20 years. Second, they are also on the New Silk Road transit routes to Europe, and therefore of strategic importance. Third, these empty lands with miniscule populations offer limited market opportunities for Chinese exports, but they all have an unmet need for infrastructure development, at which China excels, and it also enjoys a unique neighborhood proximity advantage.

Given their vast empty lands and sparse populations, it is not surprising that Central Asian countries are mutually isolated; their intra-regional trade is only 6.2% of all their cross-border commerce. Russia remains a powerful factor, given their unified past in the days of the old Soviet Union. Each depends on remittances from their diaspora that works in today's Russia; these inflows make up one-third of the gross domestic product (GDP) of Kyrgyzstan and Tajikistan, though the relative importance of remittances had dropped amidst Russia's own economic problems (Chatzky and McBride 2019). China has an unofficial military presence in Tajikistan and in the Wakhan Corridor of Afghanistan, since approximately 2016 (Wikipedia 2019). According to a speculative report, Chinese troops in Tajikistan have taken over some border posts on the Afghan border, to stop militants from crossing into that country (China Tip Sheet 2019).

Not everything works to plan. A prestigious $1.9 billion light railway project that was supposed to start operating in 2020 in the capital of Kazakhstan's newly renamed capital Nur-Sultan is in a tailspin. China Development Bank halted lending in 2019 when the Kazakh bank where its funds were deposited collapsed. Local officials have said they will borrow domestically to complete the project. One analyst has called the project a 'white elephant', with little relevance for the population (Bloomberg 2019b). Another problem: 'China's growing influence has caused increasing popular resentment. Beijing's potential risk is that massive corruption in Kyrgyzstan, associated with lavish Chinese credits, is feeding into domestic politics' (GIS 2019).

Afghanistan is in a special category for China. When the Soviet Union invaded it in December 1979, it claimed that this was a threat to China's security, but took no overt action. It sympathized with Pakistan and gave it aid to deal with the influx of Afghan refugees, as well as military aid to Islamabad. It also helped it with training fighters to take on the Soviet invaders. When Taliban seized power in 1996, China stayed clear for a while, but then began quiet business dealings with the Taliban regime. After the US inducted its troops into Afghanistan in 2001, China reestablished diplomatic ties with the Afghan government. After withdrawal in 2014 of the bulk of US and NATO forces, China has stepped in with a significant economic presence, playing a long game. In 2007, its state-owned Metallurgical Group won a $3.5 billion contract for Afghanistan's Aynak mines, regarded as a major unexploited copper fields, though not much headway seems to have been made on this project. It also began working on a possible rail link that would connect Afghanistan with China and Iran, but kept a low political profile. After 2014, it has increased its political engagement, seeking to reinforce economic cooperation (Mohanty 2017).

It is interesting that China and India have commenced a modest program to support Kabul, starting with a joint training program for Afghan diplomats. This was an outcome of the informal summit in Wuhan in April 2018 between visiting PM Modi and President Xi. A commentary had called it 'The change in Indian-Chinese bilateral relations on Afghanistan from a zero-sum dynamic to outcome-driven cooperation' (Middle East Institute 2018). In March 2019 Afghanistan, China and India held a first meeting in Kabul, at the level of special envoys. While Pakistan aims at retaining its connections and influence with the Taliban, China has different, autonomous interests in the future of this war-torn country; an unstable Afghanistan also has direct, adverse consequences for itself. And it does not see Afghanistan as a card against India.

West Asia Iran is a logical BRI partner, given its location and geographic spread. Iran remembers well the assistance it received from China during the Iran-Iraq war. Iran's resistance to the outcomes of 2010 Arab Spring has produced some further convergence in the way the region is viewed in Beijing and Teheran. Visiting Iran in 2016, President Xi extolled potential BRI partnerships with Iran; Ali Khamenei responded that Iran would join China to promote bilateral practical cooperation. Thereafter, President Xi and President Rouhani signed 17 multi-billion-dollar agreements. The Iranian minister participating in the first BRI Forum in 2017 signed agreements covering energy, trade, and infrastructure with China and other countries. China has also been helping Iran to overcome West-led sanctions, and has been a significant buyer of Iranian oil (Osiewicz 2018). In June 2019, Chinese President Xi Jinping said in Bishkek at the SCO Summit, while meeting with his Iranian counterpart, Hassan Rouhani, that Beijing is ready to join efforts with Tehran in promoting a steady development of their ‘bilateral comprehensive strategic partnership’ (Xinhua 2019). Each country has its rift with the US, and this inevitably drives them to shared standpoints.

