

CAN CHINA LEARN FROM INDIA?

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Topics

- Rethinking Washington Census?
- FDI and infrastructures: China's story
- It is finance, stupid: India's story

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especially for domestic private firms. the recent improvements are from a low base.

MIT, 06/22/2004

Rethinking “Washington Census?”

- Level vis-à-vis direction
 - An important distinction often lost in policy and academic discussions
 - Level: Whether we have achieved “Washington Census.”
 - Direction: Whether we are moving to “Washington Census.”
- A more important benchmark:
 - Moving away from “Moscow Census.”
- A few illustrations
 - Political Washington Census: Democracy
 - China is not a democracy but significant political reforms in the 1980s
 - India: Freer press now than in the 1970s and privatization of TV stations

Rethinking “Washington Census?”

- A few illustrations

- Irrelevance of property rights in China: Really?

- The story of Wenzhou
 - Right is not given by God in China but by someone more powerful than God: Deng Xiaoping
 - The end of Cultural Revolution=A massive improvement of property rights security

- Superiority of gradual reforms in China: Really?

- Between 80-90 % of rural households attained private control rights of land in less than 5 years in the early 1980s
 - That period, not the 1990s, brought about the biggest drop of poverty
 - The part of the country with a gradualist strategy is now mired in massive problems.

What we do need to rethink

- **Privileging FDI and infrastructures over the quality of institutions and over the regulatory environment for DOMESTIC firms**
 - China with more FDI and more impressive infrastructures
 - India urged to learn from China, despite the fact that it has demonstrably superior financial and political institutions.
- **Question, “Can China learn from India?”**
 - The answer: Plenty
 - The evidence, surprisingly, comes from within China

Economist, March 3rd, 2005: India may be more efficient but China invests more. "It pays to be profligate. The "so what?" also applies to the argument that India is much more efficient than China at using capital."

- Which of these two provinces in China has grown faster in the 1980s and 1990s?
 - Province 1
 - 1) FDI/fixed asset investment: 13.6%
 - 2) Investment/GDP ratio: 51.2%
 - Province 2
 - 1) FDI/fixed asset investment: 5.7%
 - 2) Investment/GDP ratio: 44.4%
 - (Data above: Referring to the 1990s)



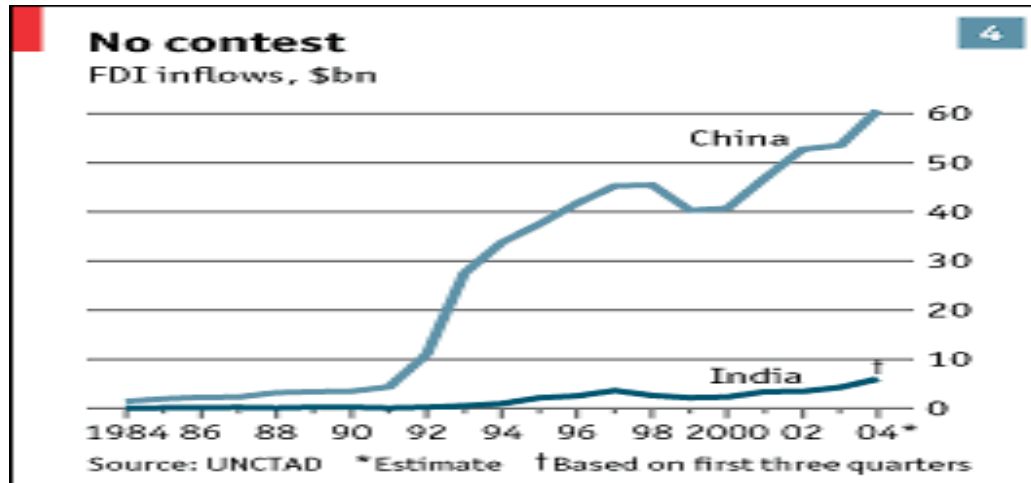
Table 1 Profiles of Jiangsu and Zhejiang

