

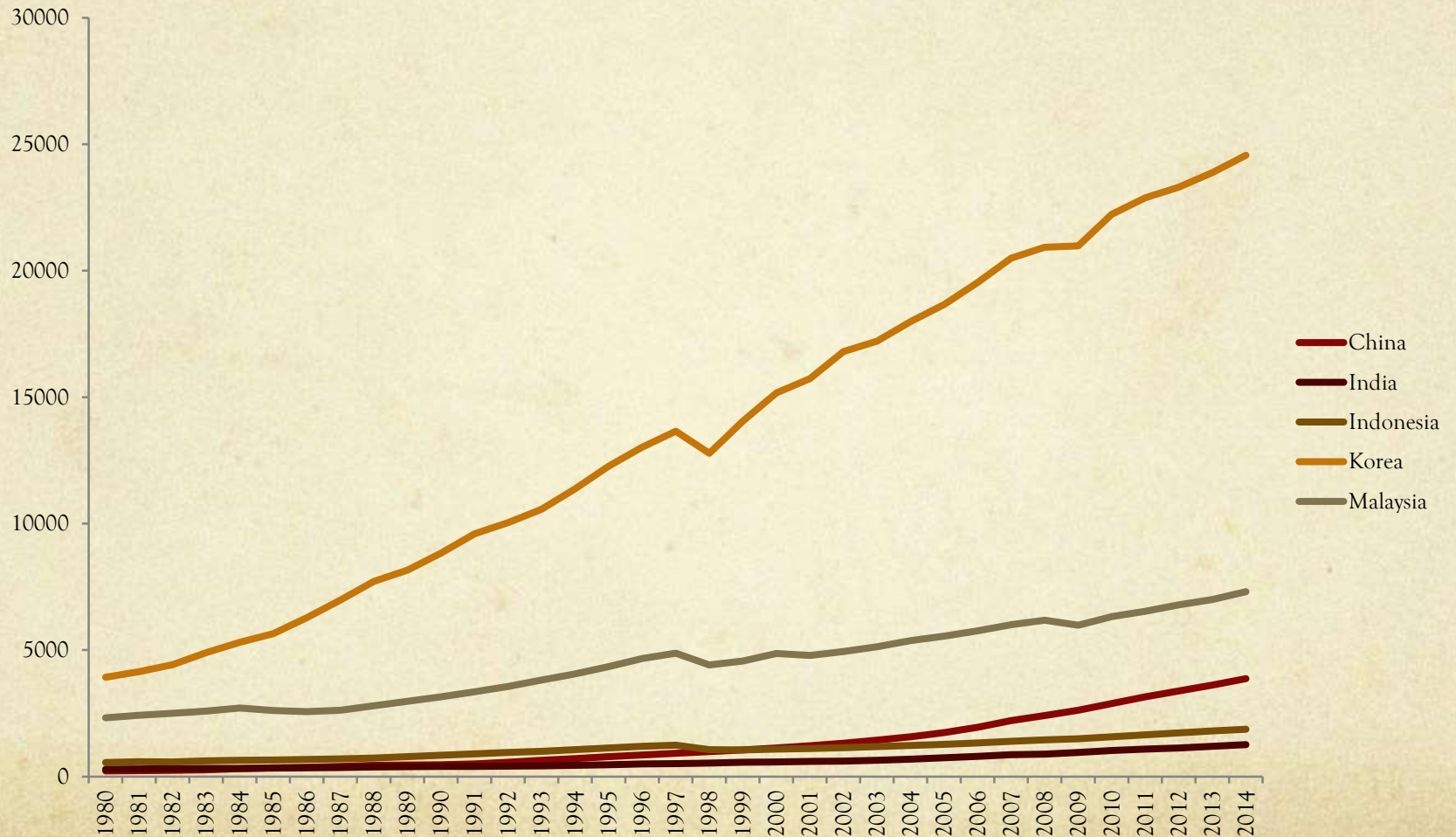
Growth, inequality and economic  
insecurity in Asian capitalism,  
with special reference to China and India

Jayati Ghosh

Jawaharlal Nehru University, New Delhi

# The Asian century?

Per capita income in some Asian countries  
(in 2005 US dollars)



# China and India

- China and India have large populations covering substantial and diverse geographical areas, and large economies with even larger potential size.
- Current “success stories” of globalisation: two big economies that have apparently benefited.
- Success defined by the high and sustained rates of growth of aggregate and per capita national income; the absence of major financial crises; and substantial reduction in income poverty.
- These economies are often treated as broadly similar in terms of growth potential and other features.
- But there are crucial differences between the two economies which render such similarities very superficial .

# Institutional conditions

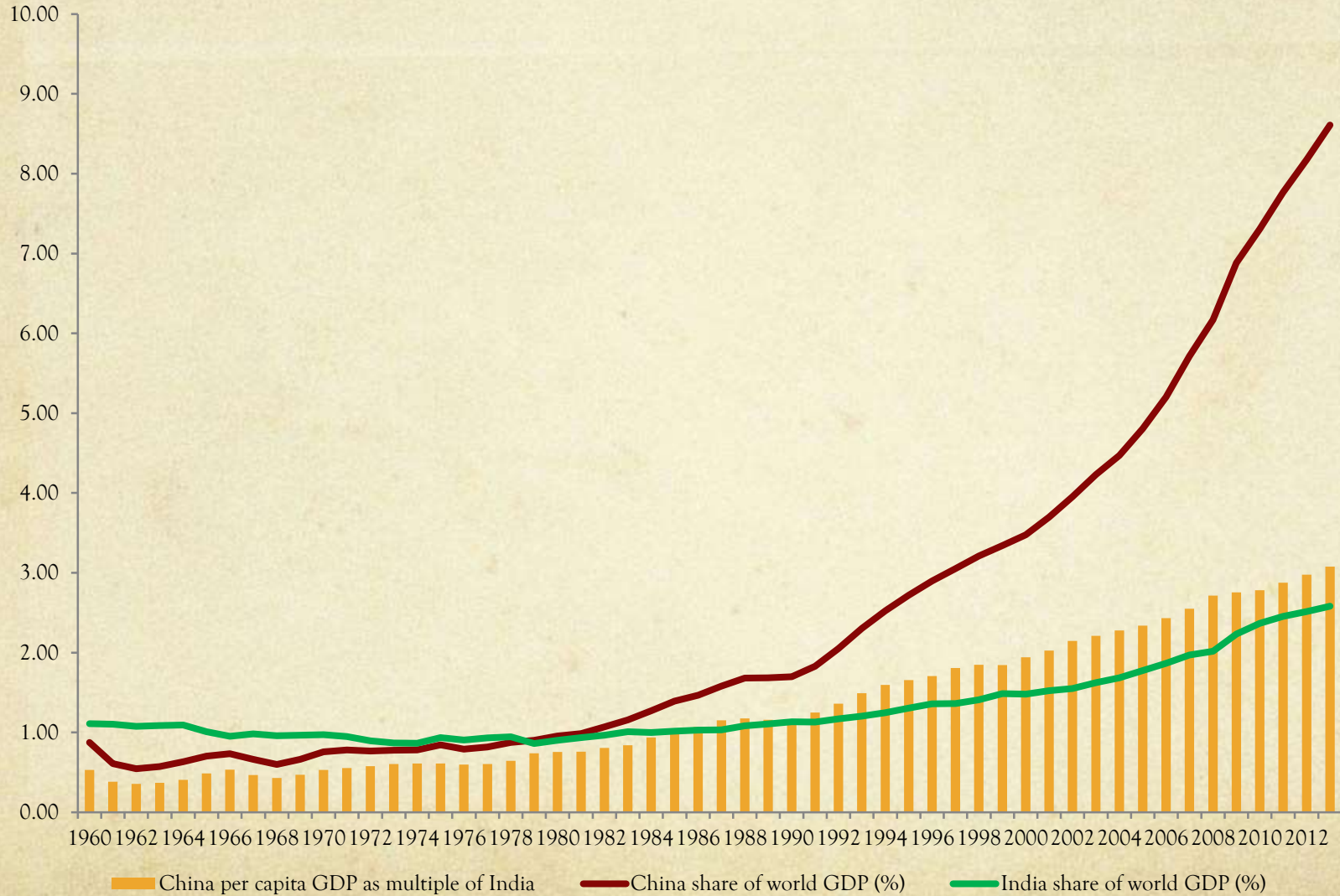
- India was a “mixed economy” with large private sector, so essentially capitalist market economy with the associated tendency to involuntary unemployment.
- China was mostly a command economy, which until recently had a very small private sector; there is still substantial state control over macroeconomic processes in forms that have differed from more conventional capitalist macroeconomic policy.
- India is multi-party electoral democracy with federal structure; China is one-party state with still strong centralized control. But centralization is also growing in India.