Are the two ports, Iran’s Chabahar (with India a significant investor), located barely 73 km to the west of Gwadar, where China has invested so much, in mutual competition? For China, Chabahar is an alternate option for access to the Arabian Sea and the adjoining rich Gulf region. Of course, Gwadar has the advantage of direct access to Xinjiang, while the Chabahar route is more circuitous. But the rail line that Iran has built to Afghanistan (which India used in 2018 to send shipments of wheat and other goods to that landlocked state, with part of the journey by road transport), also connects with the China-assisted Central Asian rail lines. This is exactly the kind of logistics linkages and synergy that bring different countries together, via such ‘global public goods’. In fact, for Central Asia, including Afghanistan, Chabahar offers a huge advantage over the Gwadar-Xinjiang axis; it connects with all the Central Asian states, via what is called the ‘International North South Transportation Corridor’ (INSTC). As soon as a missing 400-km section is built in Iran, it will give these landlocked countries a direct access to the Gulf and the Arabian Sea, meaning easy, cheaper logistics for trade with India and the entire region, including paradoxically, Pakistan.[1]

Saudi Arabia has found shared interests between itself and BRI, especially with the Kingdom’s Vision 2030 (Arab News 2019). In February 2019, during the Saudi Arabia-China economic forum, the two countries signed 35 deals for more than $28 billion worth of deals; this is seen as part of a ‘Saudi-Asian pivot’, in which Saudi Arabia seeks to ‘diversify its economy and its alliances’. These reciprocal arrangements have included a 2017 commitment for the building of two refineries, one in China’s Fujian province at Yanbu, and another in Saudi Arabia. Further, 67% of oil imported by China originates in Saudi Arabia. For Saudi Arabia, this coupling ‘opens the markets of the Middle East, the Near East, the Maghreb and Southern Europe to the BRI and thus China’. The cooperation also has geopolitical consequences. ‘The “Middle Kingdom” thus becomes a de facto “balancing influence” between the Gulf uneasy neighbors and energy actors.’ There is also congruence between the Saudi naval base at Djibouti and China’s at the same location. (Valantin 2019). Not mentioned by this author is also the fact of massive new Chinese investments in India, which are part of that same ‘Saudi-Asian pivot’.

The UAE is another major Gulf state that sees BRI as a vehicle to tap into for its own benefit, not that it depends on foreign investments. China’s $3.4 billion investment into shipping and food projects in Dubai, is part of its Belt and Road initiative, is a fillip for the emirate’s economy. ‘Professor Rana Mitter, director of the University of Oxford’s China Centre, said the deals highlight China’s rising interest to create “a new commercial and security community in the Greater Indian Ocean”, and tap into existing strong trade links between the Middle East and Africa.’ (The

[1]Information from a private conversation with an Iranian personality.

National Business 2019). 'The UAE will consolidate its position as a key transit point for Chinese exports to African and European countries under the Belt and Road Initiative (BRI) as billions of dollars in trade will pass through the region… Latest figures show that bilateral trade between the Gulf and Africa increased more than nine-fold over the last two decades and in 2018 it stood at over $65 billion. The UAE-China trade reached $53 billion last year, an increase of 17 per cent.' (Khaleej Times 2019).

Overall, West Asia and East Asia are drawing closer in a geopolitical shift. '…many West Asian states need to develop a more diversified set of relationships with extraregional powers, especially given the perception that leaders in the United States want to reduce the US regional footprint.' (Fulton 2019). This makes China, as well as Japan and India more deeply engaged in this rich region, rubbing shoulders in complex competition, with some potential also for cooperation.