	Jiangsu	Zhejiang
Basic Statistics --Size of area --Length of coastline --Population, 2001 --# of main seaports, 1987 --Loading capacity of the main seaports, 1987 --Turnover freight traffic per kilometer, 1978 --Primary school enrollment, 1978 --Doctors per 1,000 persons, 1978 --Hospital beds per 1,000 persons, 1978	100.3 (1,000 km ²) 1,000 km 73.6 million 5 163 million tons 28.4 billion tons 97.0% 0.97 1.89	100.2 (1,000 km ²) 2,200 km 46.1 million 3 30.2 million tons 16.4 billion tons 98.0% 0.87 1.00
Economic Structure --Industry as % of GDP 1978 1995 --Urban as % of total employment 1978 1995 --Foreign trade as % of GDP 1981 1995 --Export as % of GDP 1981 1995 --Domestic private firms as % of industrial output value of domestic firms ^a 1980 1995 2001	47.0 47.9 21.0 27.2 5.8 27.2 5.3 8.1 0.53 10.5 44.7	38.0 46.3 17.5 20.1 4.0 27.3 3.7 20.0 0.57 38.7 69.3
Economic Performance --Nominal GDP (yuan) 1978 2001 --Nominal GDP per capita (yuan) 1978 2001 --Real GDP growth (annual average 1978-95) --Nominal export growth (annual average 1978-95)	24.9 billion 951 billion 430 12,922 12.9% 9.3%	12.4 billion 674.8 billion 331 14,655 14.0% 27.9%

: The output value of domestic private firms is derived from the total output value minus the sum of that of SOEs, collective firms, and FIEs. The output value of FIEs is netted out from the denominator as well. This is a relatively broad measure of private output and it includes firms of mixed state and private ownership, such as alliances between SOEs, and private firms and listed companies. For the latter two categories of firms, control rights often reside with the government rather than with private entrepreneurs. Jiangsu has more of these types of firms.

Sources: Basic statistics are mainly from State Statistical Bureau (1989). Economic and social data are based on State Statistical Bureau (1996) and National Bureau of Statistics of China (2002).

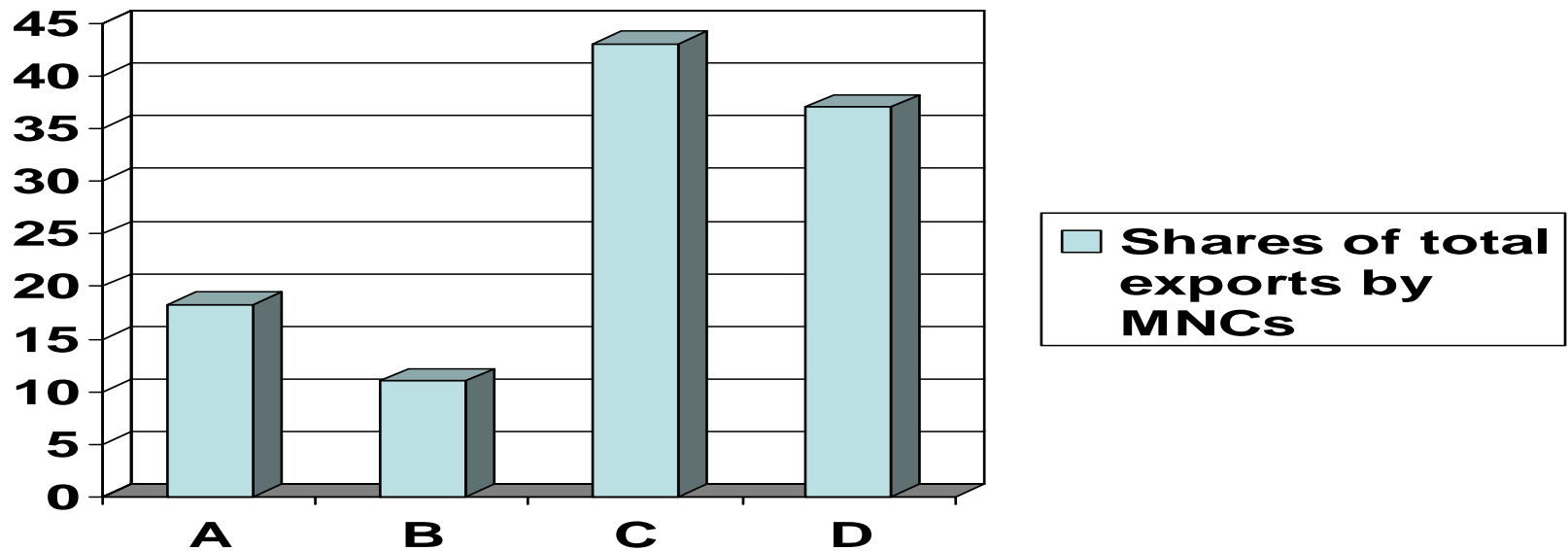
Now the FDI story



- “
 - Economist, March 3rd, 2005:
 - “In China, provinces compete to lure investment. Paran Balakrishnan, of India's Telegraph newspaper, once accompanied a party of Indian businessmen to China and explains that they were flabbergasted, on approaching the northern town of Datong, to find their bus joined by the local mayor and given a police escort. Few Indian state officials or politicians go out of their way to attract foreign investors.”

