

## China and India

Premier Li's recent visit to India came just after the problems on the border, and one hopes has helped cool the atmosphere. Before accusing China of "deliberate and extended intrusions" in Indian territory, and taking stands from which it may be difficult to back down, our political masters and media commentators would probably do well to read/reread Neville Maxwell's *India's China War*. (He was the Delhi correspondent of *The Times* of London in 1962.) In an interview he gave a few years back to DNA, he reiterated that *"the Indian refusal to negotiate (with China) is the A to Z of this problem. While that lasts, things will just get worse.....the Indian side is still impaled on Nehru's folly of declaring India's boundaries fixed, final and non-negotiable. No successor Indian government has dared - and many have not been inclined - to challenge that assertion."*

Coming to books, it was interesting to read in *The Indian Express* (May 21<sup>st</sup>) that the visiting Chinese Premier quoted Max Weber, the German political economist and author of *The Protestant Ethic and the Spirit of Capitalism*, and Hegelian philosophy to Indian leaders. The new generation of Chinese leadership seems to be extremely well read in western philosophy, not just the Red Book of Mao's Thoughts. I recall that a standard part of the travel baggage of Premiers Li's predecessor was Adam Smith's book: not his famous *An Enquiry into the Nature and Causes of the Wealth of Nations* but his less well known earlier philosophical book *The Theory of Moral Sentiment*.

But this apart, China is well on the way to becoming a superpower; has outpaced us very significantly in economic, military and indeed technological advancement. (As for the last, it is a global leader in telecom technology, superfast trains, solar power panels, storage batteries and many other areas.) We need to come to terms with this reality,

not get blinded by expressions like Chindia and BRIC, creating an image of equality – in terms of achievements and prospects.

Overall, the West is declining in terms of economic power even as the East rises. In today's world we probably need to learn much more from the East than from the West in terms of macroeconomic policies, management of the public sector, social services, the limitations of financial markets in producing prices reflecting all fundamentals, etc. But then we have a penchant for following fading models: for example, socialism in the second half of the twentieth century until the Soviet Union imploded. (Our Constitution still describes India as a socialist country – but then China is, at least nominally, communist, howsoever different the reality!). As for the West, to quote from a review of Stephen King's *When the Money Runs Out: The End of Western Affluence* which appeared in *The Economist* (May 11), "*In a stagnant economy, people may resist the reforms needed to allow growth to return. Entrepreneurial spirit vanishes, replaced by a desire only to protect existing income and wealth. One class will turn against another. After 30 years of dramatic increases in income inequality in the Western world, economic stagnation threatens to destabilise an already tense relationship between rich and poor*". Too many of the weaknesses listed seem to apply to us! In addition, we have a growing army of rentier middlemen getting rich through their connections.

Coming to cross-border trade, a Washington-based think tank (*Information Technology and Innovation Foundation*) recently came out with a report titled "*The Indian Economy at a (sic) Cross Roads*" which accuses India of "mercantilism": the theory that a country grows stronger in world markets by exporting more than it imports. The report recommends that "*Congress should also begin the process of withdrawing India's participation from the Generalised Systems of Preferences (GSP), which provides reduced tariffs for Indian goods entering US markets,*" and that "*the US government should look at all available options to level the playing field*".

The fact is that over the last seven decades every fast-growing economy has followed mercantilist policies: Germany and Japan in the fixed exchange rate era, the Asian tigers later and China since the late 1970s to date. The result? China's GDP which was marginally less than India's in 1980 is now almost four times larger! Indeed, measured in purchasing power parity terms, its output is even larger than that of the US!

But that we are following mercantilist policies is news to me. Yes, we have "exported" the manufacture of goods ranging from toys to electricals, to Holi colors, to Ganesh idols..... to power plants -- to China. We have "exported" the level of our exchange rate -- to FIIs (and to Anglo Saxon ideologies eulogizing market efficiency). And, if media reports are to be believed, even the control of betting in IPL matches has been "exported" – to Dubai! If such "exports" are to be called mercantilism, we are surely guilty of it! More seriously, it is truly amazing that a country with a current account deficit next only to the US (in absolute terms, much higher as a percentage of GDP!) is being accused of mercantilism, and that too by a US think tank. Let me assure the wise men that we have a level playing field; the regulatory regime and ease of doing business is as poor for Indian as for foreign investors, if not more so!

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