# Growth and investment

- The Chinese economy grew between 8-10 per cent per year in real terms for nearly 3 decades, recently slowing to around 6.5 per cent.
- India grew around 5-6 per cent in 1990s, 8-9 per cent in 2000s and around 6.5 per cent now.
- The investment rate in China has been 35 - 45 per cent, compared to 24-34 per cent in India, where it has now fallen to less than 30 per cent.
- Infrastructure investment from the early 1990s was around 20 per cent of GDP in China, compared to 2-4 per cent in India.

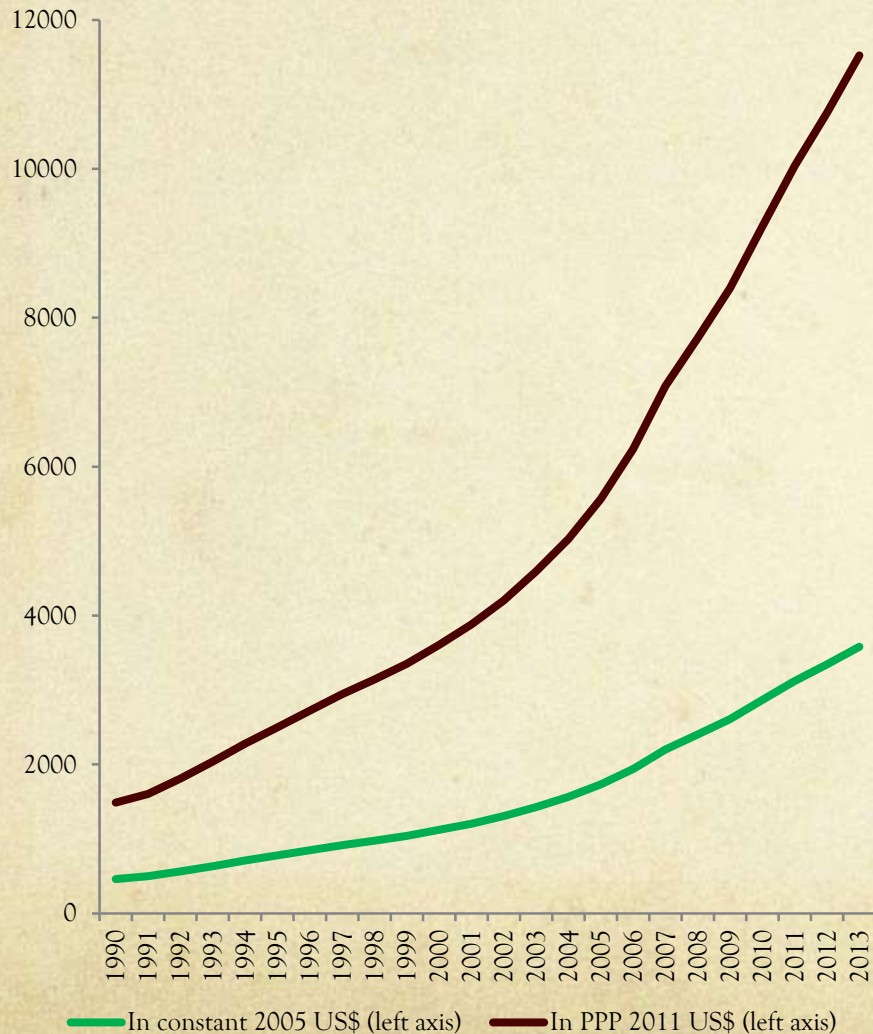
# Share of World GDP

at constant 2005 prices

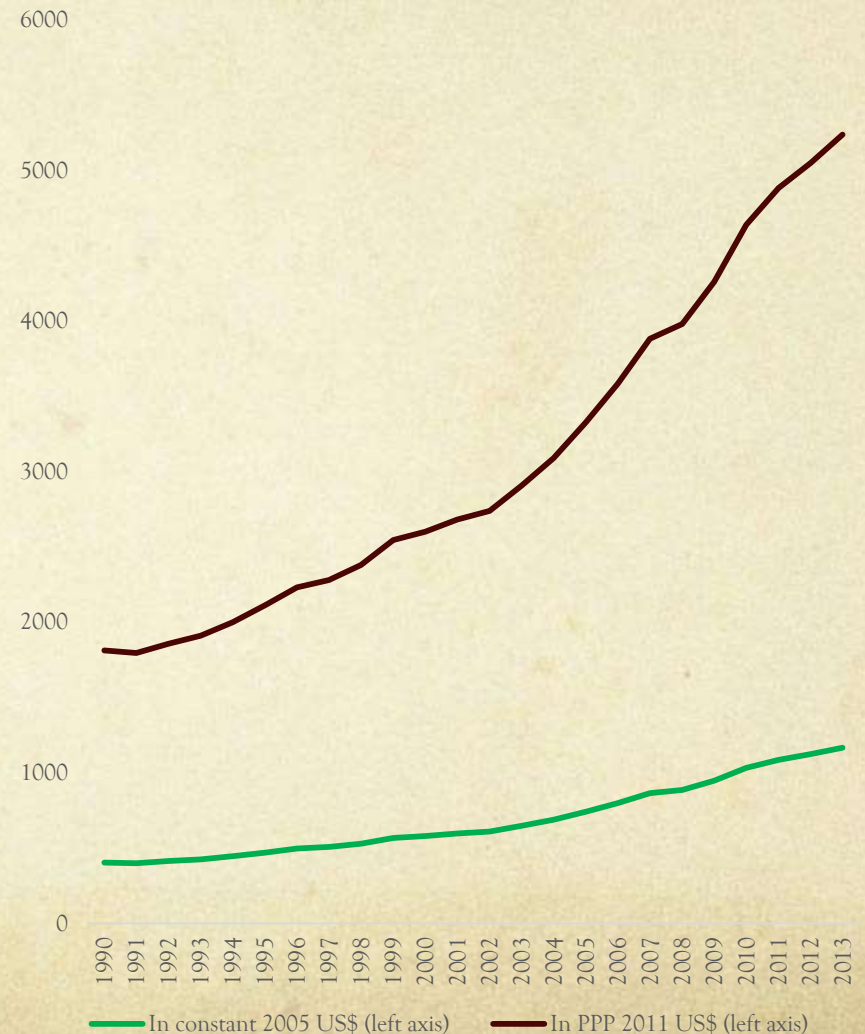


# “Real” income and PPP Income

China GDP per capita at market and PPP exchange rates