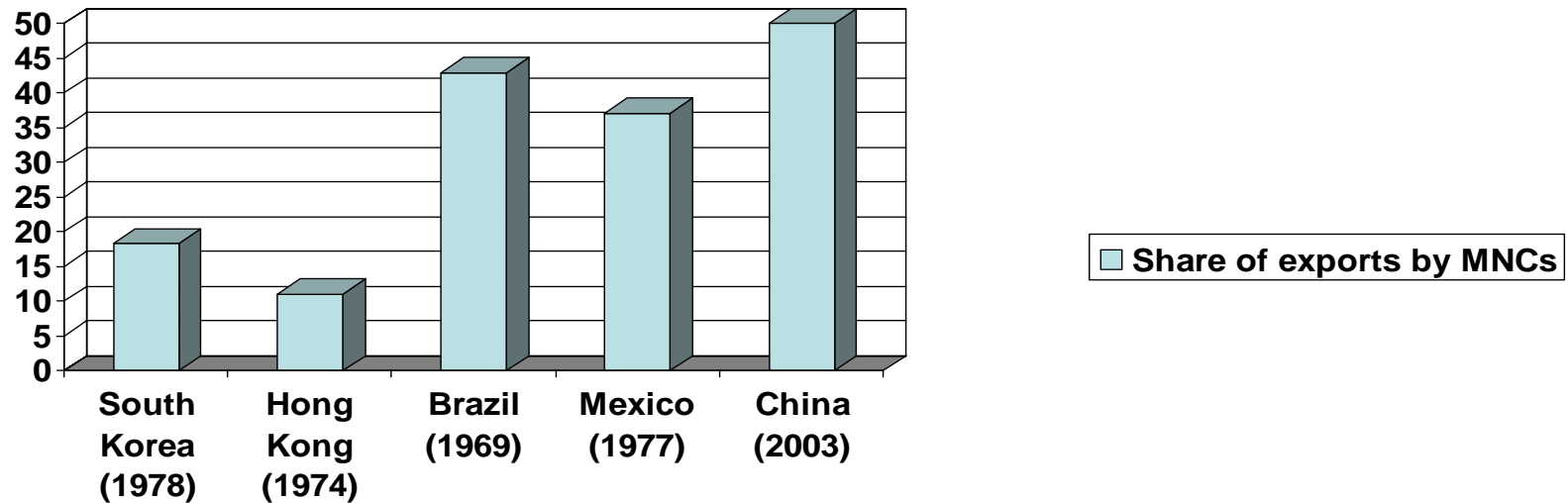
The great virtues of FDI: Promoting export competitiveness

- Which two economies were more successful growth stories?



AN FDI-DRIVEN MODEL

- The contrast between the East Asian model and the Latin American model
 - China is far closer to the Latin American model



