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## Background: Reforms in China and India

China and India, the two most populous nations in the world, have experienced considerable changes, in particular in more recent decades when both countries embraced market-oriented economic reforms. In order to have a better understanding of the contextual factors influencing the changes of business and management practices in both countries, this chapter provides some background information about the two societies in transition, in particular in the areas of economic development and social changes. In the following sections, we present the economic and social transformations in China and India first and then analyze them in a comparative manner.

### The Economic Reforms in China

The adoption of market-oriented economic reform in China was not easy. The period of turmoil at the end of the Cultural Revolution (1966–1976) led people to question the conventional socialist planning, policies, and systems. In fact, the entire national economy had nearly collapsed by the end of 1976. In order to revitalize the national

economy, the Chinese Communist Party's (CCP) Central Party Committee gradually shifted the focus of national policy from the so-called 'continuation of class struggle' to a policy of 'economic construction', starting with reform in rural areas with a new system of 'household responsibility system' to replace the People's Commune system (Hsu 1991; Riskin 1988).

After the initial rural reforms, the national economy recovered, with at least a plentiful food supply and most of the population no longer experiencing starvation. Such successful reform built confidence among the party leadership led by Deng Xiaoping (paramount leader who led behind the scenes), Hu Yao-bang (General Party Secretary), and Zhao Zi-yang (Premier), and hence, further reform in other areas was initiated. Other reform areas included the fiscal system where greater enterprise autonomy over decisions concerning investments was allowed and after-tax profits among state-owned enterprises (SOEs) were allocated, as well as the opening up of the economy for domestic private enterprises (DPEs) (Wong 1995; Blejer 1991; Li 1991). Banking and financial system reforms were also implemented by introducing a system which encompassed a central bank, commercial banks, investment banks, financial companies, and new local money and stock markets (Yang 1995; World Bank 1988). Further reform on regional economic development was carried out, such as establishing Special Economic Zones (SEZs), and Open Cities and Open Regions on the East coast (Webber and Zhu 1995). By adopting a step-by-step approach, eventually the entire country adopted these economic reforms and opened up to international trade and investment.

The characteristics of China's reform have been described as "pragmatic" based on Deng Xiao-ping's famous statement of "crossing the river by feeling the stones" (Zhu and Warner 2002). Hence, the transformation of the economic system from a centrally planned one to a market-oriented one could not occur overnight, unlike the changes in Russia through so-called 'shock therapy'. In fact, China had experienced a period of dual planned and market system between the 1980s and early 1990s (Zhu et al. 2010). The evolution of economic reform and development in China in the past 38 years can be divided into five stages of development with different ideological debates and

interpretation by the ruling elites regarding the reform agenda (Zhu and Zhao 2005; Zhu and Webber 2017): namely 1978–1984, 1984–1992, 1992–2002, 2002–2013, and 2013 to the present time (i.e., 2017).

The first stage from 1978 to 1984 can be described as a break from the fully controlled planning system through the introduction of market adjustments complementary to the planned economy (Zhu and Zhao 2005). The ideological argument for such a policy was based on Deng Xiao-ping's new ideas of "socialism could have market economic elements and capitalism could have planning elements" and "no matter white cat or black cat, as long as the cat can catch a mouse, it would be a good cat". The intention of this argument was to blur the boundary between socialism and capitalism; China needed to develop its economy with a less ideologically driven policy. Based on this approach, China's economic systems had two parts: a planned economy which managed national economic activities and people's lives in the society; and a market economy which would facilitate the realization of production efficiency through the utilization of economic mechanisms and market means (Zhu and Zhao 2005; Zhu et al. 2010).

The second stage from 1984 to 1992 included the new concept of a planned commodity economy to correct the conventional view of the socialist economy. It suggested that the socialist economy should also follow the rule of value, and therefore, autonomy of economic actors in relation to decisions on production, market sales, and pricing was crucial for the success of economic reform. Since 1985, the so-called 'systems reform' was fully implemented and marked by an increasing free market for agri-products and consumption goods, while industrial materials started to develop a parallel system with a partially planned and a partially market component. Managerial autonomy was also expanded at the enterprise level and market competition started to play an important role in influencing price and decision-making on production and sales (Zhu and Zhao 2005; Zhu et al. 2010).

The third stage from 1992 to 2002 was characterized by an even more significant shift in political thinking on the transition from a planned to a market economy with the claim of "establishing a socialist market economic system". In order to move to a fully developed socialist market economy, new economic policies were required. One of

the key policies was the encouragement of the private sectors, namely domestic private enterprises (DPEs) and foreign-owned enterprises (FOEs). Meanwhile, further reform of SOEs was to be carried out through corporatization (regrouping large- and medium-sized SOEs and changing them into public joint stock companies) and privatization (selling small SOEs to domestic or foreign owners), the famous slogan of “holding the big ones and letting go the small” (Zhu et al. 2010). Following the step forward taken in relation to ownership diversity, a number of comprehensive initiatives were also implemented, including the establishment of modern management systems, changing government function towards a service orientation, and the development of rational individual income distribution systems and social security systems (Zhu and Zhao 2005; Zhu et al. 2010).

