IMPACT OF GLOBALIZATION: A CASE OF CHINA AND INDIA

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ABSTRACT

The process of globalization led to the integration of the Chinese and Indian economies with the world economy. It led to remarkable economic transformation of the two countries. ***.*** *In recent years, China and India have emerged as the two fastest-growing economies in the world. Furthermore, millions of people were lifted out of poverty trap and have benefited tremendously from the globalization. However, it is being perceived that the gains of globalization are not universally shared. In both countries it widened the inequalities between the rich and poor. It also increased the disparities between the rural and urban, and inland-coastal areas. A vast majority of the people are still not reaping the globalization benefits.*

In the backdrop of these developments, this study examines the impact of globalization on the economic growth of China and India. It argues that the economic prosperity and growth trajectory of the two countries could be sustained in the long run, only if the twin challenges of poverty and inequality are addressed properly. In order to tackle with these challenges, the study recommends for both the governments of China and India to provide public goods and services and make necessary investment in 'human capital', especially in the education and health services in the rural areas.

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INTRODUCTION

0.1 Research Problem

In the late 1940's, China and India embarked upon planned economic development model. However, the planned development strategy led to lacklustre growth of the two countries. It also limited the degree of openness and of integration of the two countries with the world economy. In 1979, China under took major economic reforms. It favoured 'open door' for foreign trade and investments. On the other hand, India liberalised its economy in 1991. It dismantled the previous regulatory regime and moved towards freer trades in goods and services. The opening up of the two economies led to resurgence in growth rate. Over the past five years, China registered a double-digit growth rate. Its average growth rate was around 12.8 per cent annually. On the other hand, India accounted for around 9 per cent annual growth rate for the past four years. Both the countries were also able to attract huge foreign direct investment (FDI) (especially the FDI in China was qualitatively higher and thus played a much more important role than in India). Further, China has emerged as the major manufacturing hub of the world and India became a most important software exporter. Pro-globalisers perceive the global integration as the key reason for the tremendous growth and substantial decline in poverty rates of both the countries.

However, critics contend that globalisation is responsible for the large rise in economic inequality in the two countries. They argue that benefits of globalisation are not reaching to all the sections of the society. It is widening the gap between the rich and poor. The concentration of income and wealth is only in a handful of people. In a way globalization has opened up opportunities for some people and caused hardships for others. Many livelihoods are ruined due to competition. The poverty is also rampant in both the countries. The critics also attribute the phenomenon of globalisation as the reason for increasing social tensions in both the countries.

0.2 Theoretical Framework

The affects of globalization on the lives of people is a hotly debated topic. Scholars diverge over the role of economic globalization in development and poverty reduction. The staunch supporters contend that the phenomenon of globalization leads to greater openness and integration of markets on a worldwide basis. It will also benefit the poor people. It provides extraordinary wealth, opportunities and reduces poverty. However, the opponents see globalization as the cause of inequality and poverty in developing countries. It has widened the gap between (poor and the rich; urban and the rural areas; the developed and underdeveloped nations). It has also downsized the role of the state in economic management. In the backdrop of these developments, the present study examines the competing arguments and theories (Globalists vs. Sceptics) of globalization. The two competing arguments will helps us in better understanding and explaining the phenomenon of globalization in China and India.

0.3 Aims and Objectives of the Study

Some of the key aims and objectives of the study are:

- To analyse the impact of globalization on China and India from economic perspective.
- To examine the reasons for the surge in the growth rate of two countries.
- To illustrate the negative impact of globalization, especially the widespread prevalence of poverty and inequality in two countries.

- To assess the impact of the current financial crisis and the capability of the two countries to handle the crisis.

0.4 Research Questions

The study proposes to addresses the following questions:

1. Why did the initial economic growth models of China and India failed?
2. What are the factors responsible for the radical economic reforms in both the countries?
3. What is the impact of globalization on the economic growth of the two countries?
4. Can globalization alleviate poverty and reduce inequality in both the countries?

0.5 Methodology

The present study is based on Qualitative research methods. It is build on impressive number of secondary sources such as books, periodicals, magazines, newspapers, think-tanks, research organisations, Internet/web resources and unpublished papers. Further, World Bank, IMF, UNDP Reports on poverty and inequality were consulted during the course of the present study. Even some of the primary sources such as official government documents, and reports were used as references, during the course of the research.

0.5.1 Selection of Case Studies - Why India and China?

China and India have two distinct political systems. India is an “an open, participatory, multiparty democracy” (Srinivasan, 2004, p.614). On the contrary, China is a one party authoritarian system. The two countries are the world’s most populous countries and “account for more than one-third of the world’s population” (Surie, 2006, pp.267-68).

Thus, “China, which is of a similar size—in fact larger—than India, provides an interesting and instructive comparative picture” (Sen, 1997, p.10).

0.6 Research Design

The present study is broadly classified into five chapters. The first chapter “Conceptualising Globalization: A Theoretical Framework” provides a brief literature survey and discusses the two contending theories of globalization. In a way, this chapter examines the pro and anti economic globalization arguments. The second chapter “Economic Growth Models of China and India: Post 1948” gives a brief account of the initial conditions of the economy and explains the development strategy of the two countries. It also analyses the factors responsible for the radical change in the economic models of the two countries. Chapter three “Impact of Globalization: A Case of China and India” analyses the impact of economic reform liberalization on the two countries. It examines the positive affects of integration of the two countries into the world economy. The fourth chapter “Globalization, Poverty and Inequality: China and India Experiences” examines the negative affects of the globalization. It focuses on the issue of poverty and inequality (especially the widening gap between the rich and poor and growing regional disparities in both the countries). Chapter five “Current Global Financial Crisis and its Impact on China and India” provides an account of the current global financial crisis. It also highlights the affects of the crisis and assesses the ability of China and India in overcoming it.

CHAPTER I: CONCEPTUALISING GLOBALIZATION - A THEORETICAL FRAMEWORK

Globalization not only refers "to liberalization and increase of trade in goods and services, but also to international movements of capital, technology, marketing and management" (Streeten, 2001, p.84). In the words of Joseph Stiglitz (2002, p.9), globalization reduced the "artificial barriers to the flows of goods, services, capital, knowledge, and (to a lesser extent) people across borders". It also led to the closer integration of the countries and peoples of the world and significantly reduced the transportation and communication costs. However, the opponents contend that globalization "causes hardships for those whose livelihoods are ruined by competition" (Bardhan, 2007, p.3851). It also widens the inequalities between the rich and poor. In the backdrop of these developments, this chapter discusses the two contending theories of economic globalization. It also examines the pro and anti economic globalization arguments by providing a brief literature review.