Australasia Australia has been cautious about BRI, in keeping with its increasing reserve in dealing with China in recent years. In September 2017 Australia signed a Memorandum of Understanding with China on BRI cooperation in third countries. It needs Chinese investments to develop some of its regions and resources. But it also has concerns over BRI's 'geostrategic ramifications', and increased competition, with investments fueling strategic rivalry. Australia has not joined the Asian Infrastructure Investment Bank (AIIB). But there remain 'opportunities that are in Australia's national interests' (Australia-China Relations Institute 2018). In November 2018, the Australian Prime Minister Scott Morrison told the media that he was surprised that the state government of Victoria had sidestepped federal regulations and signed a deal with China to participate in BRI. Evidently their aim was to unlock trade and investment opportunities. Foreign Minister M Payne said: 'Any treaty level arrangements, of course, are made at the commonwealth level.' (The Guardian 2018). This underscores a contest between economic need and political caution.

In the Pacific islands of Oceania, China has 'by and large free rein… There is a lack of economic and strategic interest from other regional or outside powers such as the US and Europe, making China the default power…(it) increasingly considers the South Pacific a strategic kind of protectorate…' This paper recommends stronger EU commitments to the region, but it is unclear if these can bear fruit (The Hague Center for Strategic Studies 2018). Australia and New Zealand bear the burden of offering to these remote islands other options, but their resources are much smaller than what China is willing to mobilize.

We thus note caution in varying degrees towards BRI on the part of major direct neighbors of China, notably India, Japan, South Korea and Vietnam. And Russia, for all of Beijing's effusive words, does not seem as yet to get financial investments from China. It depends on Chinese labor to run its expanding activities in frozen East Siberia, but it cannot overlook the new dependence it creates, and potential future risk.

11.5 Africa

China has become the largest lender to Africa, overtaking the World Bank and the IMF. And unlike the latter two, and Western aid agencies, it does not wrap its loans and credits—outright grants are few and far between—in OECD style 'conditionalities', over the human right situation, 'good governance', LGBT rights and the like. For sure, the grant element in China's lending is rather low—and hard to assess because the financial terms are shrouded in secrecy, but from the occasional leaks we know that the debt burden, as in the loans given in Asia, is onerous. One press report suggested that we should look at China with its global projects as a 'giant sub-prime lender'; that seems accurate.[2]

China's Africa BRI projects have had a mercantile element; there is no reason to imagine that the terms are more benign compared with projects in Asia about which much documentary evidence exists. Yet, for almost all these countries, China has been the only source for infrastructure projects, which have been of almost no interest to Western countries or the global financial institutions. In comparison, India is a smaller aid source, also a country that does not go by OECD standards.[3] India's special strength is in technology transfer, and the fact that unlike China it does not send its manpower teams for project implementation.[4] In the past decade, India has committed around $40 billion to Africa projects, much less than China's $100 billion plus, but useful nevertheless for both sides (Nikkei Asian Review 2018).

China is working to longterm objectives, and is clearly positioning itself well, in terms of mineral and other resources, and agriculture projects of medium or long gestation. A danger it faces is that it has little or no control over the foreign country environment, or taste for political manipulation in these countries. Given the highly contested nature of domestic politics in African states, it faces the danger of getting caught in local crossfire, as has happened in the Maldives Malaysia and Sri Lanka.

11.6 Europe

> The China-EU trade balance is the first reason cited by European BRI doubters. . .In 2018, the EU's trade deficit with China was 185 billion Euros'. Chinese state shipping company COSCO has heavily invested in Piraeus port; it is now the Mediterranean's busiest trade port, with Valencia, Spain. It is fast becoming a central hub in the eastern Mediterranean, because of port modernization and other investments in logistics, including railway lines. It 'serves as a platform for realizing Beijing's political and commercial ambitions in Europe.

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[2]*The Economist*, 3 November 2018.

[3]Considering that neither China nor India have a role in working out those standards, it is disingenuous of the West to expect compliance from them.

[4]According to a report in Nikkei Asian Review, 5 September 2018, China has 10 million workers in Africa.

> Only time will tell whether Europe can be an equal partner or if the region will become a mere "appendage of Eurasia" as China's ambitions expand—a fate Henry Kissinger warned of in a 2018 interview with Ed Luce of the Financial Times. (Pelagidis 2019).

'China has contributed around $15.4 billion toward infrastructure and other investment in the 16+1 countries since 2012 in areas such as energy, transport, information and communication technology (ICT), manufacturing, real estate, and mergers and acquisitions (M&As)... EU officials are increasingly critical of the 16 +1 and worry the mechanism could further undermine EU unity on policies toward China.' (CSIS 2019). According to reports, China is also causing concern as it is buying up vineyards and agricultural land in France (The Times 2019).