The fourth stage from 2002 to 2013 marked a crucial stage in the development of an improved socialist market economic system, given of the considerable turmoil taking place during this time, including the global financial crisis (GFC) in 2008. As the economic reforms deepened, many problems emerged along the reform process such as the mismatch between the challenges of market competition and the existing public sector’s inability to cope with such challenges; insufficient government transformation of its responsibility with substantial political and administrative interferences; incomplete market systems and regulation, and lack of law enforcement and the ‘rule of law’; and limitations on the development of non-public ownership economies. The concept of market economy in general and ‘user pay’ in particular added substantially to the financial burden on household and individual livelihoods, including more expenses on education, medical care, housing, and retirement. In order to confront these challenges, the central government outlined five general principles that would allow for a balanced and systematic approach to economic development, namely: (1) balancing urban and rural development; (2) reducing the disparity between different regions’ development; (3) considering a harmonious development pattern between factors of social and economic development; (4) balancing human needs and development and sustainable environmental conditions; and (5) managing the balance between domestic market

development and international trade and investments (Zhu and Zhao 2005; Zhu et al. 2010; Zhu and Webber 2017).

The fifth stage from 2013 to the present has been described as re-centralizing political control while further developing market economy through more institutionalized control, the ‘rule of law’, and engagement with the global economy under the new CCP leadership. Since late 2012 and early 2013, Chinese economic reform has taken a new direction labelled “Chinese economy in dual transition” led by a new CCP leadership team under President Xi Jin-ping and Premier Li Ke-qiang (Li 2013). The dual transition refers to a transition of the economic system and a transition of the development model, with more emphasis on economic and social sustainable development (Li 2013). The goal of further economic reform under the new leadership is to realize the so-called ‘China Dream’.

According to Khun (2013), the Chinese Dream has four parts: Strong China (economically, politically, diplomatically, scientifically, and militarily); Civilized China (equity and fairness, rich culture, and high morals); Harmonious China (amity among social classes); and Beautiful China (healthy environment and low pollution). Khun states that ‘a moderately well-off society’ is one in which all citizens, rural and urban, enjoy high standards of living. This includes a doubling of the 2010 GDP per capita (approaching \$10,000 per person) by about 2020 and completing urbanization (to roughly one billion people, 70% of China’s population) by about 2030. ‘Modernization’ means China regaining its position as a world leader in science and technology as well as in economics and business; the resurgence of Chinese civilization, culture, and military might; and China participating actively in all areas of human endeavour (Khun 2013).

Based on the new principles of economic reform and new directions for the nation to move forward, the new leadership team seems to have responded to the criticisms of the mid-2000s by setting up a new agenda to address the negative consequences of the previous stages of economic reform. These criticisms include: serious official corruption and misuse of power (for example, not respecting property rights by using force to evacuate citizens from their homes or land for so-called

‘development’); social and economic inequality at individual and spatial levels; and environmental and moral degradation. The new leadership team believes that one of the important causes for serious corruption and misuse of power was the lack of a comprehensive institutional environment, particularly a lack of “rule of law” and “legal enforcement” (Yang 2015).

A Northian approach to New Institutional Economics has had a strong influence on Chinese economists and policy makers (Li and Trautwein 2013). Under the influence of North’s approach, both the Chinese leadership and a number of leading economists (including Lin 2009; Xu 2011) have paid particular attention to the criticism made by new institutional scholars regarding “the Chinese puzzles”—the “poor institutions, poor legal protection of property rights, poor corporate governance, lack of democratic accountability, and an absence of the rule of law” (Xu 2011, p. 1080). By addressing these issues, the new leadership aims to create new economic and social norms that would strengthen the weaknesses identified above.

So far, the economic reform and development initiatives in the last three decades have been associated with both positive outcomes and negative consequences. The positive outcomes can be seen to include high economic growth with dramatic reduction of the number of citizens living below the poverty line, better economic, infrastructure and investment environments, better educated and trained younger generation of workforce with higher know-how and technological development, healthier legal frameworks, larger foreign currency reserves and foreign direct investment, more Chinese companies (both SOEs and DPEs) investing overseas, and overall higher national and individual incomes with an emerging middle class (Zhu et al. 2010; Zhu and Webber 2017). However, the negative consequences of past growth strategies have also become apparent, with increasing income inequality both at personal and at regional levels, disparity between rural and urban citizens, environmental degradation, and on-going human rights abuse and political control over freedom of press, freedom of associations, and freedom of social media (Zhu and Webber 2017). For instance, the Gini coefficient reached 0.47 in 2014 (CIA 2015), which

was much higher than other Asian economies and beyond the danger line of 0.45. These economic transformations were also accompanied by social changes.

## Social Changes and Implications of Reforms in China

In terms of the social changes in China, we can provide a summary of five important social changes. The first change was population policy with the early years of reform emphasizing a reduction of the total population by introducing a 'one child policy' (Li 2008). This policy substantially affected the birth rate and the total population growth rate, but also had some negative effects such as contributing to an aging society quickly and creating an imbalance between the birth rate of boys and girls. In addition, a spoilt generation of children has grown up in one-child households, possibly having long-term consequences for the maintenance of social harmony. Under such social pressures, the central government has replaced the 'one child policy' with 'two children policy' in 2016 in order to correct the negative influence on the initial population policy formed in the early 1980s (Zhu and Webber 2017).