1.1 Conceptualising Globalization - A Theoretical Framework

They are two contending views on economic globalization. The pro-globalization movement is supported by the 'Globalists' and the anti-globalization movement supported by the 'Sceptics'. Both hold a different perception of globalization. Some of the key arguments of the two are:

1.1.1 Pro Globalization – Globalists View Point

For the globalists "the existence of new global communication systems is transforming relations between physical locales and social circumstances, and altering the 'situational geography' of political and social life" (Held & McGrew, 2002, p.36). To globalists, the current phase of globalization is more open and will have a significant impact on all countries. It will lead to the “financial deregulation and to the explosive growth of global financial markets” (Held & McGrew, 2002, p.119). It enhances the activities of multinationals and will lead to the new global division of labour. The globalists also “reject the assertion that globalization is a synonym for Americanization or for Western imperialism” (Held & McGrew, 2002, p.5).

1.1.2 Anti Globalization – Sceptics Line of Argument

For the sceptics, “the extent of contemporary ‘globalization’ is wholly exaggerated” (Koenig-Archibugi, 2003, p.7). The very concept of globalization is rather unsatisfactory and is a “synonym for Westernization or Americanization” (Held & McGrew, 2002, p.3). They are “doubtful about the novelty and significance of contemporary globalization” (Held & McGrew, 2002, pp.84-85). Sceptics argue that globalization excludes world’s majority from the advantages of economic development. It leads to uneven development. They stress that the continuing primacy of the national governments is not declining and assert that for “the most part it remains the sole sources of effective and legitimate authority in the governance of the world economy” (Held & McGrew, 2002, p.48).

1.2 Globalization: Threat or Opportunity?

The advocates of globalization claim that “opening up to international trade helps economic development” (Stiglitz, 2002, p.4). It promotes trade, investment flows and access to foreign markets. It improves growth rate, reduces poverty and creates new job opportunities (Bardhan, 2007, p.3849). It also “provides greater opportunities for entrepreneurs across the global economy” (Woods, 2006, pp.212-213). In the words of Tong and Hu (2007, p.190), “cross-border investment provides important channels to reduce the technology gap between the developing and advanced world through both direct technology transfer and indirect spillovers".

Many countries have benefited from "unprecedented global flow of capital, human talent, scientific knowledge and other resources that a country's modernization requires" (Zheng, 2004, p.xv). The two most populous countries of the world – China and India – after integrating into the global economy "have seen unprecedented rates of growth for a quarter of a century or more" (Stiglitz, 2006, pp.22-23).

On the contrary, opponents see globalization as "an important cause of global poverty" (Goldin & Reinert, 2007, p.1). It has widened the divisions between "the haves and the have-nots and has left increasing numbers in the Third World in dire poverty" (Stiglitz, 2002, p.5). For those at the bottom, real wages have stagnated for more than a quarter of a century (Stiglitz, 2006, p.272). Moreover, the "income of the richest 1% of the people is greater than the income of 57% of the rest of the people in the world" (Peerenboom, 2007, p.13).

Critics also "see globalization as harmful, bringing about increased domination and control by the wealthier developed nations over the poor underdeveloped countries" (Kellner, 2002, p.286). They also argue that globalization exposes workers and firms of the developing countries to 'unwelcome competition from abroad' (Koenig-Archibugi, 2003, p.2). Further, the developing countries due to lack of infrastructure are not in a better position to obtain the benefits of globalization. It has also reduced the role of the state in economic management and made governments in developing countries to withdrawal from the key social welfare programs. Finally, the inequality associated with globalization is leading to widespread protests, workers unrest across different parts of the world.

1.3 Globalization – Literature Review

Over the past one and half decade, the debate about globalization has been very lively. Some of the important contributions on the theme of economic globalization have been made by renowned scholars like Joseph Stiglitz (Globalization and its Discontents and Making Globalization Work), David Held and Anthony McGrew (Globalization and Anti-Globalization: Beyond the Great Divide, Robert Gilpin (The Challenge of Global Capitalism: The World Economy in the 21st Century), Jagdish Bagwati (In Defense of Globalization) and Thomas Friedman (The World Is Flat: A Brief History of the Twenty-First Century).

Joseph Stiglitz, former chief economist at the World Bank, in his two illuminating books: 1. *Globalization and its Discontents* (2002) and 2. *Making Globalization Work* (2006) analyses the positive and negatives aspects of the economic globalization. He argues that economic "globalization has the potential to bring enormous benefits to those in both the developing and the developed world" (Stiglitz, 2006, p.4). He observes that the "opposition to globalization in many parts of the world is not to globalization per se – but to the particular set of doctrines, the Washington Consensus policies that the international financial institutions have imposed" (Stiglitz, 2002, p.221). In other words, "the problem is not with globalization itself but in the way it has been managed" (Stiglitz, 2006, p.4).

David Held and Anthony McGrew (2007), in the book 'Globalization/Anti-Globalization: Beyond the Great Divide', "evaluates the contending claims and counterclaims of the principal antagonists in the globalization debate: the globalists and sceptics" (Held & McGrew, 2007, p.xi). Globalization "enhances the development prospects of states in the South by stimulating higher economic growth rates, contributing significantly to making the world a less unequal place" (Held & McGrew, 2007, pp. 127-128). According to the authors, addressing the problems associated with globalization "requires a reformed and more robust system of global economic governance that can regulate global markets and redistribute opportunities and wealth" (Held & McGrew, 2007, p.134).

Jagdish Bhagwati (2004), in the book 'In Defense of Globalization', focuses exclusively on the overall benefits of economic globalization. According to him "economic globalization constitutes integration of national economies into the international economy through trade, direct foreign investment (by corporations and multinationals), short-term capital flows, international flows of workers and humanity generally, and flows of technology" (Bhagwati, 2004, p.3). He observes that "the new information technologies have created a landscape where movements of services and capital are faster by several orders of magnitude" (Bhagwati, 2004, p.12). Bhagwati also "recognizes problems with financial liberalization and intellectual property rules, and wisely recommends that governments take steps to protect those who lose out in the transition" (Peerenboom, 2007, p.18).

Robert Gilpin (2000) in the book "The Challenge of Global Capitalism: The World Economy in the 21st Century", observes that there is a "worldwide shift to greater reliance on the market in the management of economic affairs" (Gilpin, 2000, p.15). He argues that "economic globalization presents both threats and challenges for the well-being of peoples everywhere" (Gilpin, 2000, p.16). Although consumers and export sectors within individual nations benefit from increased openness, "there will also be many losers, at least over the short term, as international competition intensifies and as businesses and workers lose the secure niches that they enjoyed in the past" (Gilpin, 2000, pp.15-16).