India GDP per capita at market and PPP exchange rates



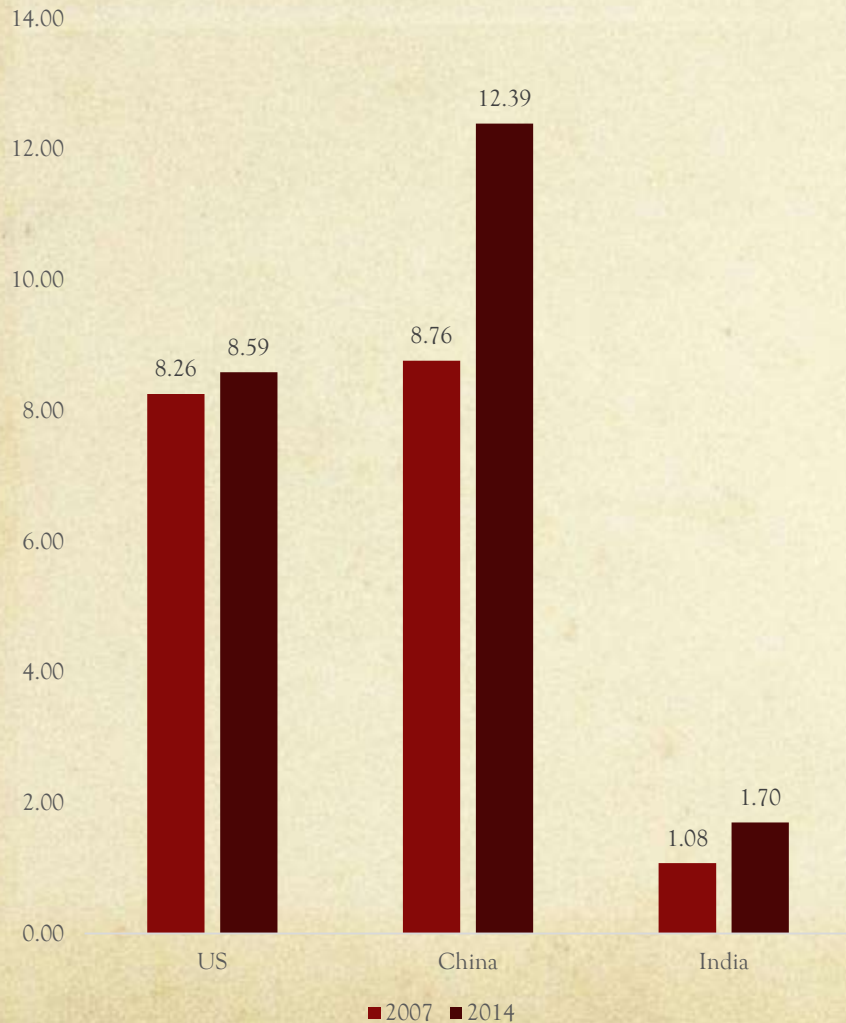
# Trade patterns

- China: Rapid export growth involving aggressive increases on world market shares, based on relocative capital attracted by cheap labour and heavily subsidised infrastructure.
- China became a crucial source of raw material and intermediate imports for rest of developing world.
- India: Lower rate of export growth, with cheap labour due to low absolute wages rather than public provision and poor infrastructure development. So exports have not yet become engine of growth, except to a limited extent in services.

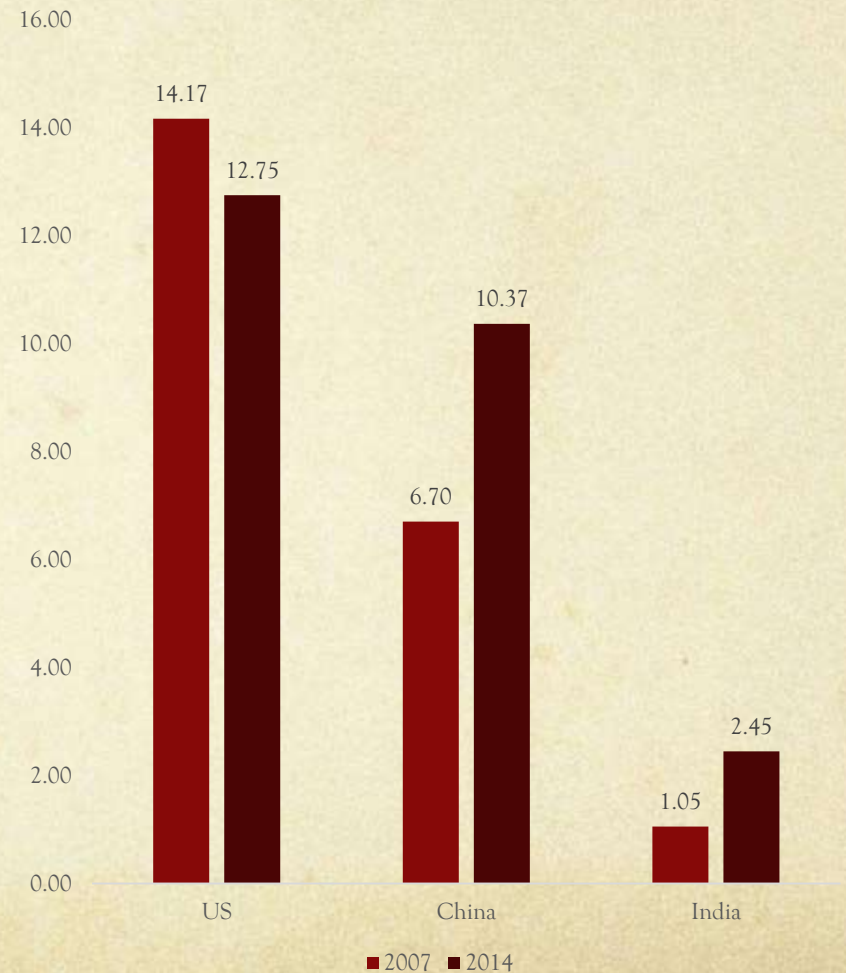


# Significance in world trade

Shares of world merchandise exports (%)



Shares of world merchandise imports (%)