FDI as a substitute, not a complement to, domestic entrepreneurship

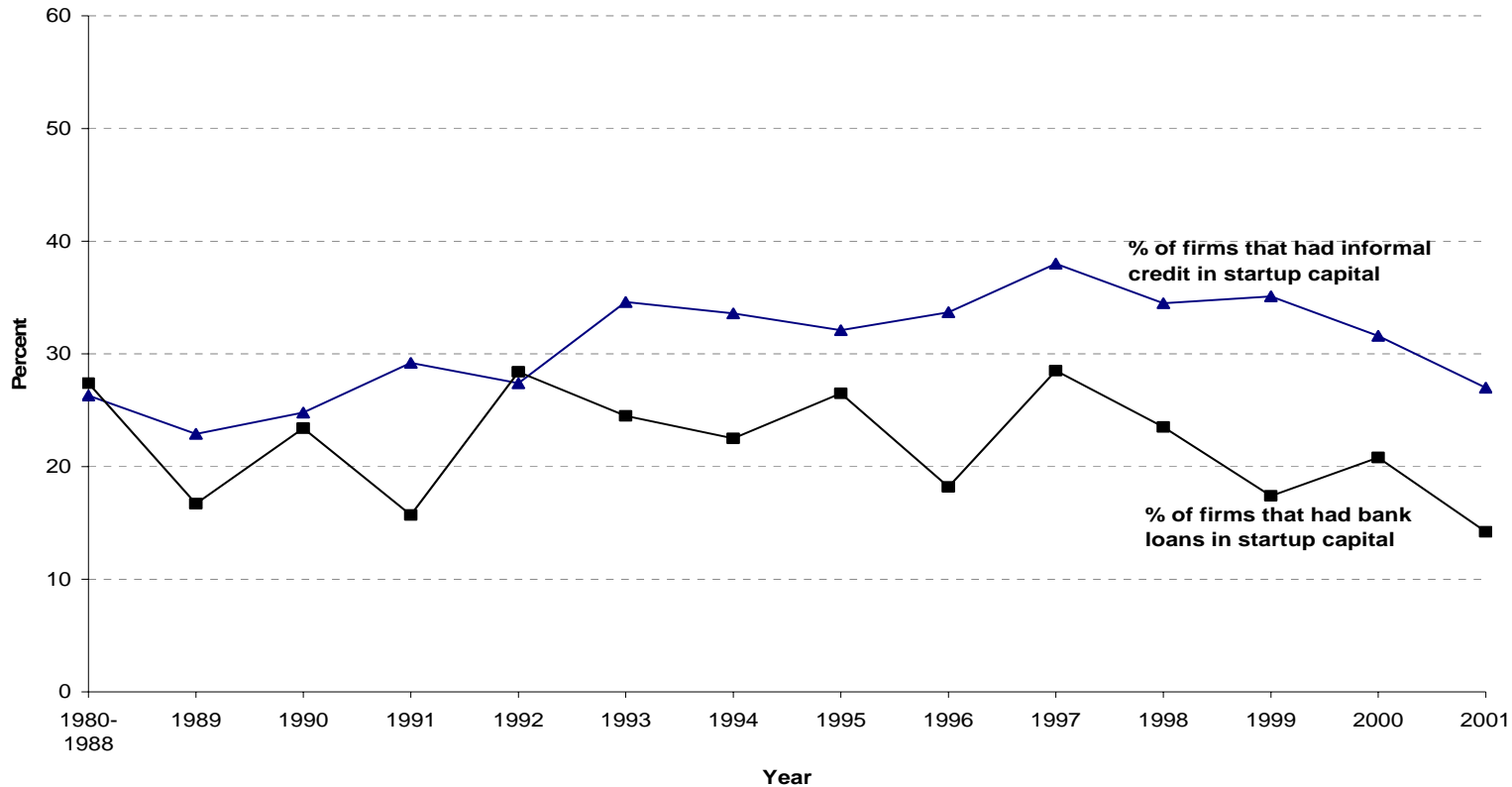
- Selling China (Cambridge, 2003):
 - Substantial external liberalization but coupled with substantial private sector activities
 - Institutional functions of FDI: 1) some property rights security and 2) alleviating credit constraints.
 - The story of Lenovo and Infosys
 - Both have access to good institutions
 - But one in *Hong Kong; the other in Mumbai*
 - A thought experiment: Bangladesh and Chinese banks

FDI as a substitute, not a complement to, domestic entrepreneurship

- My current book:
 - True golden era: 1980s
 - Rapid growth and *increasing* equity
 - Biggest drop of poverty in the first five years of the 1980s
 - Broad domestic liberalization, especially in the 1980s
 - Understated political reforms
 - The 1990s: Problematic
 - Biased liberalization in favor of FDI
 - Huge, massive state-led investments
 - Weakening of the financial sector
 - Deteriorating social performance

Increasing role of informal financing in the 1990s

Formal and Informal Financing in the Startup Capital, 1980-2001



India's huge advantage: It is finance, stupid

Table 1 Perception of general financing constraints (GFC), China, India, and selected countries

General financing constraints (GFC) based on Question 38a in the WBES:
 “Please judge on a four-point scale how problematic are the following factors for the operation and growth of your business:” 1=No obstacle, 2=Minor obstacle, 3=Moderate obstacle, 4=Major obstacle

Countries	% of firms giving a score of 4	% of firms giving a score of 3 or 4	Per capita dollar (PPP), 2001
China	66.3	80.2	4,260
India	25.5	52.1	2,450
South Asia			
Bangladesh	37.0	54.5	1,680
Pakistan	47.5	83.1	1,920
East and Southeast Asia			
Indonesia	41.0	50.0	2,940
Malaysia	22.1	41.0	8,340
Philippines	35.0	57.0	4,390
Singapore	9.1	30.3	24,910
Thailand	41.3	75.3	6,550
Transitional economies:			
Russia	51.8	79.5	8,660
Romania	59.4	80.5	5,980
Belarus	54.9	82.3	8,083
Bulgaria	56.7	73.3	5,950
Croatia	58.7	81.0	8,440
Georgia	58.1	78.3	2,860
Kazakhstan	48.8	79.5	6,370
Kyrgyzstan	64	87.2	2,710
Lithuania	35.9	69.8	7,610

Source: WBES. Per-capita income data are from Table 1 of World Bank (2003).