Thomas L. Friedman (2005), in his book, "The World Is Flat: A Brief History of the Twenty-First Century" analyzes the notion of globalization in the 21st century. He says that "globalization and technology have flattened the world, creating a level playing field in which developed and less developed countries can compete on equal terms" (Stiglitz, 2006, pp.56-57). The level playing field is due to the lowering of trade barriers and advances in information technology. Due to globalization, the historical and geographical divisions are no longer relevant. The dramatic changes in the global economy enabled various parts of the world better connected, more than they have ever been. He also notes that the contemporary phase of globalization is not driven by MNCs or IFIs, but by individuals (desktop freelancers).

1.4 Economic Globalization: A Critical Appraisal

The above literature review on the theme of economic globalization shows that globalization has greatly benefited many people in the world. It has lessened the trade barriers and enabled the free movement of good and services across the borders. The revolution in IT has further heightened the process of globalization. All the authors agree that In spite of tremendous advantages of the globalization; the benefits of it are not reaching to all sections of the people. Globalization has created both winners and losers. It has also widened the gap between the haves and have-nots and caused poverty, unemployment and increased inequalities.

All the authors emphasize on the negative impact of globalization. However, the authors do not provide the specific/concrete solutions (especially in the context of developing countries) on how to fight against the harmful affects of the globalization. This study tries to overcome the lacuna in the existing literature of economic globalization by suggesting some concrete recommendations (for details pl. see conclusion chapter) to over come the challenges or harmful affects of globalization.

CHAPTER II: ECONOMIC GROWTH MODELS OF CHINA AND INDIA: POST 1948

This chapter explains the early development strategy of the two countries. Initially, both China and India came under the influence of the Soviet model and pursued similar development strategies; namely, central planning and rapid industrialization. However, the failure with the soviet model led both the countries to undertake major economic reforms. In the backdrop of these developments, this chapter analyses the reasons for the failure with previous growth model and examines the major factors responsible for the radical changes in the economic models of the two countries.

2.1 Development Strategy of India

In the aftermath of independence in 1947, India pursued a self-reliant and independent development strategy. It opted for a “centrally planned economy with a closed trade regime” (Varshney, 2007, p.96). The state was assigned central role in the overall economic development. Under the planned economy, priority was give for the development of heavy industries and for massive expansion of the public sector. The industrial licensing system was introduced in the late 1940s. Under the licensing regime, many restrictions were imposed on the entry of private and foreign firms in the strategic sectors of the Industry. The export sector was also subjected to heavy licensing. The economic model opted by India was “inward-looking and import-substituting rather than outward-looking and export-promoting” (Das, 2006, p.4).

India was also against opening and integrating its markets with the world economy. One of the main reasons for not integrating is due to its colonial past. In the words of Bimal Jalan (1992, pp.28-29), “the colonial experience was sufficient to reinforce the belief that the free-trade regime was biased against India and … and could not be relied upon to generate growth and improve living standards". Thus, all these perceptions shaped the economic policies of India.

2.1.1 Economic Performance of India

The closed economic model with tighter controls and regulations led to India's slow growth rate. The "economy grew only 3.8 percent between 1951-52 and 1987-88" (Panagariya, 2008, p.3). The Foreign Exchange Regulation Act (FERA), discouraged foreign investments in the key sectors of the economy. The FERA led India "to lose out on the benefits of both foreign technology and foreign competition" (Das, 2006, ibid).

The restrictive trade policies did not allowed Indian economy to "outward-oriented policies that exploited the export potential in labor-intensive products" (Panagariya, 2008, pp.45-46). India's exports were also severely affected due to high restrictions on trade. In a way, India failed to understand that it "could create its comparative advantage through an open trade regime" (Chai and Roy, 2006, p.120).

Apart from the restrictive trade policies, "bureaucratic red tape, administrative procedures, rigid labour laws and poor infrastructure" (Aggarwal, 2006, p.4534) also adversely affected the investment climate in the country. The regulatory state system has "set up an inefficient and monopolistic public sector, overregulated private enterprise… and discouraged foreign investment" (Das, 2006, p.4).

Thus, the early development strategy insulated India from the world markets. It also did not promote efficiency and at the same time stiffed competition.

2.1.2 Factors Responsible For Economic Reforms in 1990s

The centralized planning model adopted by India did not yield the expected results. It led to lacklustre growth rate. As already noted, it created inefficient public sector. The private sector could not flourish due to stringent licensing regime. The foreign firms were not allowed to do business. The exports were severely hampered. It also did not allowed Indian economy to integrate with the world economy. All these factors, some way or the other contributed to the economic crisis of 1991.

In the early 1991, the "foreign currency reserves of the country had tumbled to $1 billion, just enough to pay for two weeks of imports" (Palanivel, 2003, p.37). The "balance of payments situation was almost unmanageable" (Nayyar, 1998, p.3127). The inflation rate was above 15 percent. India also lost access to the crucial financial markets of the world. Its credit rating was downgraded. Apart from these factors, the Gulf War of 1990 also had a tremendous impact on the Indian economy. The War led to the decline in the Indian exports to gulf region and also raised the price of the imported crude oil (India imports 70% of its oil from Gulf region). It also led to the steep decline in the remittances (India has a huge migrant population in Gulf region). All these factors led India to borrow heavily from the International Monetary Fund (IMF) (Bhagwati, 2004, pp.258-9).

2.1.3 Economic Reforms

The economic crisis led India to 'embrace the liberal economic reforms'. Reforms were introduced in all sectors of the economy. The industrial licensing policy was scrapped, tariffs and trade barriers were lowered, import licensing was abolished and cap on foreign direct investment was removed. Disinvestment in nonperforming Public Sector Enterprises (PSEs) was also announced. The reforms also led to "removal of quantitative restrictions on imports and to reduction of peak customs tariff from over 300 per cent to the 30 per cent"

(Goyal, 2006, p.167). Foreign institutions were given permission to ‘buy and sell stocks in Indian firms’ (Varshney, 2007, p.97). It also led to the opening up of the insurance and banking sectors to domestic private players (but not to foreign players). Thus, the economic crisis “allowed India’s integration into the global economy -- and laid the groundwork for the high growth of today” (Das, 2006, pp.4-5).

2.2 China’s Development Strategy

In the late 1940’s, China wanted to “build a socialist society with a high degree of egalitarianism” (Chai and Roy, 2006, p.12). Its development strategy was based on the Soviet model. The “economy was centrally planned and production was exclusively conducted by state-owned enterprises” (Guariglia and Poncet, 2008, p.635). By early 1950’s, the government gained complete control over the economy by eliminating the private sector.