# The financial sector

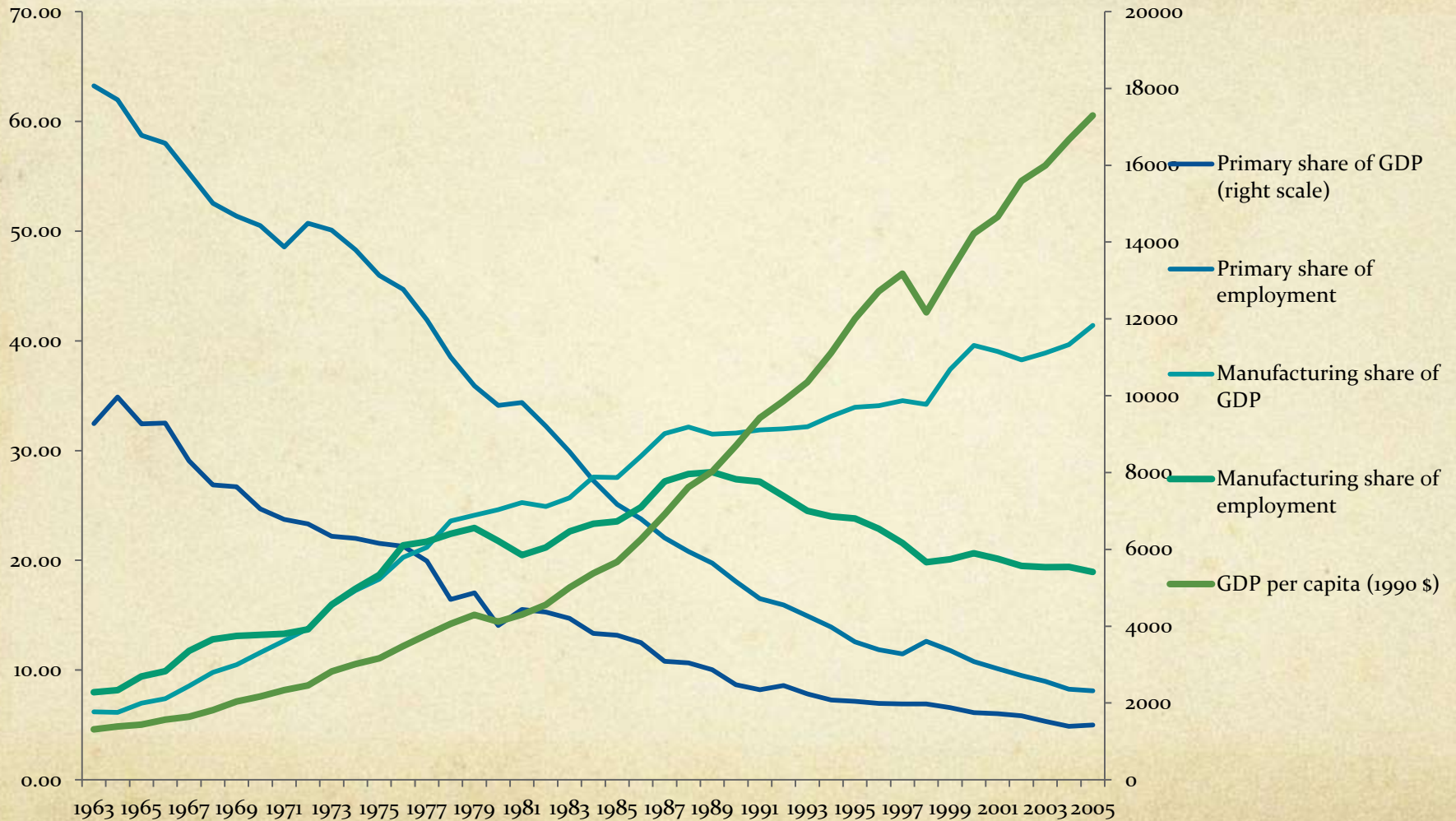
- India: financial sector was typical of the “mixed economy” without comprehensive government control over the financial system; financial liberalisation since early 1990s meant further loss of control over financial allocations by the state.
- China: financial system still under the control of the state, despite recent liberalisation. Four public sector banks handle the bulk of the transactions in the economy, and can regulate the volume of credit to manage the economic cycle, and direct credit to priority sectors.
- Recent moves to financial liberalization in China may change that – and have already had effects on real estate, shadow banking and stock markets.

# Structural change over four decades

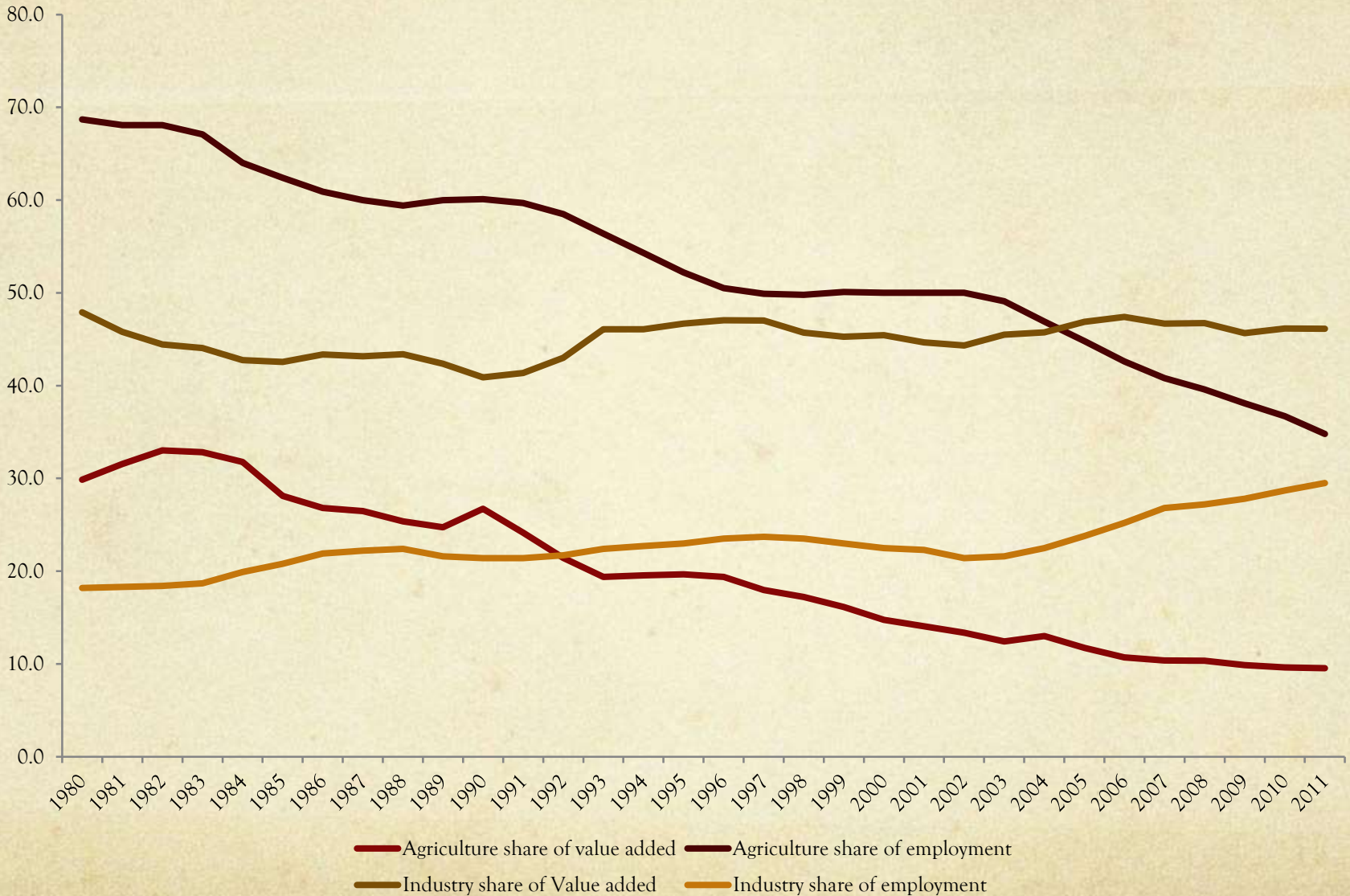
- China: “Classic” pattern, moving from primary to manufacturing sector, which has doubled its share of workforce and tripled its share of output.
- India: Move has been mainly from agriculture to services in share of output, with no substantial increase in manufacturing, and the structure of employment has not changed much. Share of the primary sector in GDP fell from 60 per cent to 25 per cent in four decades, but share in employment still around 60 per cent.