China's economic presence in Central and East European countries (CEEC), and the 16+1 mechanism, which is the only such exclusive, potentially divisive, operated by a non-European country. China has used its investment clout to develop independent connections in that somewhat neglected EU backyard. The prospect of a strong Chinese presence in Europe, as also strategic purchases by Chinese enterprises into high-tech European companies, has prompted major EU policy rethink. The European Commission would like an Asia strategy of its own for cross-border logistic links, for modern transport and energy connections. But one wonders if the EU has any appetite for joint actions, the more so when the major European states seemingly prefer to act on their own. Italy's March 2019 action in signing on to the BRI project, also revealed lack of a unified EU policy.

11.7 Xinjiang: Dangerous BRI Gateway

In the province of Xinjiang, the 1.2 million Uighur people share ethnic, religious and linguistic links with the people of Kazakhstan and the other Central Asian states, all sharing a Turkic heritage. They make up 60% of the people in this thinly populated border province at China's westernmost extremity. As in neighboring Tibet, they have been reduced to a minority in their own homeland, through an influx of Han migrants from other areas. Like Tibetans, they have resisted Sinification, with the difference that their cross-border connections make it harder for Beijing to bully them into submission, but their cross-border connections also lead the Chinese authorities to rule them with an iron hand.

The past 10 years have seen a rise in Uighur terrorist actions, carried out in Xinjiang and in the faraway 'mainland', including Beijing; that has produced harsh actions, not only to suppress the extremists, but also a massive, unprecedented social engineering effort, to counter the terrorists and change their Islamic identity. This has included the banning men from growing beards, and curbs on the practice of Ramadan fasting. A 17 June 2019 BBC report, based on special access given to these journalists, showed a teacher at one of the 'schools' agreeing that those undergoing 'training' have been affected by 'religious extremism...and are willingly being guided away from extremism...their faith and identity are being replaced...'. An official said on camera, that when you know that someone is going to commit a murder, you don't wait for that to happen, but have to take 'preventive action'. BBC also reported that ancient housing districts and mosques had been pulled down, replaced by new structures, or empty spaces that await new construction (BBC 2019b). Clearly, this is social engineering on a massive scale.

Turkey has been the only Islamic country to publicly protest, and has faced Chinese wrath. 'China's ambassador to Turkey, Deng Li, warned Ankara that it was jeopardizing its economic relations with Beijing. "Criticizing your friend publicly everywhere is not a constructive approach," Deng told Reuters. "If you choose a non-constructive path, it will negatively affect mutual trust and understanding and will be reflected in commercial and economic relations."...A week later, news reports in Turkey said that several Turkish businessmen had been detained in China for their alleged involvement in a tax fraud scheme...Turkey has much at stake economically. The government is negotiating massive infrastructure deals with China, ranging from high-speed railways to nuclear power plants' (Nikkei Asian Review 2019). 'Trade between China and Turkey has grown impressively in recent years, from around \$10 billion in 2006 to just over \$26 billion in 2017, and \$15 billion in Chinese foreign direct investment (FDI) into Turkey between 2005 and 2018.' (Fulton 2019). This places Turkey in a dilemma, not unlike that facing other Islamic states over China's Xinjiang actions. Turkey stayed away from Beijing's April 2019 Second BRI summit.

The irony is that the BRI projects have accentuated the strategic importance of Xinjiang, the gateway to the 'stans' in adjoining Central Asia. The consequence is the extraordinary 're-education' effort of half a million or more Uighurs, in what are labeled as 'vocational training institutes', but are in fact hard indoctrination-cum-penal schools, described above.

Three consequences follow. First, How will this impact on Muslims in other parts of China, usually called the 'Hui' people, said to number 10.5 million, who have mostly integrated well with their local ethos? Some reports suggest that they now face pressure to abandon the relatively few Islamic practices they follow, though in uneven fashion. Second, for how long can China expect Muslim countries, including the Islamic organization OIC to remain silent, as they have hitherto? It is for them a tussle between China's power and capacity to hurt them if they speak out, set against religion-based solidarity among states, as also the Islamic people. What might be the consequences? Third, can such social far-ranging engineering and identity reconstruction, in effect a forced erasure of an ethno-religious personality, work? These remain open questions and future challenges.