The second major social policy change was in the area of employment relations. Under the market economic reform, workers no longer have long-term job guarantees under the fixed-term employment contract arrangement, though they have access to a variety of forms of social insurance. Changing jobs, re-employment training, and increasing the importance and activities of job markets have become the new social norm on the employment relations front (Zhu et al. 2010).

The third significant social policy change was the adoption of anti-poverty policies to assist in improving the living standards of the poorest segment of the population, in particular in remote rural areas. Another way to reduce poverty was to encourage rural–urban migration through industrialization programs in both large and small cities and townships. Therefore, industrialization and urbanization have been two major initiatives for poverty alleviation (Zhu et al. 2010).

The fourth substantive social policy changes were in the area of education. The university system was re-opened in 1977 through the re-implementation of a national higher education examination system. In 1985, the central government passed a policy on the reform of the education system and established a 9-year compulsory primary and secondary education system. In addition, from 1999, the government has allowed universities to expand their student intake beyond their allocated number by charging full fees (Li 2008). Hence, money generation has become one of the major tasks among Chinese universities as in other Western countries.

The final area that we will consider is the change in social management policy. The term ‘work-unit’ (*danwei*) in China means considerably more than the equivalent term of ‘workplace’ in English. Prior to the period of economic reform, the ‘work-unit’ had full responsibility for its workers, typically covering the entire life of the worker which in Chinese was expressed as ‘from cradle to grave’ welfare system. This system led workers to develop a strongly dependent relationship with their enterprise, adding a substantial financial burden to each work organization. Since the beginning of economic reform, this enterprise-based welfare system has gradually been diminished through two key mechanisms: (1) social welfare responsibility has been devolved to the individual worker by means of market mechanisms such as individual responsibility for housing through housing commercialization and insurance through social insurance systems (Li 2008); (2) the diversity of employment status and new employment systems created an environment that enabled individuals to determine where they worked and who they worked for (i.e., for others or for themselves). These reforms can be best summarized as changing individuals from a “work-unit person” to a “social/society person” (Li 2008). In such a new environment, many individuals gave up their wage-based work and embraced entrepreneurial activities.

These economic and social transformations have had a significant impact on individuals, enterprises, and the society as a whole. In order to understand more about these contextual factors influencing business/management practices, we will focus on the micro and meso-level analysis in the following chapters.



One of the biggest achievements has been the rapid urbanization and infrastructure-led development that has catapulted China into centre stage of the world economy; however, this has also come with a huge price tag. For instance, while China's road network has tripled in the last two decades and massive urban growth has been achieved, two-thirds of China's cities lack potable drinking water, and almost as many lakes have high chemical pollution (Bachmann and Burnett 2012).

Likewise, on economic front, China's debt is at an alarming level of 250% of its GDP, much of which is accounted for by the non-financial sector which may lead to systemic problems (Agence France-Presse 2016). To put this in perspective, the debt to GDP ratio of India was 66.1% in 2014. China's stock market has shown a strange pattern that is not aligned with the country's GDP growth. The SSE (Shanghai Stock Exchange) Index in June 2014 stood at 2075 which is roughly the same level that it was in 2000 (Perkowski 2015). Put simply, even with China's GDP increasing 8.5 times from \$1.2 trillion to \$10.4 trillion, the country's stock market has not shown any sign of growth (Perkowski 2015). However, this is not to say that the SSE index has not seen any level of volatility during this time period.

In the following sections, we endeavour to highlight some of the burning concerns regarding the social implications of the reform which influence the outcome of the policy directions.

There have been multiple implications of reform on the social front. Economic prosperity due to economic reforms has managed to lift over 200 million people from poverty; however, the general feeling is that society has become more unequal and unfair over the past two decades. For example, even though the number of billionaires (in terms of US\$) has grown from 1 in 1999 to 106 in 2007, the share of wages as percent of GDP has fallen from 53% in 1992 to 40% in 2006 (Hart-Landsberg 2008). Similarly private consumption as percentage of GDP also declined from 47 to 36% during the same period. This shows that there was a sharp decline in the income of common people (Hart-Landsberg 2008). Another strong indication of growing disparity is the data relating to average wealth per person in China. It is reported by Tobin (2011) that while the average wealth of a Chinese person was \$17,126, the median wealth was just \$6,327 during that time period.

When speaking of disparity and inequality due to market reforms in a proclaimed communist state, it is also important to take note of another widespread inequality between urban and rural population. The *Hukou* (household registration) system classifies every household as rural or urban, and restricts movement of rural people to urban areas. Social benefits, health, and education-related benefits provided by the government are restricted to the region to which a person belongs, and moving away means forgoing those benefits. This has restricted rural-to-urban movement and has been credited with a planned urbanization in China that is devoid of slums and ghettos (which are often seen in other countries in Asia and Latin America); however, it has resulted in the severe neglect of rural areas. This has forced people from rural areas to migrate to urban areas, even though it means that forgoing government provided benefits; these are also the people who are vulnerable to exploitation. In 2011, it was estimated that there were 253 million migrant workers (Project Partner Org 2016). Approximately 70% of manufacturing is carried out by such floating populations of migrant workers from the countryside. These people earn a quarter to a half of the wages that a *bonafide* urban resident receives, consequently also brewing social disharmony.