Mao Zedong, the architect of the initial phase of china’s development strategy ‘emphasized on the egalitarian approach towards development’ (Chai and Roy, 2006, p.16). He wanted to build a self-reliant and balanced economy. He gave greater thrust to agriculture sector and established communes in the country side and started collective farming. Under the collective system, “farming was carried out cooperatively at different levels, peasants joined together to construct vast irrigation and flood control systems” (Lotta, 2009, p.30). Furthermore, “rural-based industrialization was promoted to provide modern industrial inputs to support agriculture” (Chai and Roy, 2006, p.16). In order to experience the rural way of life, Mao also sent the educated youths to the country side for two years (Guthrie, 2009, p.32).

2.2.1 Factors Responsible For Economic Reforms in 1979

The centralized planning system "resulted in low efficiencies of the financial sector" (Aziz, *et al*, 2006, p.vii). The total factor productivity (TFP) of China was abysmally low from 1952 to 1980. This was mainly due to two factors: 1. During Mao era, agricultural sector was given prominence over industrial production. 2. China was virtually isolated from the rest of the world, due to its communist ideology. It could not get the much "needed huge imports of western technology and equipment just to maintain the tempo of growth" (Chandra, 2009, p.42). Most of its industries were developed along the Soviet model. The major drawback of this model was "a great deal of scarce raw materials and fuel were "wasted" in production, compared to the prevailing standards in the west" (Chandra, 2009, ibid).

Thus, the initial development strategy of China did not improve the living standard of its people. It widened the "gap between the mainland Chinese and the overseas Chinese living in Taiwan, Hong Kong, Singapore…" (Chai and Roy, 2006, p.18).

2.2.2 Economic Reforms – China

After the death of Mao, Deng Xiaoping took over the reins of China. In 1979, he initiated a series of economic reforms in China. He gave priority to economic modernization over building socialism. The egalitarian policy of Mao was slowly dismantled and collective firms were privatized. He opened the economy to "foreign capital, technology, and competition" (Ahmad, 2008). Deng also initiated the "open door" policy. The policy "embraced foreign trade and investment" (Wu, 2004, p.5). It removed restrictions on the entry of foreign firms. It welcomed the multination companies to start their ventures in China. Many new incentives were also provided for foreign investors. The open-door policy also led to "transfer of foreign technology into China through foreign direct investment (FDI)" (Chai and Roy, 2006, p.19). It also accelerated China's exports. The government also "have set a variety of preferential policies to attract FDI, such as policies on taxation and the use of land" (Fleisher, B., *et al*, 2009, p.8). Above all, the establishment of the township and village enterprises (TVEs) led to the shift of 'rural labor force to industries' (Zheng *et al*, 2009, p.875).

Thus, the reforms (especially the market-oriented and open-door policy) initiated by Deng in late 1970's led to the transformation of Chinese economy from a planned economy to a free market system. It also eventually led to China's "increasing integration into the world economy" (Li *et al*, 2007, p.124).

2.3 China and India Development Experience in Comparative Perspective

In the late 1940's, China and India were influenced by Soviet model and emphasized on planned development through central planning. Both the countries "emphasized self-reliance through local initiatives, restricting the flow of foreign capital and technology" (Ahmad, 2008). Moreover, the "initial conditions of both countries were similar with low income per capita" (Chai and Roy, 2006, p.1). Both the countries were very poor and "suffered from heavy population pressure with limited arable land" (Chai and Roy, 2006, p.5).

The failure with the Soviet model led both the countries to pursue neoliberal economic policies. In the late 1970s, China started "its transition to a market-oriented economy with a gradualist approach" (Pandey & Dong, 2009, p.5). It 'opened the economy to increased foreign trade and investment' (Bajpai, 2006, p.94). On the other hand, India "opened its economy to the world almost a decade after china" (Palanivel, 2003, p.24). It "dismantled a very large part of the previous regulatory regime and moved towards freer trade in goods and services" (Chandra, 2009, p.41).

CHAPTER III: IMPACT OF GLOBALIZATION: A CASE OF CHINA AND INDIA

Chapter three analyses the impact of economic reform liberalization on the two countries. It examines the positive affects of integration of the two countries into the world economy. It argues that the reforms process transformed China and India from desperately poor nations to one of the fastest-growing and largest economies in the world. In a way, the embracing of reforms led to the rise of China and India as major economic powerhouses in the world.

3.1 Impact of Globalization: A Case of India

The initiation of economic reforms in the early 1990s under the banner of Liberalization, Privatization and Globalization (popularly known in India as 'LPG') led to India's spectacular economic performance in the last one and half decade. It placed the 'economy on a long-term growth trajectory' (Panagariya, 2008, p.xviii). The growth rate over the past few years averaged around 8 per cent. The reforms have also lifted "more than 100 million people out of desperate poverty" (Zainnulbhai, 2007, p.9). It also led to the emergence of large middle class, accounting around 250 million.

The process of Globalization led to "increased degree of integration of the Indian economy with the global economy" (Ghosh, 2003, p.4). It also led to the change in the development strategy of India from an "import-substitution industrialisation to an export-oriented industrialisation strategy" (Ghosh, 2003, ibid). The sweeping changes in the trade policies of the country made imports cheaper and accessible to the industry. It also "exposed a large segment of India's industries to international competition" (Chai and Roy, 2006, p.93). Furthermore, trade liberalisation enabled Indian companies for the "multi-billion dollar acquisitions in Europe and North America. In early 2007, Tata Steel acquired the Anglo-Dutch steelmaker Corus and the Indian aluminium firm Hindalco acquired its U.S.-Canadian rival, Novelis" (Ganguly and Pardesi, 2007, p.9).

3.1.1 Surge in Foreign Direct Investment (FDI)

The reforms led to surge in inflow of FDI into the country. The "stock of FDI in India soared from less than US$ 2 billion in 1991, to about US$ 45 billion in 2005" (Chakraborty and Nunnenkamp, 28, p.1192). The service sector accounted for the bulk of the FDI stocks in India. The opening up of markets also led to the entry of new technologies into the country, which in a way contributed to the "productivity growth in the country's manufacturing and service economies" (Corbridge and Harriss, 2000, pp.144-45).

3.1.2 Growth of Service Sector

Due to "globalization not only the GDP has increased but also the direction of growth in the sectors has also been changed" (Goyal, 2006, p.168). It led to the exponential growth of the service sector. It led to India's emergence as the major player in the Information Technology (IT) and IT enabled services. India is now one of the World's most preferred destinations for IT outsourcing. Major firms in the US, UK and other western countries outsource their business, due to availability of skilled workers and cheap labour in India. According to one estimate, the service sector contributes "more than 57 per cent of GDP" (Goyal, 2006, p.168). The "services exports doubled from $26.9 billion in 2003-04 to $60.6 billion in 2005-06" (Panagariya, 2008, p.xvi).