11.8 2018 Reorganization

Beijing has carried out major new reform of foreign policy decision-making and execution. First, a new 'Central Foreign Affairs Commission' has been created , under the joint control of the Party and the State Council, headed by State Councillor

Yang Jiechi (a foreign ministry veteran); he is also now a Politburo member. Second, a new entity takes charge of foreign aid, the 'International Development Cooperation Agency', (IDCA) with the Ministries of Commerce and of Foreign Affairs harnessed into it.[5] Third, Foreign Minister Wang Yi has risen in rank as a State Councillor (SCMP 2018). These changes were part of a government-wide reorganization that took place, and probably also includes the folding into the new Commission of the 'Leading Small Group' (LSG), at the level of the CCP leadership which had carried out oversight of BRI activities.[6] It is also assumed that the LSG on foreign affairs has also been folded into that same Commission; President Xi had headed both these LSGs. Taken together, these changes implicitly acknowledge multiple failures in the management and supervision of BRI projects, and their financing control.

These changes carry important consequences. First, the new Central Foreign Relations Commission tightens joint Party and government oversight of the country's diplomacy, including the BRI enterprise. Control over the Foreign Ministry is also tightened. Second, the Commerce and Foreign Ministries, long at loggerheads, have been harnessed into the new IDCA; a vice minister from the former has moved into the Foreign Ministry in that same position; such cross-ministry moves have been rare in the past. Third, the Foreign Ministry gains in status with the Foreign Minister named as 'State Councilor'—an honorific that is vital in such a hierarchical system. Chinese diplomats have long resented that their minister did not have status at home comparable with other foreign ministers (Rana 2007, 2019). Fourth, experienced technocrats have been brought into IDCA, like Wang Xiaotiao, formerly at the National Development and Reform Commission. With the Foreign Relations Commission now under Yang Jiechi, again indirectly adds to the Foreign Ministry's firepower (Rana 2018).

China does not often carry out such sweeping organizational changes, of the kind witnessed in March 2018. This seemingly adds to Xi Jinping's authority, but also implicit in the changes is acknowledgement of earlier BRI management failures.

[5]In 2013 the Indian Ministry of External Affairs (MEA) created its 'Development Partnership Administration', presaging China's action, but the comparison ends there. MEA's action was delayed by two years as the Finance Ministry would not sanction additional posts for this unit until it carried out internal adjustment to set up this agency. All such government actions remain a problem in India. See Rana (2018).

[6]These 'Leading Small Groups' (LSGs) are secretive apex level supervision and decision-making entities. They are not officially listed, and their membership is known only through infrequent references in official Chinese media. President Xi heads the LSGs, including those covering foreign affairs, and national security. Members of the Politburo Standing Committee perhaps head others.

11.9 Second BRI Forum, 25–26 April 2019

Consider depth of criticism that BRI has recently faced. IMF Managing Director Christine Lagarde had told a conference in Beijing in April 2018 that while China's Belt and Road Initiative could provide much-needed infrastructure, 'ventures can also lead to a problematic increase in debt, potentially limiting other spending as debt service rises, and creating balance of payments challenges'. She suggested '. . .ensuring that Belt and Road only travels where it is needed'. China agreed to contribute $50m over 5 years to an IMF effort to train officials in China and in several other countries, including many in Africa. According to a March 2018 report by the Washington Center for Global Development, eight countries on the BRI routes might face trouble servicing debt due to high levels of borrowing from China, including Pakistan, Djibouti, the Maldives and Laos. That study found 23 countries to be a 'at risk of debt distress today' due to BRI borrowing (Financial Times 2018). Such open, measured warnings provided the backdrop to the second meeting of the BRI Forum that met in Beijing in April 2019, with 35 heads of state and government attending, including leaders from all the ten ASEAN countries.