It is reported that some provinces have been neglected by the government and no effort is made to provide even basic infrastructure. This has resulted in poor income for people residing in these areas. It is reported that in 2010, rural residents had an annual average per capita disposable capital of \$898 which is substantially below the average of \$2,900 for an urban resident (Tobin 2011).

More than 50% of China's population lives in urban areas and it is claimed that China has almost eradicated urban poverty (Stuart 2015). This is based on the claim that the government provides subsidies to urban dwellers to raise their income to a minimum level. In addition, it is claimed that China's resilience to reduce poverty accounted for three-quarters of the global poverty reduction between 1990 and 2005 (Stuart 2015).

Despite the above achievements, there are varying data on the existing level of poverty in China. While some claim that 82 million people still live below the poverty line, others may argue that at least one in

ten people remains poor (which equals to roughly 130 million people) (Iaccino 2014; Stuart 2015). However, Zeng Wen-kai (Director of the State Council Leading Group Office of Poverty Alleviation) states that the number could be around 200 million if international standards of poverty are applied (Iaccino 2014).

A vast majority of the people who are below the poverty line are those who have a rural background. Despite some positive policies to improve their living standards (such as the abolition of the 2000-year-old grain tax or not forcing farmers to sell their crop to the state), they still remain in misery. Their land entitlements are unclear and they are often removed from their land without due compensation.

The number of poor in urban areas is also swelling. Over 20 million urban people and 50 million people in rural areas receive the 'Minimum Livelihood Guarantee'. However, it is estimated that only one-third of those eligible may be receiving this benefit (Wasserstrom 2015).

The exploitation of rural people and rural migrants to the cities is often the cause of large-scale public order disturbances, which have steadily been rising. The number of such public order incidents rose from 58,000 in 2003 to 94,000 in 2006 (Hart-Landsberg 2008). This has a destabilizing impact on the society.

An issue closely related to poverty is hunger and mortality. Due to proactive steps by the Chinese government, hunger is no longer a grave problem; however, access to an adequately nutrient rich diet is a problem. For example, a third of the 88 million children (aged 6–15) living in the poorest rural areas suffers from anaemia due to iron deficiency and about one in ten shows stunted growth due to malnutrition (The Economist 2014).

Similarly, while there has been a significant drop from almost 67 to 70% in children and maternal mortality rates in China since 1990, there are significant differences in the mortality levels between rural and urban China. The mortality rates in rural areas in China appear to be four to six times higher when compared to urban figures (UNICEF 2007). The maternal mortality rate among the poorest fifth of the population is 73 per 100,000 live births (The World Bank 2015).

Having discussed changes within the Chinese context and their implications, we will now proceed to discuss a similar phenomenon in India.

## The Economic Reforms in India

Political elites in India, particularly nationalist leaders during the time of the independence movement, were attracted to socialism due to the existence of a poor mass population—gaining their support by adopting socialism could provide legitimacy for the regime. Even then, ‘socialism’ was not part of the Indian constitution until 1976 when the Prime Minister Indira Gandhi decided to formally introduce the system when she usurped democracy by imposing ‘Emergency Rule’ in the country. The ideals of socialism also impacted polity and society, influencing several mass movements. One such movement was the *Bhoodan* (Land Gift) movement. Several current generation political parties (such as the Samajwadi Party, Janta Dal, and Janta Party) have their roots in socialist ideology.

It is not surprising to note that India for nearly 45 years after its independence embraced a socialist ethos which was reflected in its economic policy formulation and implementation. This, however, changed substantially after liberalization and since economic reforms began in 1991 following the debt crisis when India had to pledge national gold reserves in lieu of loans from the IMF (Weinraub 1991). Most of the directions for economic reforms in India were thus initiated upon intervention of foreign institutes such as the IMF or World Bank (Weinraub 1991). Therefore, it is reasonable to divide the economic history of India into these two episodes (Gosai 2013).

Considered a ‘centre-left’ party, the Congress Party government decided to adopt a ‘mixed-economy’ following independence. In doing so, Das (2013) believes that the government followed the worst constituents of capitalism and socialism; yet, the results would have been better if policy makers and bureaucrats had been sincere in their implementation. For example, India reserved several sectors in manufacturing, such as garments, leather goods, toys, and even

electronics (like televisions and air conditioners), for small-scale companies which were mainly privately owned, whereas China and several other East-Asian countries encouraged large-scale companies in precisely those sectors. With regard to selecting industrial locations with a view to promoting export, China encouraged foreign trade and investment activities starting from the East coastal regions, while India paid more attention to the principle of balancing regional growth across the country, with many tax concessions given for industrial setups in remote inland or difficult-to-reach areas. China's approach was more pragmatic, creating more successful outcomes than India. Das (2013) provides several examples to prove how this impacted efficiency of companies and distorted the market in India.