# South Korea: “Kuznets-style” structural change

## Structural change in South Korea

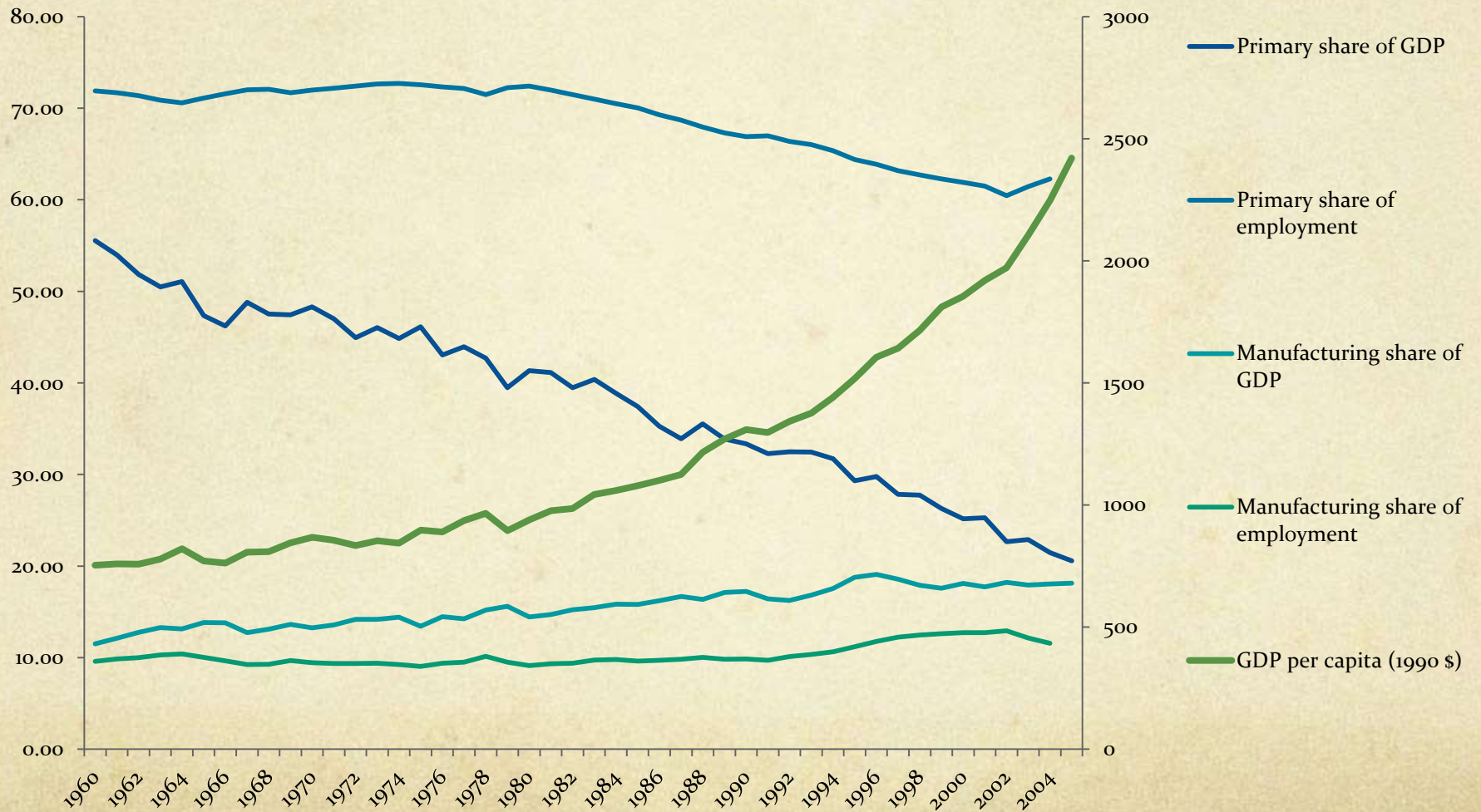


# China Structural change on “Kuznets’ path”



# India: Inadequate diversification

## Structural Change in India



# This has affected poverty reduction and human development

- China: Officially 4 per cent of the population now lives under the poverty line, unofficially around 12 per cent. (Reflects earlier asset redistribution and basic needs provision in China under communism, plus larger mass market and recent role of agricultural prices.)
- Earlier extensive public provision of health and education, and public services to ensure nutrition, health and sanitation. 1990s, higher fees and commercialization led to reduced access and worsening indicators; since 2002 revival of public spending in these areas, since 2009 especially in health.
- India: Official poverty ratio much higher and persistent, currently 28 per cent. Food deprivation is much higher.
- Public provision of essential social services has been extremely inadequate and even deteriorated in per capita terms. Some increase in education spending between 2005 and 2014 but still well below China; ; thereafter real per capita decline. Government health spending still very low.

