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Direction of Planning and Economic Development in India and China

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DIRECTION OF PLANNING AND ECONOMIC DEVELOPMENT IN INDIA AND CHINA*

India and China -- the two largest countries in the underdeveloped part of the world -- with a combined population of close to one billion[1] and an economic inheritance compounded of many analogous elements, are both pursuing programs of economic development within the context of their first Five-Year Plans. Whatever the parallelism in the drive for economic growth which motivates the leaders and the people of the two countries, the paths which each intends to follow are markedly dissimilar.

These paths represent, in a very real sense, two vastly different types of approaches to economic development. India is usually cited as the prototype of democratic planning in an underdeveloped area, while China is the carrier of the communist model in Asia. This dichotomy inevitably poses a host of questions as to the power implications and the political appeal of the two models. Within this broader context, this paper will focus upon an analysis of actual plan performance in agriculture and industry against the background of the two development models.

1. The development models

In China, the new Communist regime formulated an industrialization program patterned largely on the Soviet model. Thus, the Chinese

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* In this paper the author has drawn upon the research he and Professor Malenbaum of MIT have been engaged in concerning contrasting patterns of economic development in India and China. I am indeed greatly indebted to Prof. Malenbaum, Mrs. Helen Lamb and Dr. Joseph Froomkin for their comments on this paper.

1 According to the 1951 Census, the population of the Republic of India was 356.9 million; official results of the 1953 China Mainland Census point to a population of 581.8 million.

Communists envisage a development focused on the rapid expansion of producers' goods and defense industries. This is to be accompanied by a more modest rate of growth in the manufacture of textiles needed for barter with the countryside. At the same time, agriculture is to be developed primarily through mobilization of underemployed farm labor for water conservation and other labor-intensive projects.[1]

In essence, it is a model which envisages industrial development at the expense of agricultural development. Industrialization is accelerated at the outset, by virtue of the very fact that since agriculture is kept on a short investment ration, a larger share of investment resources can be concentrated in industry. This policy, in turn, sets up its own vicious circles; just because agricultural development is sluggish, while the demand for farm products grows - owing to an increasing population, urbanization, and exports - the regime is forced to extract a rising proportion of farm output if this demand is to be met. This very process, however, further interferes with agricultural development so that the screw must be applied even tighter and under such circumstances farm output is sacrificed for control and strong compulsions are set in force that drive the system towards collectivization.

Within the framework of this type of a development model, the state provides a guaranteed market for the goods and services produced so that deficiency in effective demand is not one of the factors limiting growth, except possibly in a short-run frictional sense. On the contrary,

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1 See for instance Chou En-lai's Report on Government Work to the First Session of the First National People's Congress NCNA Supplement No. 218, Oct. 14, 1954.

the more effectively consumption can be kept in check the higher will be the rates of growth under ceteris paribus assumptions. Under such conditions, government policy will be dedicated to keeping consumption at the lowest levels compatible with (a) political stability, i.e. maintenance of the regime in power and (b) the requirements of raising non-farm labor productivity. Thus, in this type of a totalitarian model, changes in consumption need not be a function of changes in income even in a long-run sense.

The Indian path, on the other hand, is based upon a more or less democratic framework. Consequently, freedom of consumer choice and resource allocation through the pricing and market mechanism plays a much more important role. This, in turn, yields a number of corollary effects. Thus, great reliance is placed upon voluntary saving. The nationalized sector of the economy is much smaller and generally the state's participation in the economy is much more modest.

As a general proposition, one may consider the Chinese Communist program as primarily power-oriented, i.e. designed to maximize the rate at which internal control is extended and consolidated while the external war-making, defense, and international political potential is augmented. The central focus is upon the development of heavy industry, with a lower order of priority assigned to consumer goods industries and agriculture. In contrast, the Indian program is largely welfare-oriented, with one of its central objectives the improvement of rural welfare. This necessarily implies a high order of priority for agricultural development and the expansion of industries serving agriculture, with less emphasis upon industrialization per se. Thus, while in the Chinese case the central objective is to maximize the rate of industrial growth, the

Indian focus is upon maximizing the rate of improvement in standards of living.

Apart from these broad ideological considerations there are certain specific factors which account for the much greater rural emphasis in the first Indian Five Year Plan at least. One of these is certainly the whole Gandhian tradition and influence. Another, is the serious food shortage problem facing India after Partition. And a third is the comparatively low crop yields per unit of land in India. For instance, rice yields were half, wheat yields were about two-third, and cotton yields were at about 40 per cent of the Chinese mainland level.[1] Therefore, the opportunities for raising yields relatively rapidly, through improved farm practices and extension of the irrigated area are much better for India than for China.

The differing roles assigned to agriculture and industry in the development plans of India and China may perhaps best be illustrated by a comparison of the pattern of investment allocation in the two countries.