While the above instances may inadvertently suggest that policy makers were consistent in their 'socialist' agenda and had a genuine interest in bringing about equitable growth of rural areas and deprived regions, many other practices were antitheses to this view. For example, no genuine and concerted effort was made to bring about land reforms that would have uplifted the vast majority of the poor dependent on agriculture for their livelihood. Although growth and a foundation for development in several other countries (such as China, Russia, and South Korea) depended on this very aspect, India tried to preserve the feudal structures which formed the basis of the ruling elites' feudal system (as will be discussed extensively in Chap. 4).

Focusing on 'self-reliance' and 'self-sufficiency', the pre-liberalization phase also saw the dominance of public sector undertakings, similar to the Chinese 'SOEs'. This phase also led to the era of the 'licence raj' characterized by "multiple controls over private investments", including limiting the sectors in which investments were allowed, the place of investment, and even the technology to be used (Ahluwalia 2002). This licence raj led to monopoly and nepotism which continuously influence business practices still today. The trade policy was characterized by high tariffs and imports of consumer goods were banned by adopting the so-called 'import substitution policy'. There were severe restrictions on foreign direct investments (FDI), accompanied by very bureaucratic procedures.

The above policies, their poor implementation, and mismanagement had a crippling impact on the society and economy of India. The deteriorating economic situation and a debt crisis forced the Narasimha Rao government in 1991 to take bold market reform initiatives that set India in the path of economic liberalization. Among the series of steps taken, some noteworthy ones included dismantling the licence raj, reducing tariffs, encouraging FDI, and privatizing PSUs (public sector undertakings) (DeLong 2001). Successive governments have carried forward this liberalization agenda to the present, albeit with much resistance from different interested groups, particularly local businesses, as far as reducing tariffs and encouraging FDI are concerned.

Unlike economic reforms in China that were driven by a national purpose, India's 1991 economic reforms (i.e., so-called 'liberalization') were driven by the financial crisis and lacked any political conviction with a strong basis in the aspirations of the Indian masses, being primarily influenced by international governing bodies like the World Bank (Ninan 2015; Kishwar 2006). It is not surprising that the two countries have taken very different trajectories since their reforms. In China, SOEs continued to play a very dominant role in the nation building exercise, in addition to China as a country taking measures to create robust domestic private companies and attract a large number of foreign MNCs. In contrast, India's PSUs that had been favoured, nurtured, and invested in by Indian policy makers since Independence and were celebrated as major contributors to nation building started to lose credibility and were widely criticized and discredited for poor performance. Swayed by the prosperity of the western developed world, Indian policy makers who were once highly committed to Nehru's socialistic ideals were drawn to the idea of complete and gratuitous privatization. At the same time, the Indian public, particularly the intelligentsia, elite, and middle class, found the remarkable story of entrepreneur-led growth and development of *Amereeka* (America) very liberating and exhilarating. This provided a perfect opportunity for politicians and bureaucrats to capitalize on this trend and use policy to further their own interests. This also sowed the seeds for the growth of India's own billionaire entrepreneurs; many of whom created their enterprises at the expense of state and public money and

resources. In fact, by devaluating former public companies through privatization, many state assets were transformed into private ownership. Mismanagement of the public sector and ‘privatization of everything’, which has been argued by policy makers to have been the *raison d’être* for India’s current growth and development framework, became the source of most socio-economic problems in India, as will be discussed in greater detail in subsequent chapters.

More recently, in 2016, another set of major economic reforms have been implemented through tax reforms and the introduction of GST (Goods and Service Tax) by means of 101st Amendment Act to the Constitution of India in 2016 (The Law Ministry). A four-tiered GST structure ranging between 5 and 28% replaced all indirect taxes levied by the central or state government in India on goods and services (PTI 2016). This major regulatory change is likely to ensure an integrated tax structure that will provide a comprehensive and a continuous mechanism of tax (Express News Service 2016). These reforms are likely to abolish the cascading burden of ‘tax on tax’ and the confusion that was created due to multiple tax systems being implemented by the central government and several state governments independently. The old system also provided opportunities to evade tax. Thus, while it is too soon to come to any conclusions, this new initiative could well open up a new episode relating to institutional reforms with the aim of curbing corruption and economic malpractice.

With regard to market reforms that ensued in 1991, the story of India’s economic rise and its widespread impact on the global economy has been a point of attention and debate for more than a decade. Over the past 15–20 years, India has transformed itself significantly. The transformation is not simply limited to the economic aspect; the liberalization in 1991 and subsequent connection to the world outside had systemic impact on the country’s culture, value system, and social customs. India in some ways lost its earthiness, simplicity, and unique cultural moorings due to the sudden gush of western socio-economic norms that the liberalization process introduced. One of the significant outcomes of these changes was the birth of a neo middle class and *nouveau riche* who scripted India’s economic success story that the world is finding so compelling; yet, this economic achievement has diminished

the values, traditions, and social norms that were once the bulwark of Indian society. Excessive focus on outcomes and performance-driven evaluation of business in India by management scholars and writers has resulted in a contradictory impression of India that is very distinct to the people who seek to evaluate it from a social perspective.