# Both economies now face similar problems

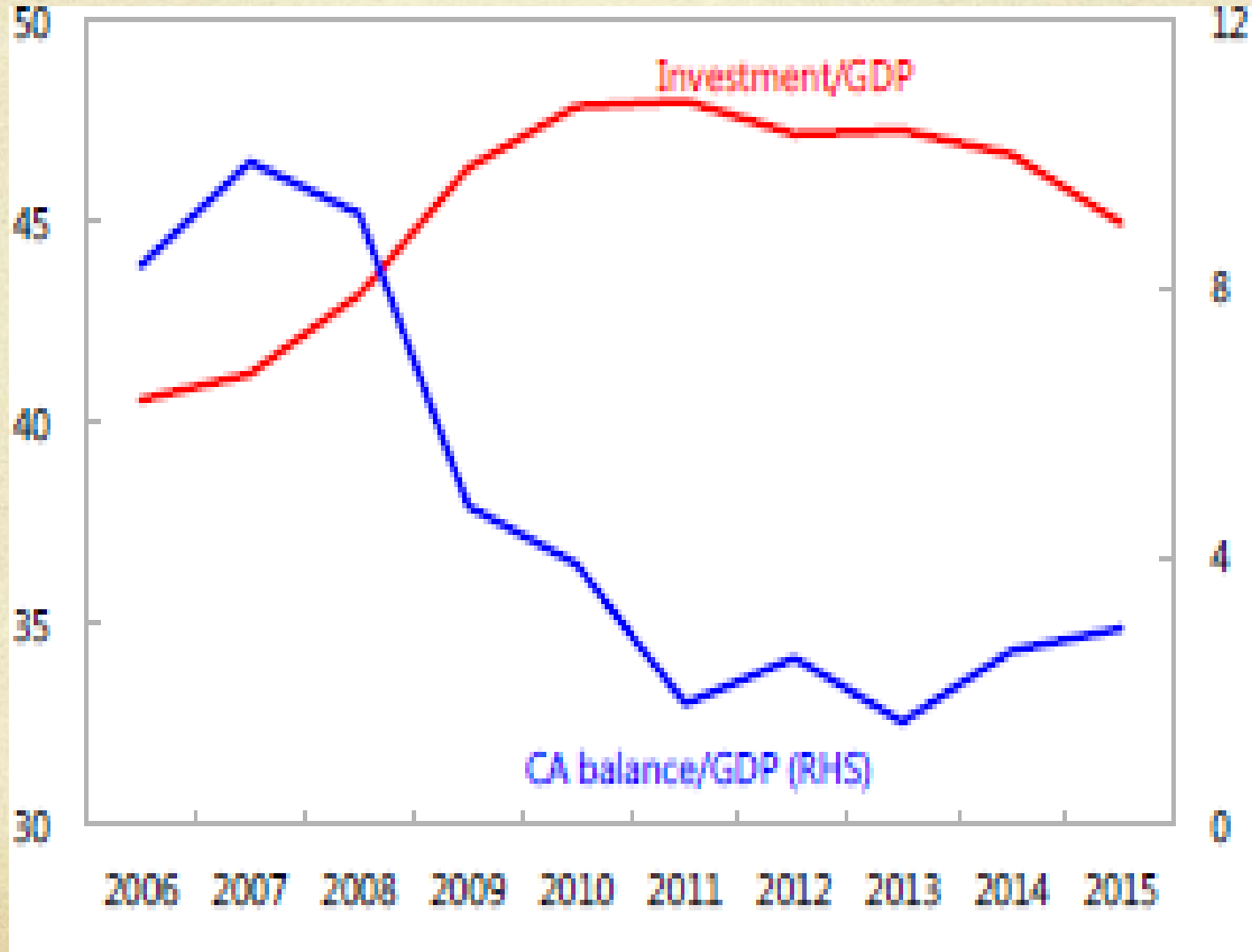
- **Change in growth strategy:** China has to shift from high export-high accumulation model to one based on domestic demand through rising wage incomes. Current excessive debt levels mean that deleveraging will impact on growth. India cannot rely on service-based growth, but its expansion is held up by large private bad debt that constrains investment.
- **Inequality:** In both countries the recent pattern of growth has been inequalising, in terms of both vertical and horizontal inequalities.
- **Employment:** Huge challenge for India, but even in China job quality does not meet rising aspirations, with more insecure, fragile and demanding but less well-paid service sector jobs on offer, even in “modern” activities.
- **Environmental sustainability:** huge effects of economic growth on pollution, degradation and over exploitation of resources.



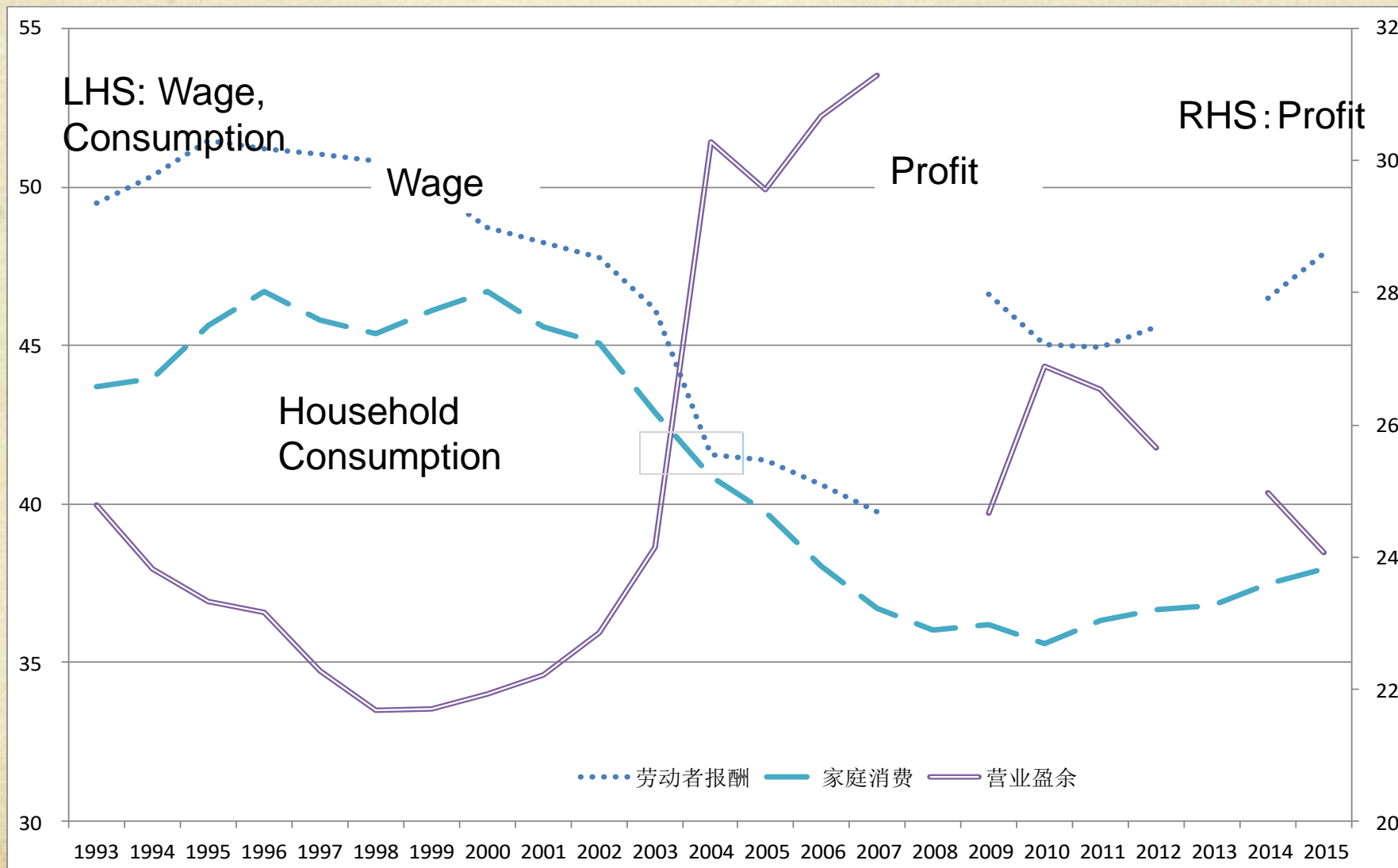
# Recent investment and GDP growth in China