SUBSTANTIAL MICROECONOMIC STRENGTHS OF INDIA

- Global competitiveness report 2005-2006
 - Overall ranking: China at 46th place and India at 55th place
 - But a huge discrepancy between macro and micro rankings
 - Macro ranking (heavily weighted by actual performance): China at 25th place and India at 52nd place.
 - Micro ranking favors India:
 - Business competitiveness index: China at 47th place and India at 30th place
 - Company operation and strategy: China at 39th place and India at 30th place
 - Quality of national business environment: China at 47th place and India at 32nd place

MSOffice8 micro rankings rely on surveys both mncs and local firms. subjective. although hard to compare cross sectionally, the changes over time of these rankings mean something. also other ranking scheme such as clsa yield the same results.
, 02/28/2006

SUBTANTIAL MICROECONOMIC STRENGTHS OF INDIA

- Worsening micro foundation in China and improving micro foundation in India
 - Business competitiveness index
 - China: 42th in 1998 but 47th in 2004
 - India: 44th in 1998 but 30th in 2004
 - Company operations and strategy
 - China: 35th in 1998 but 39th in 2004
 - India: 50th in 1998 but 30th in 2004
 - Quality of national business environment
 - China: 44th in 1998 but 47th in 2004
 - India: 42nd in 1998 but 32nd in 2004.

Table 1 Three-year cumulative dropout rates among seventeen rural junior secondary schools, 2001-2003 (%)

Junior secondary schools	Northeast	North	Southeast	Central South	Unweighted average of all 17 schools
1	30.0	4.54	9.38	20.52	
2	73.23	39.05	50.47		
3	70.91		48.96		
4	54.36		39.34		
5	28.93		41.97		
6	69.61				
7	55.92				
8	74.37				
9	18.11				
Unweighted average	52.83	21.8	38.02	20.52	42.92

Source: Narrowing the gap.

Table 2 Three-year cumulative dropout rates among six economically representative counties in China, 2001-2003

	Average of all schools in both urban and rural areas	Average of all schools	
		Urban areas (County seat)	Rural areas
County A in southeast	3.78	0	4.24
County B in northeast	54.05	9.61	60.82
County C in northeast	28.06	0.97	29.09
County D in north	3.66	0	3.99
County E in southwest	35.55	59.54	12.41
County F in southwest	20.97	3.14	22.16

Table 1 Summary of various reporting of dropout ratios of Chinese middle schools, 2004-2005

dates of	Location of the school	Reported Cumulative dropout ratios	Other reported dropout indicators	Per capita income of the city (provincial average), 2001
a on dropout 2003 from ements by Education	Nationwide	2 to 9 %		
November 9, 2005	Wei County of Xintai city, Hebei province	60-70% (Official: 2%)		6,155 yuan (8,741 yuan)
November 9, 2005	A junior secondary school in Wei County of Xintai city, Hebei province	90%		6,155 yuan (8,741 yuan)
Research Website v.ccrs.org.cn , 8, 2005	Lingshou County of Shijiazhuang city, Hebei province	20%	7 th grade: six sections; 8 th grade: four sections; 9 th grade: two sections	12,156 yuan (8,741 yuan)
<u>1 Daily</u> , February	A middle school in Guzehn county, Bangpu City of Anhui province		7 th grade: Four sections 8 th grade: Two sections 9 th grade: One section	5,066 yuan (4,771 yuan)
<u>1 Daily</u> , February	A middle school in Guzehn county, Bangpu City of Anhui province		52 students of the 9 th grade dropped out in the second term (out of 312 students)	5,066 yuan (4,771 yuan)
<u>1 Daily</u> , September	L township in Lingquan county, Fuyang city of Anhui province	40%	In two middle schools, 800 students in 7 th grade but only 300 in 9 th grade	2,269 yuan (4,771 yuan)
<u>ning News</u> , June	A township in Xinhua county, Loudi city, Hunan province	30 to 50%	A quote from a student: She had 73 classmates in 7 th grade but only 36 in 9 th grade.	4,507 yuan (6,201 yuan)
<u>m Forum</u> , March	A middle school in Bing County, Harbin city, Heilongjiang province	8% (Official: 2%)		10,270 yuan (9,486 yuan)
<u>m Forum</u> , March	A middle school in Ningling county, Shanqiu city, Henan province	20% (Official: 9%)		3,944 yuan (5,818 yuan)
<u>ning News</u> , June	Unspecified locations	A teacher in Jilin province is quoted as saying, "It is common knowledge that dropout ratio is 30 to 40%."	7 th grade: 110 students. 8 th grade: 100 students. 9 th grade: 30 students.	
<u>ily</u> , electronic November 18, 2005 y by	Unspecified locations	40%		