As for the outcome of economic reform, Ninan (2015) suggests that the story of economic success and enterprise can be approached from multiple angles and can have several narratives. Gurcharan Das, a noted author and ex-CEO and MD of Procter & Gamble India, commented positively on India as a “bottom-up” success story (as opposed to China’s “top-down” approach) due to its vibrant democracy (2013). Das goes on to state that despite challenges, India has become one of the world’s fastest growing economies, although “sixty countries implemented the same reforms as India did”. Similarly, Nandan Nilekani (co-founder and ex-CEO of Infosys, one of India’s largest IT companies and a distinguished entrepreneurial success story) describes India as “the luckiest country of the twenty-first century” (as quoted in Tully 2013, p. xvii). Supporting this buoyant viewpoint is a report by HSBC which concludes that India could be the next China in terms of economic achievements (Sinha 2016). Contrary to this, William Bissell (CEO of Fabindia, one of the largest handcrafted home furnishing retail stores in India) is less optimistic and sounds a cautionary note by stating that “India is constantly fed by an establishment drunk on visions of grandeur” and that there is “short-sighted optimism both at home and abroad” about India (as quoted in Tully 2013, p. xvii). Furthermore, Dr. Madhu Kishwar (a noted academic and a social activist) commenting on a prolonged one-party (i.e., Congress party) rule since India’s independence said that it has resulted in a “top-down machinery” which has severely degraded the democratic establishment of the country (2006). Endorsing this sombre opinion is thoughts by Dr. Raghuram Rajan (who was Governor of the Reserve Bank of India from September 2013 until September 2016). He recently cautioned against the euphoria relating to the ‘fastest-growing large economy’ tag, pointing out that the per capita income in India is among the lowest and that the country has a long way to go (Kshirsagar 2016).



These diametrically different views co-exist in India and often surface in various discourses. This not only confuses people at large, particularly those who are not familiar with India's history and have not had the chance to experience the unfolding of the Indian narrative. The following section provides more facts that bring forth this dichotomy.

There is a growing shrill tone in the policy discourse in India and globally that India is the country that has been able to beat the trends of the global crisis over the past several years. More recently, in 2015, with growing concerns of a slowdown in China's economy, India has sought to boost confidence in the global marketplace by claiming that its GDP grew by 7.5% during the first quarter of 2015, thus overtaking China's growth (BBC 2015). There has also been a deliberate attempt on the part of policy makers to show that India is truly becoming a runaway success and that remarkable growth is coming from the industrial and value-added knowledge-intensive sectors, instead of the agricultural sector. Not surprisingly, the Economic Survey 2015–2016 tabled in the Parliament of India famously highlights that during 2014–2015 industrial sectors grew by 7.3% (of which manufacturing grew by 9.5%); the services sector grew at a CAGR (compound annual growth rate) of 8.6% between 2010 and 2014; and almost no annual growth was recorded in the agricultural sector (India Brand Equity Foundation 2016). The number of MNCs operating in India has quadrupled between 1991 and 2012, and their revenue grew at a compound rate of 18% per annum (Ojha et al. 2016). Likewise, most companies selling consumer and durable consumer goods have seen an average annual growth rate of 15% between 2005 and 2015 (Ninan 2015). By 2013, more than 1000 MNCs had setup high-tech research labs in India (John 2013). For example, GE opened its largest research lab outside the US in Bangalore spread over 50 acres of land (IBM 2010).

India's strong performance in the capital market and growth in GDP is truly remarkable. Since 2000 to the present, India's GDP has grown from \$430 billion to over \$2 trillion. For the same period, the Indian equity market attracted FDI of over \$160 billion (Chakravarty 2014). This has had a profound impact on the capital market as the BSE (Bombay Stock Exchange) Index rose from 5000 to over 26,000, and

market capitalization of listed companies increased from \$166 billion to \$1.7 trillion (Chakravarty 2014). By 2025, India is likely to be one of the largest economies in the world. The so-called ‘successful’ Indian economic growth has profound impact on social changes with both positive and negative consequences.

## Social Changes and Implications of Reforms in India

Notwithstanding several macro-economic indicators suggesting economic progress, India suffers from severe challenges at the micro-level, which often raise some serious question-marks relating to the development and growth story of India. This is because the reach and benefits of the economic progress have been very limited and do not compare with the rise in real wages that benefitted the working class in other nations, particularly China. Other statistics discussed below indicate that while per capita income of GDP has been improving, these figures are failing in social and equity indicators. Even Nepal with just one-third of the per capita GDP of India has reached several of the social indicators levels of India (Drèze and Sen 2014).