# Internal vs external rebalancing In China

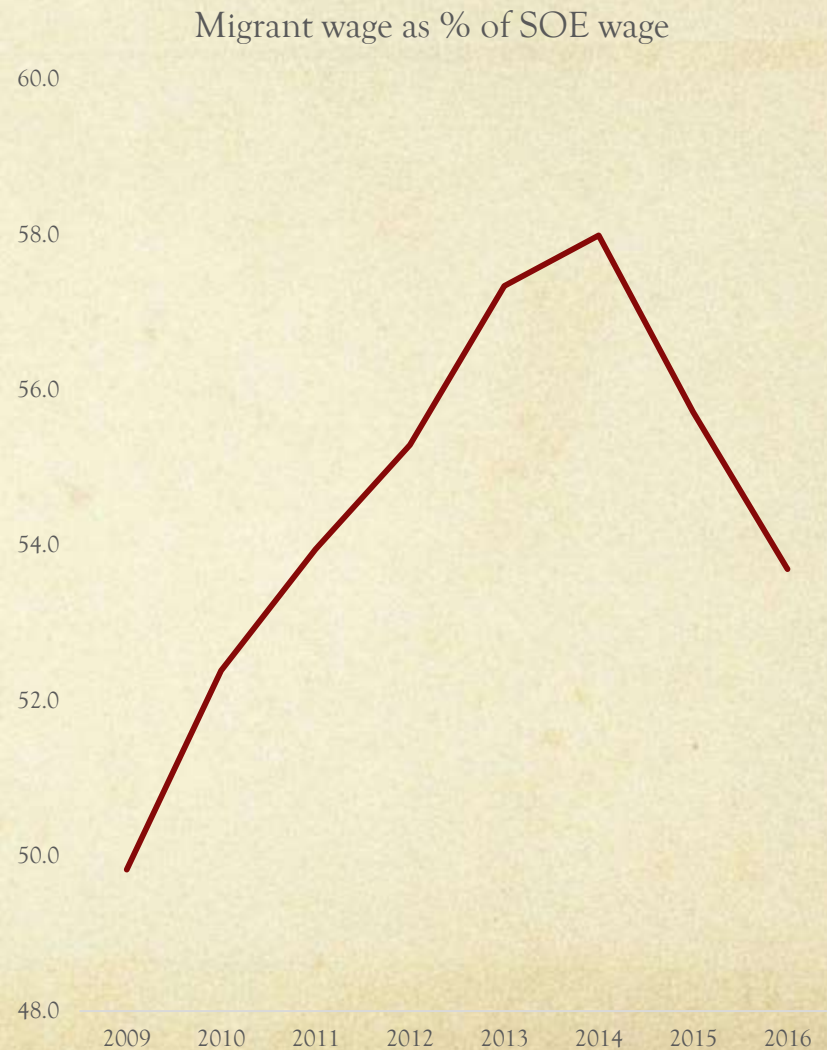
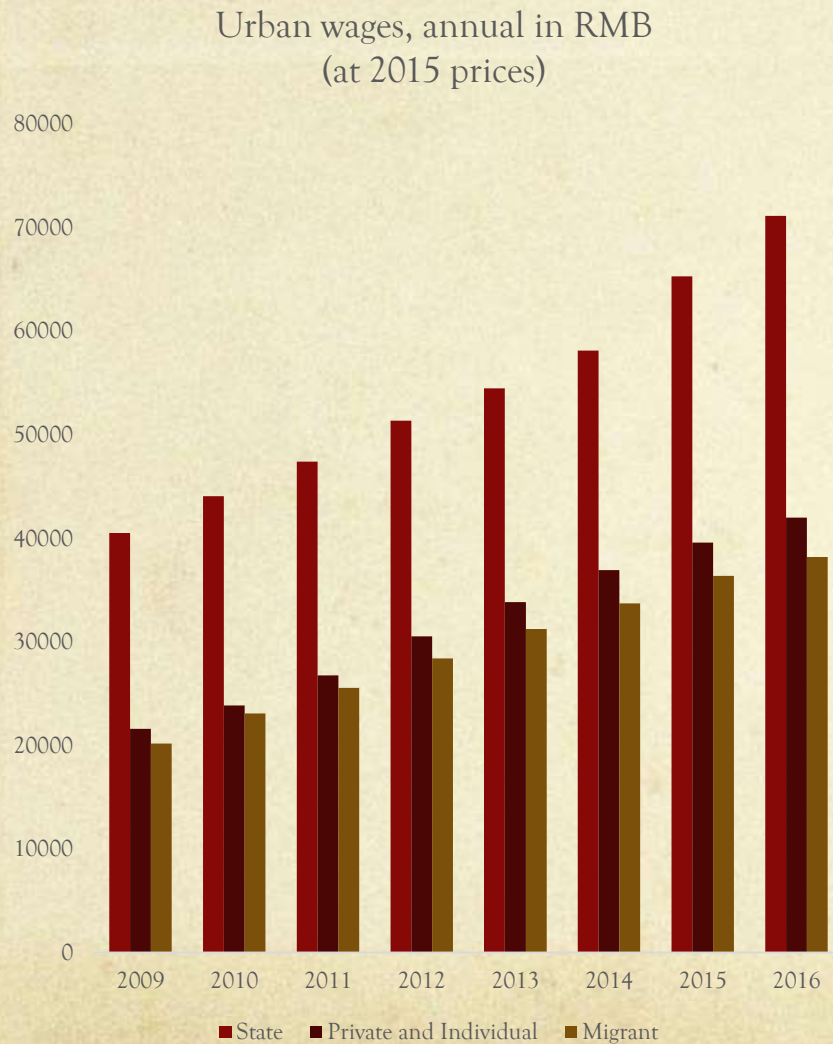