In his opening speech at the Second Forum in Beijing, President Xi did not announce any new financial commitments, and spoke instead of 'co-development'. He claimed that China does not intentionally seek trade surpluses and is willing to step up imports for balanced trade. He said: 'The belt and road is not an exclusive club', and would not only serve the interests of China, but the interests of other participants, and enhance multilateralism, 'delivering a win-win outcome and common development'. He also spoke about upholding the principles of extensive consultation, joint contributions and shared benefits, maintaining close communication and coordination with all parties to work together with openness, inclusiveness and transparency (SCMP 2019d). One conclusion from the Second Forum: the issue is not so much 'debt trap diplomacy' or control over infrastructure assets; 'the new Great Game of the plan. . .Just as all roads led to Rome at the time of the Roman Empire, so all roads (and sea lanes) could one day lead to Beijing. . .At least that's how hawks in the Donald Trump's administration see things. . .(and) certain echelons of the Abe government in Tokyo' (SCMP 2019e). This is an over-drawn view, impelled by unwillingness to accommodate a rising power; for sure the West faces new competition, but is that rise of China really a worse situation for much of the non-Western, non-Chinese world? Might not alternate choices be good for them?

An Indian thinktank perspective: 'Unlike triumphalism that marked the first forum in 2017, this time there was a clear element of defensiveness in China's position. . .Xi Jinping's speech at the forum emphasised on how to deal with the criticism surrounding the BRI and also came up with some new promises to emphasise "quality development", "innovation", "science", "green", "multiculturalism" and "sustainability". . .his speech sought to address the criticisms such as absence of "joint pursuit", "high-quality infrastructure" and problems such as "debt trap".' (VIF 2019).

11.10 India's Options

India did not attend the first BRI conference held in Beijing in May 2017, on the ground that the Gwadar-Karakorm transport route traverses Pakistan Occupied Kashmir (POK), integral to Kashmir and a part of India. It has also stayed away from the Second Forum in April 2019, on the same grounds, even while bilateral relations with China have undergone significant improvement after the April 2018 Wuhan meeting between President Xi and Prime Minister Modi. Yet, 'MEA spokesperson Gopal Baglay minced no word when he said, "Connectivity projects must be pursued in a manner that respects sovereignty and territorial integrity...The so-called 'China-Pakistan Economic Corridor', which is being projected as the flagship project of the BRI/OBOR, the international community is well aware of India's position. No country can accept a project that ignores its core concerns on sovereignty and territorial integrity".' (Economic Times 2019a).

That the Gwadar-Karakoram route traverses POK is an issue that can be surmounted. A formula exists in the China's 1963 agreement with Pakistan, on the basis of which the Karakoram highway was constructed. 'China had recognised PoK as disputed and had affirmed China's willingness to "reopen negotiations" with the "sovereign authority" once the Kashmir dispute had been settled' (Ahmed 2018).

China has taken in its stride India's refusal to join the BRI conference of April 2019. 'Foreign Ministry spokesperson Lu Kang stressed that Beijing was ready to exercise patience. He highlighted that "if the relevant side would like to wait and see, we do not oppose that".' (The Hindu 2019b). This is an interesting development.

Several Indian analysts have urged reconsideration of the country's stand on BRI projects. 'One hopes that the main criterion of that decision will be whether the BRI can add to the development and prosperity of the Indian people. If the answer is "yes", creative diplomacy can surely provide a solution to the main impediment—the passage of the China-Pakistan Economic Corridor through Pakistan-occupied Kashmir. One expectation was that a more inclusive and flexible BRI emerging out of the 2nd Forum might provider an opportunity to re-imagine South Asia in terms of accelerated regional economic integration and peaceful relations' (Bhoothalingam 2019). That is not evident as yet, but further evolution remains possible.

Consider a project that predates BRI. In 1999, China had advanced a proposal for sub-regional cooperation between Yunnan province in south-west China, Myanmar, Bangladesh and the eastern region of India. This started as a thinktank forum idea, initially called the 'Kunming Initiative' and later, as 'Bangladesh-China-India-Myanmar' (BCIM) cooperation. It has moved slowly, partly on account of lack of clarity on what it would entail, the financing arrangements (which a Track Two process could not tackle), as also apprehension in India over permitting Chinese access to its sensitive North East region. In 2013 this Track Two process shifted to