According to the OECD, inequality in India has doubled in the past two decades. In fact, India is the worst performer among all the emerging countries in this respect (Dutt 2015). Mander (2012) mentions that the wealth holding of Indian billionaires increased from 0.8% of GDP to 23% between 1996 and 2008. This wealth disparity further increased by 2016 when the top 1% of wealthy Indians controlled almost 58% of wealth (Chakravarty 2016); in contrast, India is still home to the largest number of malnourished children and people who suffer hunger. Three thousand children die every day from poverty (Dutt 2015). Speaking of this immense social problem and gulf between have and have-nots witnessed in India, IMF Managing Director Christine Lagarde mentioned that the net worth of Indian billionaires has increased 20-fold in the past 15 years and that this wealth was sufficient to “eliminate absolute poverty in India twice over” (Dutt 2015, p. 285).

To further highlight the uneven pattern of growth and deepening inequality, Drèze and Sen (2014) cite data from the National Sample Survey according to which average per capita expenditure grew at only 1% in rural areas and 2% in urban areas between 1993–1994 and 2009–2010. The growth in real agricultural income was 2% in the 1990s and almost zero until 2005. This situation exists despite the fact that even today about 90.2 million households depend on agriculture, that is, roughly 58% of the population of India (CSE 2016a). The result of such an inconsistent growth is that almost 52% of rural households are in debt, the average debt being Rs 47,000 (approx. \$800) per household and average annual income from cultivation being Rs 36,972 (approx. \$650) per household (CSE 2016a, pp. 198–199). Due to poor social security measures and extreme poverty, several farmers have committed suicide. In 2014, 5650 farmers took their own lives (IANS 2015).

The abject poverty and hunger in India can be gauged from the failure to meet minimal nutritional requirements. The World Health Organization (WHO) states that if 40% of the population has a Body Mass Index (BMI) of less than 18.5, it is considered to be suffering from famine. However, the National Family Health Survey reported that in India, during 2005–2006, 34.2% of adult men and 35.6% of adult women in the age group of 15–49 years fell in that category, which suggests conditions of “endemic near-famine” in India (Mander 2012, p. 18). In the same period, about 44% of children under the age of five in India were underweight and 48% were stunted (Mander 2012, pp. 18–19). The rate of malnutrition among Indian children in 2007 was, therefore, double that in sub-Saharan Africa, home to some of the poorest countries in the world. It is also reported by the National Sample Survey of the Government of India (GOI) that nearly 76% of Indian households were calorie deficient in 2004–2005 (Mander 2012). Furthermore, only 43.5% of the total population has a provision for tap-water drinking (GOI 2015).

Maternal and child mortality is also very high in India. India’s maternal mortality rate stood at 178 per 100,000 live births in 2012, accounting for 20% of global maternity deaths that could have been prevented (UNICEF India 2016). Under-five child mortality rate in India is 42 per 1000 live births, accounting for 20% of 5.9

million global child deaths (Mascarenhas 2015). Only 43.5% of babies (12–24 months old) have access to immunization in India. This is far lower than in Bangladesh (73.1%), Cambodia (66%), and Pakistan (47.3%) (Das 2013).

Failure on the part of the government to make social provisions is also visible, even to a foreign visitor on a short trip to India, as a result of poor investments in social and physical infrastructure. For example, India's solid waste generation has nearly tripled in the last 5 years, but currently only 23% of that solid waste generated is processed scientifically (CSE 2016b, pp. 200–207). Similarly, only 37% of sewage generated in Class I and II cities is treated. There has been an increase of only 19% in treatment capacity, whereas sewage generation has increased by 62% in the past 6 years (CSE 2016b, pp. 200–207). Furthermore, over one-third of the treatment facilities are non-operational (CSE 2016b, pp. 200–207). Even in cities like Bangalore and Mumbai, only three-quarters of the population are serviced by a sewerage system; while the proportion can be as low as 45% in Kolkata and 56% in Hyderabad. Overall about 48.9% of the population is not connected to any drainage system (GOI 2015). In all the five major metropolitan areas in India (namely, Delhi, Mumbai, Bangalore, Kolkata, and Chennai), sanitary landfills are non-existent and the garbage collected is typically dumped in selective locations causing huge health concerns in the city. These facts prompt Drèze and Sen to conclude that “physical and social infrastructure of the country is in a mess” (2014, p. 10).

Poor infrastructure in urban areas is put under further stress due to the large-scale migration of nearly 10 million people from rural to urban areas every year (World Bank 2016). Nearly 25% of the urban population in India lives in slum areas that are devoid of even basic services, leading to inhuman conditions of living. More than 300 million people (i.e., quarter of the population) are not at all connected to the national electricity grid and the majority of those who are connected experience disrupted power supply (GOI 2015; World Bank 2016). Almost one-third of the rural population does not have access to an all-weather road, and only one in five national highways have four lanes (World Bank 2016).