3.2 Globalization and China's Transformation

China has benefited immensely from globalization. It led to the major transformation of the Chinese economy. It "emerged as the third-largest economy in the world in 2004, with total trade of $1.16 trillion" (Guthrie, 2009, p.110). On an average it experienced a high growth rate of over 10% after 1992 (Tuan *et al,* 2009, p.280). It also significantly reduced the poverty levels in both urban and rural areas. Official "Chinese data show a fall in the absolute poverty headcount from 250 million in 1978 to 14.8 million in 2007" (Bramall, 2008, p.44).

The reforms also led to the migration of rural surplus labour to the urban areas (Wu, 2004, p.41). It is estimated that "over 100 million people have left their villages and streamed into cities where manufacturing and businesses boom" (Lu & Song, 2007, p.209). Thus, the reforms created 'floating population' in urban areas and increased the incomes of rural people. It enabled China to create many new enterprises in townships and villages (Stiglitz, 2002, p.183). It also made state-owned enterprises to restructure and to "adopt more market oriented approaches" (Li *et al*, 2007, p.125).

3.2.1 Role of FDI in China's Growth

Globalization enabled foreign multinationals to start their ventures in China (Guthrie, 2009, p.3). It also helped China to "attract a massive inflow of foreign direct investment in the industrial sector" (Chai and Roy, 2006, p.100). Of late, China has emerged as the top destination for FDI. In the words of Zhang and Song (2003, p.77), "FDI has significantly contributed to China's income growth through formatting capital, transferring technology and managerial know-how, generating employment and promoting exports". Foreign capital also "contributed to a substantial proportion of China's exports" (Wu, 2004, p.3). China is now one of the leading exporters of manufactured goods in the world. According to Lotta (2009, p.30), "investment by foreign capital has spawned the development of vast new production complexes in China's coastal areas".

3.2.2 Trade Surplus with US

Today, China enjoys a vast trade surplus with the US. It "holds $ 1.8 trillion in foreign exchange reserves" (Lotta, 2009, p.32). Most of these "reserves are kept in dollars – invested in US treasury securities, US government agency debt, and other financial instruments" (Lotta, 2009, ibid). Of late, China is trying to seek key markets in the third world countries. It is also making huge investments in overseas markets, especially for the exploration of oil and natural gas in Africa, Central Asia and Latin America.

3.3 Impact of Globalization in China and India – A Comparative Perspective

The initiation of reforms led to a dramatic growth of the two economies. Both emerged as the economic powerhouses of the world in the early 21st century. For instance, China has emerged as the world leader in the manufacturing sector and India in the software segment. However, if we make a broad comparison of two economies, China started its reform a decade earlier and is far ahead of India in many sectors of the economy. Prior to the initiation of the reforms, China's growth rate was around 5 per cent and India's was 3 per cent a year. However, in the post-reform period, China's growth rate surged to double digit and the gap in the rates of growth between the two countries further widened.

China "has more aggressively integrated its economy with the world economy through international trade and foreign investment" (Pandey and Dong, 2009, p.2). It could succeed in attracting huge FDI, due to its early initiation of reforms. In comparison with China, India's integration with the global economy is much less. The flow of FDI to India is also very small to that of China. One of the primary reasons for this is "China has 'more business-oriented' and FDI-friendly policies than India. Its FDI procedures are easier, and decisions can be taken rapidly" (Wei, 2005, p.726). When compared with India, China has “more flexible labour laws, a better labour climate and better entry and exit procedures for business” (Wei, 2005, ibid).

In the implementation of major infrastructure projects, China is very fast in implementation. Whereas, in India there is a huge delay in the implementation due to bureaucratic corruption, lack of sufficient funds, cost-overruns and the like. According to Fareell *et al*, (2004):

> “China trumps India when it comes to industries that rely on ‘hard’ infrastructure (roads, ports, power). But when it comes to “soft” infrastructure businesses – India tends to come out ahead, be it in software, biotechnology, or creative industries such as advertising”.

China outperforms India in terms of social and economic development; however, India is well ahead of China in terms of political development. The long-term “benefits of India’s democracy are enhanced by its rule of law and advanced capital markets” (Varshney, 2007, p.106). According to Ahmad (2008), “India has an edge over China in attracting R&D investments due to the availability of more well-trained, English speaking scientists and engineers than in China”. Last but not least, India has a demographic edge over China. More than “half of the 1.09 billion Indians are under the age of 24.9” (Ganguly and Pardesi, 2007, p.13). On the contrary, the China’s has a rapidly ageing population averaging 32.7 years.

CHAPTER IV: GLOBALIZATION, POVERTY AND INEQUALITY: CHINA AND INDIAN EXPERIENCES

The fourth chapter analyses the two key contending arguments of globalization and its impact on poverty and inequality. The pro-globalisers argue that global integration has led to huge decline in the poverty levels of China and India. On the contrary, the opponents point out to the rising inequalities in both the countries due to globalisation. In the backdrop of these developments, this chapter focuses on the issue of poverty and inequality (especially the widening gap between the rich and poor in both the countries). It also examines the reasons for the growing regional disparities in growth of the two countries.

4.1 Does Globalization Reduces or Increases Poverty and Inequality in the Developing Countries?

"Globalisation leads to inclusion for some and exclusion for others or affluence for some and poverty for others" (Nayyar, 1998, p.3129). For pro-globalisers "increased international trade can help to alleviate poverty through job creation, increased competition, improvements in education and in health, and technological learning" (Goldin and Reinert, 2007, p.10). Thus, if managed properly, globalization can help alleviate global poverty.

However, opponents contend that globalization is leading to "economic instability and social dislocation" (Ruggie, 2003, p.97). The income disparities between the rich and poor have amplified. Prevalence of high levels of inequality is leading to rise in crime rates and social instability. Due to globalization, the State is also retreating from the key welfare programmes. It is drastically cutting the social spending. The worst affected by these policy measures are the poor people in the developing world.

4.2 Globalization, Poverty and Inequality: Indian Scenario

As stated in the previous chapter, India's integration with the world led to the uplifting of around 100 million people out of poverty. The "poverty percentage declined from 44.5 per cent in 1983 to 27.5 per cent in 2004-05" (Bardhan, 2007, p.3850). The standard of living of many people has improved immensely. It led to the emergence of a strong middle class. In spite of these spectacular achievements, it is being perceived that the reforms have not benefitted all sections of the society. There are still two Indian economies: "an India of booming businesses, growing cities, and a vibrant middle class and an India of struggling agriculture, poor villages, and a large lower class" (Varshney, 2007, p.99). Around 300 million people in India still live below the poverty line. The conditions of people ridden with poverty are appalling. Due to absolute poverty, there is an upsurge in suicides among male farmers in many parts of India. Extreme poverty is also leading to widespread social unrest and violence in the form of Naxalite movement, widely prevalent in backward states of India.