Track One.[7] It became an official discussion group, was charged by the four governments to develop a framework for action for the 'BCIM-Economic Corridor' (BCIM-EC). Unfortunately, while transport connectivity is a necessary condition for a viable economic corridor, it is not a *sufficient* condition; one needs economic viability and business rationale as well. A bigger barrier is 'widespread mistrust of China's strategic and economic ambitions in the South Asian neighbourhood' (Uberoi 2016). Around 2015, China began to list BCIM-EC as a BRI project, and India spoke out against that move. A news report on the BRI Forum of April 2019 had noted that BCIM had been dropped from the list of BRI project—a possible gesture towards India, but some weeks later a Chinese foreign Ministry spokesman declared in response to a question that BCIM remains part of BRI. The BCIM-EC continues its work in fairly desultory fashion; it held a meeting in Kunming in June 2019, but nothing concrete emerged. In the meantime, India has tried, with limited result, to bring Japanese enterprises into its economic and infrastructure development plans for its North East region.

A former India ambassador and frequent commentator wrote after the SCO summit at Bishkek in June 2019: '. . .times have changed. Neither did India block the Bishkek Declaration nor did other member countries try to shove the Chinese project down the Indian throat. The fact of the matter is that India's condemnation of the BRI got toned down to criticism over time and incrementally mellowed to a deafening silence through the past year or so.' (Bhadrakumar 2019). It remains to be seen if at their next informal summit, to be held in India in October 2019, PM Modi and President Xi might find a new formula for India to work with the Chinese BRI enterprise.

In fact there exists a major congruence in Indian and Chinese interests that New Delhi does not publicly acknowledge. China has also not openly alluded to this. China needs viable, profitable investment destinations, especially in Asia. India is a huge market, the continent's second biggest after China. Further, annual FDI inflow into India has plateaued at around $40 billion per year. The momentum of economic growth slowed during 2019, from its anticipated 7%+ trajectory to around 6% or even less; the last quarter of FY2018 showed the lowest growth in 20 quarters. The Governor of the Reserve Bank of India, S Das told the media on June 21, 2019, that 'there is clear evidence of the Indian economy losing traction' (Mint 2019). The country needs sizable infusions of capital; China is the major source it has not really tapped. In September 2014, on his first visit to India after the Modi government came to power, President Xi had promised investments worth $20 billion over the next 5 years—the total that has come in is barely one fourth that figure, useful for India but not nearly enough. Will economics now work its logic?

[7]This project figured in the Manmohan Singh–Li Keqiang Joint Statement of May 2013, as an 'in principle' acceptance of the proposal. It also figured in PM Modi's statements during his 2015 visit to China.

The idea of a BCIM Economic Corridor.

11.11 China's BRI Objectives

Some have used for BRI the analogy of the Marshall Plan. This might be apt in the scale and potential impact of China's project, but of course there are vast differences. Putting aside official rhetoric and public diplomacy postures, the BRI projects and all the activities subsumed under it can be conceptually presented in terms of a series of Chinese objectives.

Strategic Security The Gwadar-Xinjiang link gets China out of its quasi-landlocked status, with its total seaboard access limited to its east coast. It gives direct, though distinctly uneconomic access to the Arabian Sea and the Gulf region. The China-Europe rail-pipeline-fiber optic route, traversing Central Asia and the Europe hinterland serves the same purpose, but in much more economically viable fashion. The Kra isthmus canal, if built, would relieve China out of the 'Malacca dilemma', i.e. over dependence on that narrow waterway.

Transport Logistics In SE Asia the Eastern Coast Rail Link from China to Singapore, traversing Laos, Cambodia, Thailand and Malaysia appears economically viable. As and when a link is built that connects it with Myanmar, that too will have its economic logic. The China-Europe rail link is already operational with the journey in each direction taking around 12–14 days, a major improvement over the fastest marine transport, say via the Arctic route, when it is open in the summer months, and of course the 30+ days via the traditional sea route to Europe. But we know little of its economics, and published reports assert that the trains from Europe return half-full best. Rail transport makes sense only for high value, time sensitive shipments; but the cost is many multiples of sea transport.

Market Access Central Asia is mainly empty territory, sparsely populated, and that broadly holds good for much interior Europe as well, to say nothing of purchasing power. The principal BRI target market on that axis is Europe. Africa is an even greater market, one that will grow exponentially with rising prosperity, impelled forward by the world's most youthful, fast-growing population. That will be payoff time for China's current investments in the marine arm of BRI and in the rail-links it is creating, especially in East Africa and the Horn. We should not be surprised if a north-south trans-African rail link also takes shape.