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1 This comparison is based on 1934-38 yields for India and 1931-37 yields for 22 provinces of China.

Table I

Investment Allocation in India and China

Per Cent

Economic Sector	India Investment Plan, 1951/52-55/56		China Actual Investments, 1953-54
	Public	Total	Public
Agriculture	17	15	12
Irrigation	21	14	
Transport and Communications	24	18	15
Industry	14	25	49
Other	24	28	24

Sources to Table I: Government of India, Planning Commission, Five Year Plan Progress Report for 1953-54, New Delhi, September 1954, p. 11.

Wilfred Malenbaum: Savings and Investment in India (Mimeogr.) CENIS No. C 54-1, May 17, 1954, p. 9.

Teng Hsiao-ping: Report of Minister of Finance on the 1954 State Budget at the 31st Meeting of the Central People's Government Council held on June 16 and 17, 1954 - NCNA Bulletin, London, Supplement No. 204, June 24, 1954.

Before appraising these figures, it must be pointed out that they are not completely comparable. In China, public investment through the state budget is virtually equivalent to total investment; it of course excludes self-financed outlays by small entrepreneurs and farmers, however these could not have constituted a very significant item by 1953-54. On the other hand, in India, about 40 per cent of planned investment was to come from the private sector. As a matter of fact, there are no reliable estimates for private investment, planned or actual, so that the only firm items are planned government outlays. Moreover, sector definitions are somewhat different in India and China and the planners in the two countries work with somewhat varying investment concepts. However,

even if one discounts for all of these possible sources of error, the differences in the two investment patterns are striking. In China, industry's share of investment resources is twice as high as in India, while the position of agriculture is exactly reversed.

A similar picture emerges if one looks at the reverse side of the coin, namely the land tax burden borne by agriculture. In China approximately 15 to 20 per cent of net agricultural product goes into direct taxes, while in India the corresponding share is only 1 to 1.5 per cent.[1]

2. Plan Performance in Agriculture

The differences in the roles of the rural sector in the development of India and China have been greatly reinforced by the patterns of production as they actually emerged during the first planning years. Thus, in the case of India, agricultural production targets were markedly exceeded, while in China farm output has been lagging below planned levels. By the end of the third planning year (1953-54), Indian grain production targets for the whole Five Year Plan period were exceeded by 50 per cent. By the same time, three fourths of the cotton output increase programmed for 1955/56 was attained.[2] In China, on the other hand, on the basis of official figures, the output of grain rose only by about 4 per cent in two years, as compared to a highly unrealistic five year expansion target of 30 percent. For instance, the official 1953 production figure is 165

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[1] These percentages do not, of course, measure the total tax burden borne by agriculture, since they leave out of account proceeds from indirect taxes and quasi-taxes. While there is no way of measuring this total burden with the limited data available, indirect tax rates in India would have to be much higher than in China to make up for the much lower yield from direct taxes. On basis of all of the available evidence this does not seem to be the case. The estimate for China is based on the Chinese Communist budget figures adjusted for under-valuation of the tax grain price and on the author's estimate of national product. For India it is based on aggregate land and agricultural income tax revenue of the States, given in the Plan Progress Report for 1953-54, op.cit., p. 22 and on Malenbaum's national product estimates, CENIS (mimeogr.) 6/54-15.

[2] Ibid., p. 2

million tons compared to an annual target of 175 million. In cotton, output actually declined between 1952 and 1954.[1]

It would, of course, be erroneous to ascribe these divergent tendencies exclusively to differences in planning techniques or patterns of investment allocation. India, after several successive droughts, was blessed by two exceptionally favorable monsoons. According to the Planning Commissions' own tentative estimate, "out of the total increased production of foodgrains of 11.4 million tons, something like 5 to 6 million tons represent a more or less permanent gain" attributable to an extension of irrigation and land reclamation and to growing use of fertilizer. There may also have been some increase in "invisible" investment in Indian agriculture, i.e. investment which is non-monetary in character, performed with materials and labor available on the farm. These are the types of investment that are very difficult to measure and thus tend to be greatly underestimated in the national accounts for most of the underdeveloped areas. They are the kind of investments that may be particularly responsive to changes in the structure of incentives. While there are no data that would permit one to really document this, given the general orientation of planning, the emphasis upon village development, the beginnings of land reform, and the favorable weather conditions, it would indeed be surprising if there had been no rise in peasant incentives in India.

On the Chinese mainland, the pattern was almost exactly reversed; three increasingly favorable crop years were followed by a bad drought in 1953 and a very serious flood in 1954. However, just as in India larger inputs of capital and production requisites contributed to the improvement, so the failure to apply similar measures in China - on anything approaching a comparable scale - was undoubtedly a factor in hampering agricultural growth there.