India is famous for its IT services sector and gives an impression to the world of having an extraordinarily large pool of educated and English-speaking workforce. While this is certainly true, problems relating to the education system in India are considerable. More than 12 million young people enter the labour pool, yet only 4 million are able to receive any technical and vocational education training (World Bank 2009). A 2005–2006 report on the vocational education sector revealed that more than 60% of trained youth struggle to find employment even 3 years after graduation and nearly two-thirds fail to find employment in the trade for which they received formal training (World Bank 2009). Likewise, according to the World Bank, India has some excellent tertiary institutions, but these elite institutes are accessible by only 1% of the potential candidates; only 10% of students have access to higher education in the country (Nagarajan 2014). The World Bank's overview of India further indicates that less than 10% of the working-age population completes secondary education (World Bank 2016). While India claims to have achieved 'Universal Primary Education' (PTI 2015), the education system is mired with several problems resulting in very poor quality. Schooling in India (particularly in government run schools) is of grossly poor quality as countrywide surveys show that on an average, Class Level Five students are unable to attain the literacy of Class Level Two students (Ninan 2015).

## Comparison and Synthesis of the Two Societies Under Reforms

It is interesting to note how similar the trajectory of economic growth and development of China and India has been after they turned a major page in their history; namely, the establishment of the People's Republic (1949) and the 'Cultural Revolution' (1966–1976) in China and India's Independence (1947). Both China and India adopted a socialist style of developmental economy initially, but later initiated market reforms to liberalize and privatize their economy. Despite making such similar

choices, the two countries have achieved some comparable but also very different outcomes, as we see today and have discussed above.

At the time of India's independence, the ideals of socialism were favoured by the political elite as it was expected that they would result in a more egalitarian and just society in India. An alignment to the philosophy of socialism also continued to provide legitimacy to the political leaders, most of whom were involved in India's fight for freedom. However, in caste-ridden India, the top-most political leaders were primarily drawn from the upper caste groups and did not have a deep and sincere desire to bring about systemic change in the society by doing away with the caste and class systems. The foundation of socialist society in India was weak and ill-conceived as it did not involve a true mass uprising (violent or otherwise) against class division, as was the case in Russia or Cuba. Even in China the foundation of socialism was the principle of equality, which materialized as a mass peasant uprising against the ruling elite resulting in the abolishment of class. This aspect will be further discussed in Chap. 3, but it is, nevertheless, important to highlight it here to impress that, in contrast to China, the very foundation of socialism in India was laid half-heartedly and, perhaps, with the simple objective of gaining political mileage.

The process of societal transformation in India has not been an easy and smooth one, and has been marked by many obstacles and resistance. For example, the weak foundation and misaligned social philosophy resulted in the continuation of several ills that had plagued Indian society for several centuries. These ills were nepotism based on caste, region, and religion; elitist society breeding sycophancy; self-centred bureaucracy and elites who were uncaring and disrespectful to the masses; and corruption. Even some well-intentioned policies of the socialist agenda resulted in a poor outcome. For example, several large national and state public sector undertakings established in India were grossly mismanaged, whereas private enterprises of well-connected business people flourished because of the patronage of the political class. Uncivilized management, corruption, and looting of the economy for four decades resulted in an economic crisis and the Indian government had to resort to liberalization and market reforms at the behest of the WTO in the early 1990s. Yet again, the foundation of this defining

economic change was not grounded in the social context of the country, but was primarily dictated by the WTO. The continuation of institutional corruption, ad hoc policies, and favouritism towards business groups further saw a weakening of public sector undertakings and in many instances led to sales to private businesses at outrageous prices.

The situation in China has been very different to that in India. The Soviet-inspired socialist principles were laid on the foundations of the principle of equality, similar to those of the Russian Bolshevik Revolution. The revolution in the true sense ended the social class structure and unified the society, thus providing a strong social basis to socialistic and nationalistic philosophies. Unlike India, in China, socialism was implemented by following the Soviet Unions' model initially, modifying it from time to time until the commencement of market reform. In addition, as mentioned earlier, the market reforms that China implemented later were pragmatic and were driven by the social and economic context of the country, instead of being dictated by the Western world. Even after market reforms, SOEs had a very important and dominant role to play in the economy as they still continued to be globally competitive. The Chinese government continued to nurture and grow these state-run enterprises (at least the big ones), unlike India where the role of public sector undertakings in nation building is diminished.

The above is not to suggest that China did not suffer from policy debacles, of which it had its own fair share. For example, the almost despotic style of governance in China and its focus on urban development at the expense of rural and regional areas had a profound impact on the society, such as the impact of the *hukou* system as discussed earlier. In addition, corruption is also a major issue impacting Chinese society.

In summary, China and India hold much promise for the global economy. Both suffer from some serious structural and governance deficiencies under the changes at multiple levels. In the case of China, there have been constant changes in policy formulation and execution. In India, the public has suffered from weak foundations, *mala fide* intentions of the political class, ad hoc policy making, and dishonest execution. The following chapters will extrapolate in detail several issues to

provide support to the above argument. In the process, we touch upon and discuss the significance and truism of words that have come to define both countries (such as democracy, multi-party system, secularism, one-party rule, unitarist, and communism).

In the next chapter, we shall focus our attention on explaining in detail how religion, culture, and historical evolution in the two countries have impacted institutions, governance, and the thinking and behaviour of people. This deeper and nuanced understanding of the roots of the society in China and India will allow policy makers, business people, students, and professionals to appreciate the local functioning style and characteristics of these societies. We also reflect upon the impact of the old and newly evolved norms of these societies.

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