4.2.1 Growing Inequalities

According to Gurucharan Das (2006, p.14), "India's economic success has not been equally shared. Cities have done better than villages. Some states have done better than others". The poor people in rural areas "consisting of small peasants and rural labourers, are still dependent on direct governmental support for their basic needs" (Chatterjee, 2008, p.59). Due to liberalization, the wage gap between the skilled and less-skilled workers has increased dramatically in the organized manufacturing sector. The people who are highly skilled are well-off in the new economy and those without skill set are lagging behind and are earning very less. In a way, the real wages have stagnated for the unskilled workers in the post-reform period. Furthermore, the software sector which is considered to be the driving force behind current India's economic boom just "employs only 1.3 million people out of a working population of 400 million" (Narlikar, 2007, p.990).

4.2.2 Regional Disparities in Growth

Over the last two decades, there is an "increase in regional inequality, per-capita incomes across states" (Panagariya, 2008, p.162). The rapid growth has been associated with widening disparities between two groups of states in the economic performance. The richer states have benefited hugely from the reform process, whereas the poor states could not reap the benefits of reforms (this is attributed to many factors like poor physical and social infrastructure) process. The fast-growing peninsula states are way ahead of the slow-moving hinterland states. Thus, the uneven distribution of opportunities across the states is a disturbing factor. The "big question is how the lagging states, with their large populations and attendant political power, can catch up" (Subramanian, 2008, p.103).

4.3 Globalization, Poverty and Inequality: The Chinese Context

China growth rate has been remarkable in the last two decades. The reforms "has lifted hundreds of millions people out of extreme poverty" (Peerenboom, 2007, p.1). According to Pranab Bardhan (2007, p.3849), "the proportion of people below poverty line in China fell from 63.8 per cent in 1981 to 9.9 per cent in 2004". Thus, it's "success against poverty since the reforms that began in 1978 is undeniable" (Ravallion and Chen, 2007, p.37). However, critics argue that market-oriented economic reforms led to the income disparities and steep rise in inequalities in the Chinese society. There "is growing polarisation between those with extreme wealth at the top" (Weil, 2008, p.61) and those at the bottom living in absolute poverty. According to Lee and Selden (2008, p.31), "the number of laid off workers in different types of employment, leaped from 3 million in 1993 to a cumulative total of 25 million by the end of 2001, with internal sources giving figures as high as 60 million".

Many poor people do not have access to basic medical care and minimal social welfare. The new left in China argue that the market-oriented reforms led China to move “from one of world’s most egalitarian societies in 1970s” (Lee and Selden, 2008, p.27) to most unequal society in Asia.

4.3.1 Widening Urban-Rural Gap

As noted above, prior to the initiation of economic reforms, China was considered to be an ‘egalitarian society in both the urban and rural sectors’ (Yao *et al,* 2004, p.160). However, in the post reform period, “the urban-rural gap in income and living standards remains large” (Hannum & Wang, 2007, p.29). The Chinese state has also invested massively in the urban and industrial sector at the cost of rural and agriculture sector (Yao *et al,* 2004, p.154). Furthermore, many new jobs are created in “construction crews of China’s mega-projects”, (Lotta, 2009, p.32) located in urban and semi urban areas. According to Guthrie (2009, p.188), “rural incomes in China are only 40 percent of urban incomes, when, in most countries, rural incomes are 66 percent or more of urban incomes in the mid-1990s”.

The increase in unemployment rates in rural areas and widening income between the rural and urban residents led to large-scale migration of rural people to urban areas. Many rural people left to urban areas in search of better opportunities. However, the plight of migrant workers is appalling. The “rural migrants are treated as strangers and outsiders in cities” (Lu & Song, 2007, p.209). They “are ineligible for welfare, medical, educational, or housing benefits to which urban residents of a given area have access” (Guthrie, 2009, pp.195-96).

4.3.2 Regional Disparities in Growth

The reforms process led to lopsided development of regions in China. The benefits of growth have "not been shared equally across China" (Jones *et al,* 2003, p. 186). In the last two decades, "the coastal areas have experienced phenomenal growth while the inland areas have lagged behind" (Wan and Zhang, 2006, p.161). The richest provinces located along the eastern coast are the most favourable destinations for the FDI. Apart from geographical proximity to foreign markets, the availability of good infrastructure, capital and establishment of SEZ's led to the faster growth of coastal regions (Yao *et al,* 2004, p.161). The government also pumped in huge money for the development of coastal areas, "putting the inland areas in a permanently disadvantaged position" (Yao *et al,* 2004, ibid). According to He and Zhang (2009, p.12), "the GDP per capita of the coastal area was about 2.5 times that of the inland area in 2006. In fact, the coastal area accounted for about 90% of China's total trade in the past 10 years".

The existence of income inequality poses a major challenge to China. The "growing disparities (rural-urban, inland-coastal etc.) are cited as reasons for growing social unrest" (Zhang & Kanbur, 2007, p.41). The government should find effective means to end this problem. Moreover, if the regional imbalances are not settled properly "they might one day become a threat to China's social stability and national unity" (Wang, 2008, p.55).

4.4 Globalization, Poverty and Inequality – A Comparative Analysis

Compared to India, the incidence of poverty levels in China is very low. For instance, "over 80% of India's population still lives on less than $2 a day, and this is also true of 35% of China's population" (Lal, 2009, p.42). Furthermore, inequality is India is very high. There is a huge income disparity between the rural and urban people. On the issue of regional disparities, both the countries have uneven development of regions. In China, coastal areas are far ahead of the inland areas. Similarly, in India the peninsular states are well developed, in contrast to the backward hinterland states.

The "employment situation in India is just as grave as, if not worse than, in China" (Chandra, 2009, p.46). Both the countries are worried about creating jobs for the new entrants to the labour force (Stiglitz, 2006, p.44). Increasing signs of social tension in both the countries are seen in the post-reform period. In the name of development of SEZ's, in both China and India thousands of hectares of fertile land is grabbed, leading to the mass displacement of many poor farmers. In few instances, proper compensation is not paid for the loss of fertile agriculture land. Of late, in India there is a lot of hue and cry over the development of SEZs. The government scraped few SEZ projects, due to the stiff opposition from certain sections of the society. China did not face any such problems in the development of SEZs, due to its authoritarian regime. However, in a democratic country like India, the government cannot ignore the voices of the people. It has to accommodate all sections of the society.

CHAPTER V: CURRENT GLOBAL FINANCIAL CRISIS AND ITS IMPACT ON CHINA AND INDIA

The financial crisis led to a dramatic collapse of the free market-based economies for the first time in 75 years, after the great depression of 1930's. Due to the crisis, the banking system in many countries became insolvent, stock markets crashed, millions of people became unemployed. Further, a vast amount of global wealth has washed out (roughly around 40 percent). For the first time after the World War II, the global economy shrunk to below zero. The ramifications of the crisis are felt all over the world. The worst affected by the financial crisis are the developing nations. This chapter provides an account of the current global financial crisis. It highlights the affects of the crisis on China and India and assesses the ability of both the countries in overcoming it.