1. NCNA, Peking, May 17, 1954; People's China, 16 March 1953; NCNA, Peking, Dec. 7, 1954.

3. Plan Performance in Industry

Quite a different picture emerges if one compares industrial performance under the two plans. As is shown by the data in Table II, for all products listed -- except for cement -- growth was significantly more rapid in China during two years than in India during three. This does not gainsay the fact that in some fields such as textiles and cement significant advances have been registered in India. However, most of the increase in India could be attained with better utilization of previously underutilized capacity. In China, on the other hand, capacity limits were being approached on the eve of the plan, so that the increases for 1953 and 1954 required rapidly expanding capacity.

Table II

Output of Selected Industrial Products in India and China

Product	Pre-Plan Year Production		Production Increase Attained During the Planning Period	
	India	China	India	China
	1950/51	1952	1950/51-1953/54	1952-54
Pig Iron)	1,572	1,580	79	975
Finished steel) in 000's of metric	976	1,245	105	756
Coal) tons	32,300	57,400	3,672	15,237
Cement)	2,692	2,460	1,336	1,210
Cotton yarn (in 000,000 lbs.)	1,179		341	
Electric power (in 000,000 kwh)	5,300	6,811	1,600	3,264

Sources to Table II: Five Year Plan Progress Report, op.cit.
The Prospects for Communist China, Appendix One.
Communique by the State Statistical Bureau
Current Events Handbook, Peiping, Sept. 12, 1954

Thus, the differing rates of industrial expansion reflect to a large extent the differing investment policies pursued in the two countries. Just for purposes of illustration, 1954 industrial investment in India may be roughly estimated at less than 2 per cent of GNP.[1] For China, on the basis of rather crude calculations, it may be placed at about 6 per cent.

Perhaps it may be fair to say that in some respects the Indian plan has been an outstanding success, in that during the past three years output has been appreciably raised in all commodity sectors. However, there is a real question as to what extent the Plan or planning can take credit for these favorable developments, and whether this could not have been accomplished in the absence of a Five Year Plan. In a very real sense, the investment program represents the core, the major strategic lever of an economic plan. However, this is precisely the field in which there is a significant shortfall with only about 40 per cent of the total outlay programmed for the five year period, actually invested during the first three years.

For industrial investment, plan fulfillment was even lower; less than one-third of expenditure programmed for the plan period was disbursed by the end of the third year. It is particularly notable that the government's investment plan, which was quite modest to begin with, fell far behind the much more sizable private investment program.[2] A case could be made for the view that the Indian government's economic policy places it in a position where it lives in the worst of two

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[1] This includes both private and public investment; see Five Year Plan Progress Report, op.cit., p. 164.

[2] By the end of the third year the government had invested only 19 per cent of the five year outlay programmed for industry; the private industrial sector, the other hand, completed about 41 per cent of its program. Five Year Plan Progress Report, op.cit., p. 164.

possible worlds. On the one hand, it has pursued a very cautious and orthodox monetary fiscal and balance of payments policy, has been quite conservative in its own investment commitments, and on the other hand it has done very little to encourage and foster private investment. Behind Indian fiscal and monetary management there always seemed to lurk the shadow of a feared inflation. Actually, it is very questionable whether an active and vigorous development policy doesn't almost inevitably bring with it a certain measure of inflationary pressure. An upward pressure on prices of modest and gradual proportions need not necessarily bring with it the usually cited maleffects inherent in run-away inflation.

However, there are definite signs that Indian government policy is gradually changing in this as well as in some other respects. Possibly were one viewing this period from a perspective of say 1960 or 1965, one might date development planning in India as beginning in the fourth year of the first Plan and then merging into the second Plan. These indications seem to point to a less orthodox fiscal and monetary policy, combined with higher levels of government investment, and with greater emphasis placed upon industrialization.

In the past, the Indian government's policy towards private enterprise has been quite ambivalent. To some extent it is based on a mixture of socialist and populist attitudes, combined with a certain mistrust of the Indian entrepreneur, a fear of large concentrations of private wealth and power, counterbalanced by a recognition of the important managerial and technical contribution to be made by the entrepreneur. Actually, however, it would be very difficult to establish whether these government attitudes really play a major role in shaping private management and investment decisions. It would seem that

insufficiency of effective demand, the narrowness of the market, plays a much more important role than government-enterprise relations. One could go even further and maintain that in a rapidly expanding economy the gains to be made by getting on the bandwagon would more than outweigh the fears and suspicions of private entrepreneurs. In effect, I would argue that the crux of the problem is more active government participation in the Indian economy, both as an investor and as a buyer. Such a policy would not only stimulate growth in the public sector but would also tend to contribute to a much more favorable private investment climate; therefore, it need not be incompatible with objectives of democratic planning or of private entrepreneurial activity.