But BRI today bypasses the largest, most lucrative potential market, India. Yet, the network of ports and even land routes in Myanmar and Nepal, portends connectivity options that will link with India. The logic transport connections cannot be denied for long. Build the linkages even in proximity to principal markets, and trade will come. So will investments.

Technology Dependence Among Customers, R&D Impulsion China has become a technology powerhouse—not supplanting the US or even Japan, but a viable adjunct. Today's drama over Huawei, some of it contrived by the US for political purpose, speaks to how in some niche areas Chinese technology even has a lead over the West, in this case in 5G telecom. BRI is indirectly going to help China with that drive to develop new products. Example: China is already the world leader in highspeed rail transport, surpassing both Germany and Japan. BRI will spawn further technology impulsions. It will also give rise to a new animal, a 'Chinese conception of engineering', in a world that has for over 300 years been in thrall to Western monopolies, challenged only in some niche areas by the former Soviet Union.

Domestic Dimension Some might argue that the original motivators for BRI included the saturation of economic development on China's eastern region, labor shortage and the political imperatives of regional development of the interior provinces. Combine that with a need for new markets for the country's capital goods manufacturing ecosystem, and a national economic system flush with savings that demanded new avenues, beyond low-yielding US Treasuries. Each of these has provided interlocking blocks for this ambitious global drive.

11.12 An Assessment

> Imagine terms and contracts mired in a maze of cross-references and a trilingual swamp… Not to mention the clash between local red tape and the ultra-streamlined Chinese infrastructure-building juggernaut—perfected to the millimeter for the past few decades. Still, Beijing is learning the key lessons, admitting it's essential to renegotiate key terms, amend deals, pay close attention to local input, and, essentially, allow more transparency. (Escobar 2019).

> As a central part of the Belt and Road Initiative, China is in the process of creating a "digital silk road" that connects China with the rest of the world. The plan includes providing upgraded underwater cables connecting east and west, and introducing new broadband connections to countries with underdeveloped telecommunications infrastructures (Woodhams 2019).

Is BRI an early assertion by China of global power and parity with the US, or does it presage, even dictate, such an uncertain outcome? Either view might find supporters, but given its longterm calculation and scale of investment, of both money and the personal prestige of President Xi, I tend to the latter view. In terms of national security, it gets China out of its geographic semi-landlocked dilemma; in relation to economics, it puts to use a part of massive currency reserves, to build both current and future sinews of reach, across continents and for new connectivity. From a national Chinese perspective, it spurs development in interior regions and exposes its people and institutions to project and technology management expertise. We may expect the BRI experience to produce wider and deeper eco-political engagement for China across the entire world, including Latin America, of which this essay has written nothing.

BRI is not free from risk. Massive defaults in repayment is one, producing not just financial loss but also damaging future relationships with countries and regions. The failure of the current cultural-religious reeducation of the Uighur people in Xinjiang is an even more acute possibility, with possible spillover effect in Tibet. People simply cannot be 're-educated' to abandon practices of religion and ethnic cultural memory that date to centuries. And potentially mixed into that is possible backlash from within China, if the costs of BRI become too heavy, which can emerge to the point of challenging the current authoritarian regime's Mandate of Heaven.

A newspaper reported that at the annual meeting of the Chinese People's political consultative conference in April 2019, attended by 2000 delegates, some delegates criticised BRI. At a session attended by journalists, a former Chinese diplomat questioned whether it was correct to say that BRI had made important progress, as reported by Premier Li. He said: 'I think this evaluation may be a bit excessive. He added that the project had achieved some results, it also faces problems.' (SCMP 2019a)

It would be an error to view Chinese publics as completely quiescent and resigned to whatever actions their government and leadership undertakes. A people with over 700 million internet connections are well-informed, even if the land they inhabit is ring-fenced by the 'Great Firewall'. We know that China's total expenditure on domestic security and intelligence gathering exceeds its officially acknowledged spending on national defense, which is put at $177 billion in 2019.[8]

Will China learn from its early BRI errors? Despite nice words, and institutional responses, one wonders if the adaptation carried out since March 2018 is sufficient to address all the challenges.

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