5.1 Causes for Financial Crisis

The collapse of the sub-prime mortgage loans market has been the root cause of the current financial crisis. The major banks in the US got involved in the sub-prime market. The reason behind this was, because they found it very lucrative. These loans were repackaged by the lenders in the form of securities and sold them to get rid of the risky assets. This market became a crucial element of the international financial system. Thus, the dramatic collapse of this market led to total bank failure and freeze of credit. This crisis first hit the United States and later spread to other parts of the world.

5.2 Impact of the Crisis

The Financial crisis led to the recession of all advanced economies like the US, Europe and Japan. In the advanced economies, "the crisis spread from the financial sector to the real sector" (Subbarao, 29, p.10). The crisis led to the slump in demand, decrease in production, and decline in wealth of the rich and job losses. As part of cost cutting measures, many firms in western countries have resorted to massive layoffs. The US economy was critically affected by the crisis. Top American banks like Citigroup and Merrill Lynch went bankrupt. In order to overcome this crisis, the US government has provided $1 trillion in bailouts in the past 9 months.

The worst affected by the financial crisis are the developing nations. It led to the steep decline in demand for the exports, currency depreciation, reduction in aid from Western countries, decrease in the foreign direct investment (FDI) and remittances from abroad etc., According to a recent International Labour Organization (ILO) Report, roughly around 200 million workers would be out of the jobs in the developing countries by the end of this year.

5.3 Implications for India

Many economists opined – China and India – the two fastest engines of world economic growth in recent years would not be affected by the financial crisis. However, "India too has been impacted by the crisis, but not been greatly affected by the financial turbulence in advanced economies" (Mohan, 2008, p.61). Indian economy slowed as exports (which accounts for 14 percent of Indian GDP) were hit by the financial crisis. Prior to the crisis, India accounted for around 9% growth, however, due to the crisis, growth rates have come down from 9 per cent to 6.7 per cent in the second quarter of 2009. India's $1trillion dollar economy shrank to around $800 billion.

"India's financial markets – equity markets, money markets, forex markets and credit markets – had all come under pressure from a number of directions" (Subbarao, 2009, p.5). Slow down in the services sector, decline in the industrial output, decrease in remittances from abroad, and investments, are some of the other negative aspects of the financial crisis.

Around 5 million people have lost the jobs during the last quarter of 2008 in India (mostly in textiles, gems, jewellery, automobile and IT sector). The farm sector is also badly affected by the crisis.

The government of India and the Reserve Bank of India (Central Bank) have aggressively taken fiscal and monetary policy measures. The government has acted swiftly and has unveiled three stimulus packages (first one in December 08, second in January 09 and the last one in February 09) to stimulate domestic demand and overcome the downturn. In a recent statement, the Reserve Bank Governor stated that the effect of stimulus package is already showing positive signs on some sectors of the economy.

The global economic meltdown did affect India; however, when compared with the other countries, the growth rate of India seems to be very optimistic. Many analysts predict that the basics of Indian economy are very strong. “The Indian banking system has had no direct exposure to the sub-prime mortgage assets or to the failed institutions. It has a very limited off-balance sheet activities or securitized assets” (Subbarao, 2009, p.3). Banks are well capitalised. Furthermore, the households’ saving is high in India, which is a good sign for growth. The release of the annual economic survey by the government in the first week of July 09, predicted that India growth rate ‘could rise to near 8 per cent this fiscal year’. If the projections of the report come correct, then the economy will be defying the global downturn. This means, India’s economy will pick up faster than others, once the revival begins and could be engine for global growth.

5.4 Implications for China

Some economists anticipated that China will be not affected by the crisis. However, impact of the crisis was quite evident on the Chinese society. Prior to the crisis, China averaged double-digit growth. But in the first two quarters of 2009, the growth rate slowed to around 7%. China's exports were hard hit by the current financial crisis. According to some estimates, China's exports fell by 26.4% by the end of the first quarter of this year. The decline in China's external demand stalled its domestic industrial production. Its low priced manufacturing sector especially electronics, clothes and steel were severely affected. Half of Chinese toy manufactures were out of business due to the decline in external demand (Weil, 2008, p.66). It is estimated that round 20 million people lost their jobs since the beginning of crisis in China. Furthermore, the "Stock markets have plummeted, and property values have fallen 30-40% in many cities" (Weil, 2008, pp.68-69).

In response to the financial crisis, the government of China acted swiftly. It undertook various monetary, fiscal measures. In November 2008, it announced a massive US$586 billion stimulus package, in order to encourage growth and boost the domestic consumption. The package main purpose was to boost the crucial areas of Chinese society like infrastructure investment, disaster rebuilding and the like. The People's Bank of China has significantly cut the interest rates. In order to encourage the real estate sector, the government exempted taxes on properties and land. It has also proclaimed greater rebates on taxes charged to exporters.

Unlike in the western countries, China's economic is not in recession and very less affected by the market meltdown. Its double digit growth has slowed down and export sector was the worst hit. Many economists contend that since China's capital market is not fully open and its financial industry only in the infant stage, it will be less affected by the crisis. Furthermore, China has around $2 trillion in foreign exchange reserves, which can increase the growth rate of its economy. Its savings ratio (on an average a Chinese households save 40% of their income) can fuel demand and cope with worst disaster.

The current growth indicators of IMF show that China is fast recovering and will resume growth. It projected an 8 per cent growth rate for China for the current fiscal year. Thus, with its solid regulated banking system and huge foreign exchange reserves and domestic savings, China can be back on its double digit growth track, within a short span of time.

5.5 Financial Crisis – Is China and India Defying the Global Downturn?

China and India the two worlds' fastest growing economies were spared by the ravages of the current financial crisis. Unlike the advanced economies, both the countries are not in recession and are very less affected by the economic meltdown. Only the growth has slowed down and exports have declined. In the second quarter of 2009, the growth rate of both the economies seems to be very optimistic. As noted above, China and India are projected to record growth rates of over 7 to 8 per cent in current fiscal year. Many economists opine that growth rate in two countries will stop the world from recording negative growth in 2009. If these projections are correct, then both the economies will be defying the global downturn. This means, the two fastest engines of world economic growth in recent years would pick up much faster than others anticipated, and could be engine for global growth. Thus, In spite of slowdown in global growth, China and India have emerged as a relatively stronger in contrast to West. This indeed is a remarkable achievement to both countries.