Of course, these are problems which the Chinese Communist planners need not face. They are, on the other hand, confronted with difficulties of an almost opposite kind. That is, the Chinese Communist economy is permanently on the verge of inflation, which is however arrested through a wide network of economic controls. This state of chronic repressed inflation is of course a function of a number of factors. However, the high rate of investment and military expenditure combined with a very marked concentration upon investment in producer goods industries is undoubtedly the most important single factor contributing to an imbalance between the flow of money income and the flow of goods and services available for consumption. More generally, the economy and the whole society is constantly driven to operate at the very limits of its capacity. Programs are formulated in terms of maximum objectives, with an attempt made to proceed on all fronts at once. In other words, it is an economy and society which is permanently overextended in relation to its stage of development and the human resources at its disposal. All of this

is then reflected in chronic economic and social strain and in structural bottlenecks.

Conclusions

The foregoing analysis has been focused upon an appraisal of agricultural and industrial performance in India and China against the backdrop of the economic development models implicitly or explicitly formulated within the context of the two Five Year Plans. It was shown that the agricultural sector is assigned a very important role in India, while in China development is identified with industrialization in the narrow sense, with a major emphasis placed upon the expansion of producer goods industries. These divergent patterns of planning have been reinforced in practice by the vagaries of weather and a shortfall in industrial investment in India. On the whole, the Indian Plan has been a modest one, while Chinese Communist targets are very ambitious. This should naturally facilitate plan fulfillment in India as compared to China.

What impact do these trends have upon the aggregate rates of growth in the two countries, and what are their implications for an assessment of the economic race -- real or imagined -- between India and China? In looking at the two countries, it is natural to focus on the most dramatic, i.e. the rapid rate of industrial advance in China. It is essential, however, to bear in mind that the modern industrial sector is quite small in both countries. It contributes less than 10 per cent to national product, and possibly its relative size is smaller in China than in India, even as of 1954. Therefore, although industrial growth is much more rapid in China, this does not necessarily mean that in the short run the economy as a whole is growing more rapidly. Since we have as

yet no firmly based measures of Communist China's GNP for successive years, all statements in this realm are necessarily speculative. However, in view of the marked agricultural expansion in India, it is perfectly conceivable that the increase in India's GNP was greater than that of China's during the past two years.

On the other hand, we may be confronted with an entirely different outlook in the long run. Unless the present gap between the rates of investment in the two countries is narrowed, the Chinese economy as a whole is bound to grow much more rapidly than the Indian. Moreover, in China the whole process of economic growth is intimately and consciously linked to rapid and far-reaching changes in the social structure. One could say that the Chinese Communist regime is bent upon systematically undermining and bombarding traditional social institutions in order to extend its controls and bring about changes in the society. It is a process in which the whole system is gradually changed through the interaction of social, political and economic dynamism mutually reinforcing each other. Thus the institutional barriers to economic growth are greatly diminished.

A system such as this, pursuing the types of policies the Chinese Communists are engaged in, is obviously faced with a number of problems; the most crucial in our context here involves agricultural development. In a more or less closed economy, where rates of population growth are high and increasing, economic growth continuously focused upon industrial development to the neglect of agricultural expansion will tend to strain the economy to a point at which a major crisis may be in the making.

In India, this whole process of change is proceeding at a much more leisurely pace. The comparatively low rate of saving and investment is but one of its economic symptoms as well as one of its determinants.

The [illegible] in its broadest

long-run perspective may perhaps be stated in form of a question: Are current plans and governmental measures of a sufficient scope and magnitude to impose the kind of all-pervading dynamism in the system which is one of the prerequisites for sustained economic growth?

In a sense, one could view the Chinese Communist and Indian development models as representing two extremes. The first involves such high rates of aggregate and industrial investment that there is not too much room left for agricultural development and for raising per-capita standards of living. Moreover, such a pattern threatens to undermine peasant and worker incentives and tends to subject the system to severe structural strains. In the Indian case, the problem is almost reversed. Rates of aggregate investment may be too low to insure a sustained rise in per-capita product and consumption amidst rapid rates of population growth. At the same time, industrial investment may be too low to permit a rate of industrial expansion sufficient to provide an avenue for relieving agricultural population pressure, the relief of which is an essential prerequisite for the very program of agricultural development.

Beyond this, one may legitimately question whether the aggregate rate of growth as reflected in GNP is the sole or most relevant criterion for comparing performance in two or more countries. Obviously, from the standpoint of military and war waging potential, the rate of industrial growth is of prime importance. From an economic welfare point of view the rate of growth in per-capita personal consumption may be the most meaningful criterion. In terms of political appeal, both, rising standards of living and dramatic industrialization programs accompanied by an aggressive power posture may be competing with each other. Thus the outcome of an India-China comparison may yield different results depending upon which of these or other [illegible] are applied.

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