Finally, the crisis also provided a real opportunity for both the developed and developing countries to get rid of their differences and act in a concerted and coordinated manner. The Group of 20 (G-20) held in London during the first week of April 2009, provided a ray of hope for ending the current financial crisis. The G-20 member countries promised a massive package of $1.1 trillion to restore credit and growth in the global economy. One of the positive outcomes of the meeting was that all the countries unanimously rejected protectionism.

CONCLUSION

Globalization leads to ‘closer integration of the countries of the world’ (Stiglitz, 2006, p.266). It lessens the trade barriers and enables the free movement of goods and services across the border. It opens the doors for new markets, technology and promotes economic growth/development. It also generates many opportunities and has the potential to raise the living standards of the people. In the words of Goldin and Reinert (2007, p.47):

> “International trade is potentially a powerful force for poverty reduction. Trade can contribute to poverty alleviation by expanding markets, creating jobs, promoting competition, raising productivity, and providing new ideas and technologies, each of which has the potential for increasing the real incomes of poor people”.

Over the past two decades, globalization has indeed benefitted many people in the world. It ‘helped hundreds of millions of people attain higher standards of living’ (Stiglitz, 2002, p.248). However, the benefits of globalization have not reached all sections of the people. Number of people living in abject poverty is not declining. The gap between the haves and have-nots has further widened. Unemployment, inequalities and insecurity have increased. In a way, globalization has caused exclusion and marginalisation of certain sections of the people.

One thing is for certain, globalization is going to stay. “We cannot go back on globalization” (Stiglitz, 2002, p.222). It is an irreversible process. The biggest challenge is how to reshape and make globalization work. If the benefits have to reach every one, the first priority should be to give greater voices to countries affecting them. The International Financial Institutions’ (IFIs) should be made more democratic, accountable and developing countries should be given better representation. Some of the key developing countries should be allowed to participate in the decision making process of IFIs. Second, the developing countries should make necessary investments in ‘human capital’. This will entail them to take advantages of the market-based economic growth and will enable them to overcome twin problem of poverty and inequality. Developing countries should also improve their physical infrastructure, in order to reap the benefits of free trade and economic integration. Third, governments in developing world should provide various kinds of safety nets and social insurance to the poor. This will benefit the people, who lose their jobs. It will also prevent the poor from falling into the poverty trap. In order to overcome the twin challenges of poverty and inequality, ‘inclusive’ growth model seems to be prudent for developing countries. As it ensures social sustainability, promotes growth and alleviate poverty. Finally, there should be a concerted and coordinated efforts among developed and the developing world, in order to fight against the harmful effects of globalization.

Coming to the question of globalization and its impact on China and India, without hesitation it can be said that both the countries have immensely benefitted. In the case of China, globalization led to its radical growth rate. Over the past one decade, China is maintaining a double digit growth. It has emerged as the third largest economy in the world. It also emerged as the world’s manufacturing hub. It is now one of the world’s largest recipients of the FDI. Its growth rate pulled millions of poor people out of the poverty trap. The reforms also led to large-scale migration of rural people to urban areas.

However, In spite of the remarkable growth rate, China has lot of inequalities. The “growing disparities (rural-urban, inland-coastal etc.) are cited as reasons for growing social unrest” (Zhang & Kanbur, 2007, p.41). If the regional gaps are not addressed properly they “might one day become a threat to China’s social stability and national unity” (Wang, 2008, p.55).

In order to overcome regional imbalances, China needs a clear regional development strategy. It should invest more in the backward regions. Industrial projects should be taken up in the backward regions to generate employment and reduce regional income gaps. It should also provide tax holidays/incentives, inorder to encourage both domestic and foreign players to start their ventures in backward and underdeveloped regions.

China’s growth is heavily dependent on the manufacturing sector. The service sector faired better, but the agriculture sector did not perform well in the last two decades. In order to overcome the imbalances in the economy, the Chinese government should also invest in the agriculture sector. Since a large chunk of the population lives in rural areas, it should encourage rural based industries. This will generate employment to millions of poor people living in rural areas. It will also stop mass migration of rural people to urban areas and will increase the income levels of the poor.

In order to address the twin problems of poverty and inequality, the government should provide public goods and services and improve the education and health services in the rural areas. No doubt it needs more growth, but obviously, it should be more pro-poor/equitable and high quality growth.

China has not undertaken major reforms on the political front. It is still not a democratic and open society. It has an authoritarian regime. It has a very bad human rights track record and the rule of law does not prevail. All these factors are a major cause of concern. Sooner or later China should reform its political institutions, otherwise, it will have a negative consequences in the long run. It might even have an impact on its growth rate.

Globalization led India to integrate into the world economy. It led to India's massive growth rate. Over the past four years, it is maintaining an average growth rate of 9 per cent. It has emerged as the major leader in the software sector. It is also now one of the world's major favourite destinations for outsourcing. The pro-market reforms lifted more than hundred million people out of the poverty trap. It also led to the emergence of huge middle class, who purchasing power augmented greater consumerism.

However, in spite of outstanding growth, millions of people in India still live below the poverty line. More than 70 per cent of its labour force depends on Agriculture. It is a highly unorganised sector and the labour does not have any social security benefits. Furthermore, agriculture in India depends on monsoon and does not provide continuous employment to farmers throughout the year.

In order to reduce both rural and urban poverty and to move bulk of the workforce out of the agriculture sector, the government should invest heavily in the manufacturing sector (unlike in China, manufacturing sector in India did not develop to its full potential). It should establish 'small-scale and light manufacturing industries' to generate employment in the countryside.

Furthermore, to make the reforms beneficial and reach the poor, the government should invest more in education and health sectors (India invests very less when compared to China). As Nobel Prize winner Amartya Sen has rightly pointed out 'unless, the poor in India are better educated and gets good health care, they cannot reap the benefits of reforms'.

In India, infrastructure hasn't kept pace with economic development. Currently, there is a huge gap between demand and supply. The widespread prevalence of corruption, bureaucratic delays, non-availability of funds is hampering the execution of major projects.

Unless, these bottlenecks in infrastructure are removed, India's growth cannot be sustained. To fasten up the infrastructure projects, 'Public-Private partnership' model should be encouraged. It should also invite foreign players in this sector.

India also requires continued long-term reforms in the financial sector in order to sustain its growth rate. For this purpose, it should open up its insurance and banking sector to foreign players. It should also remove the present cap on FDI and lower the tariff rates. It should also allow foreign universities to start their operations in India. This will enable competition, increase quality and will give a big boost to the education sector.

Finally, on a positive note, globalization has provided a window of opportunity for China and India to integrate with the world economy. The market reforms led to the massive growth of the two countries. With in a short span of time, both the countries have emerged as the two fastest engines of world economic growth. Even in the current financial crisis also both the economies defied the global downturn. China and India growth seems to be very optimistic. This indeed is a remarkable achievement to both the countries.

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