# The Evolution of Wage, Private Consumption and Profits in China (% GDP)

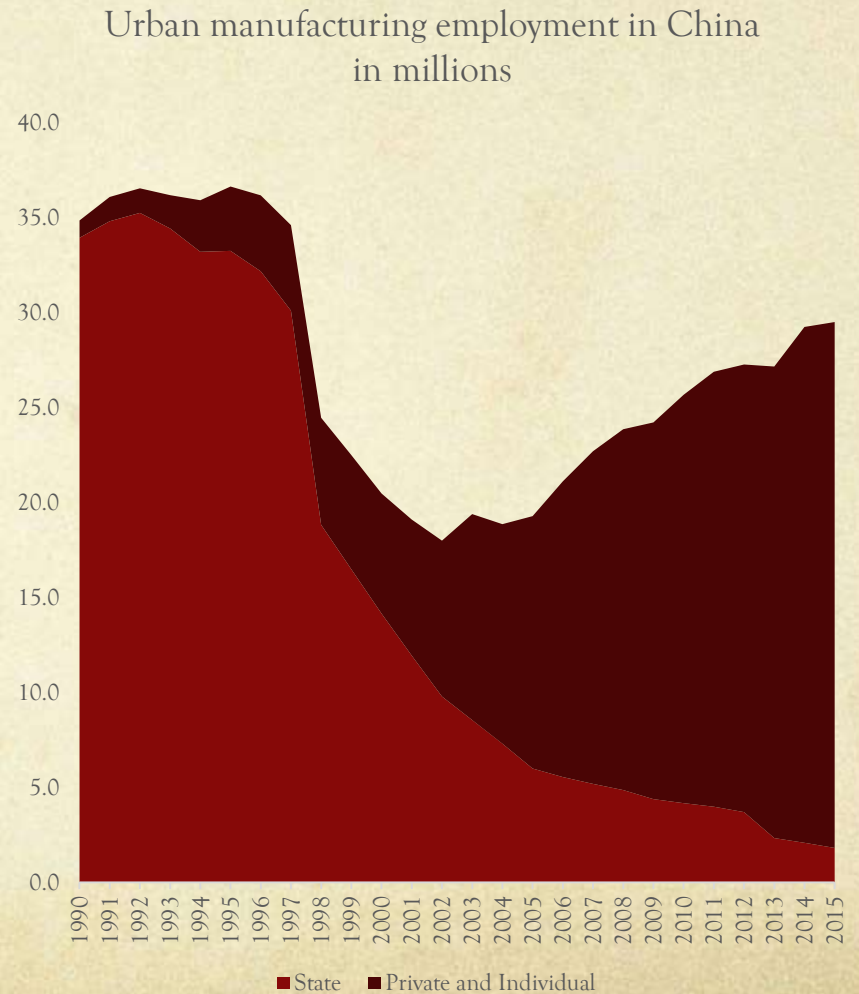
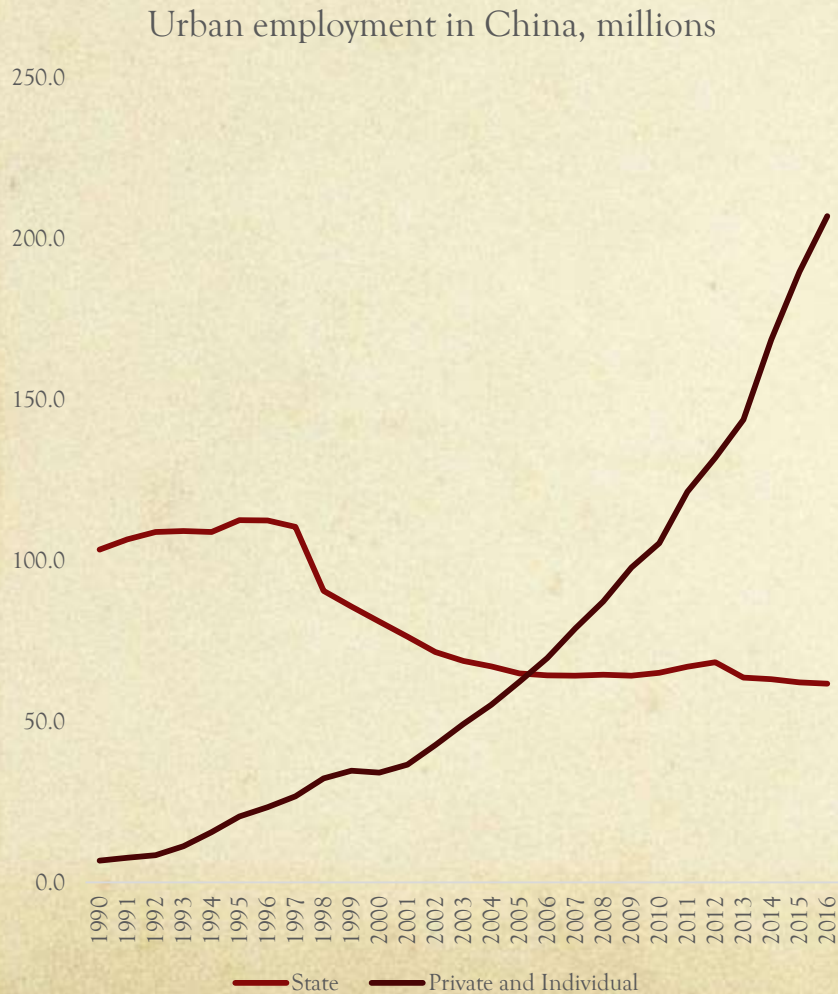


Source: CYS

# Has China reached the Lewis turning point?

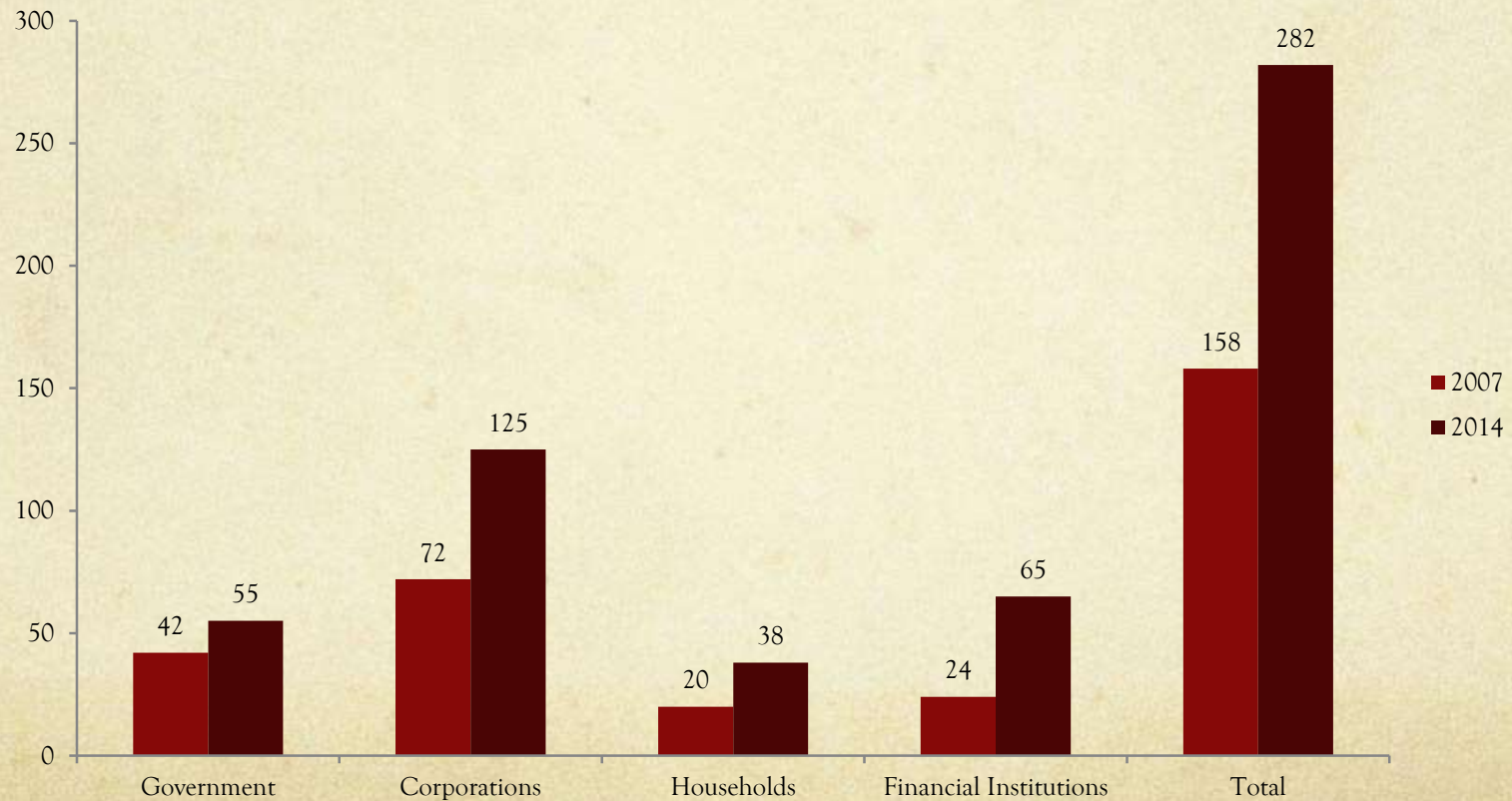


# Much more urban employment in China is now private and self-employed individual



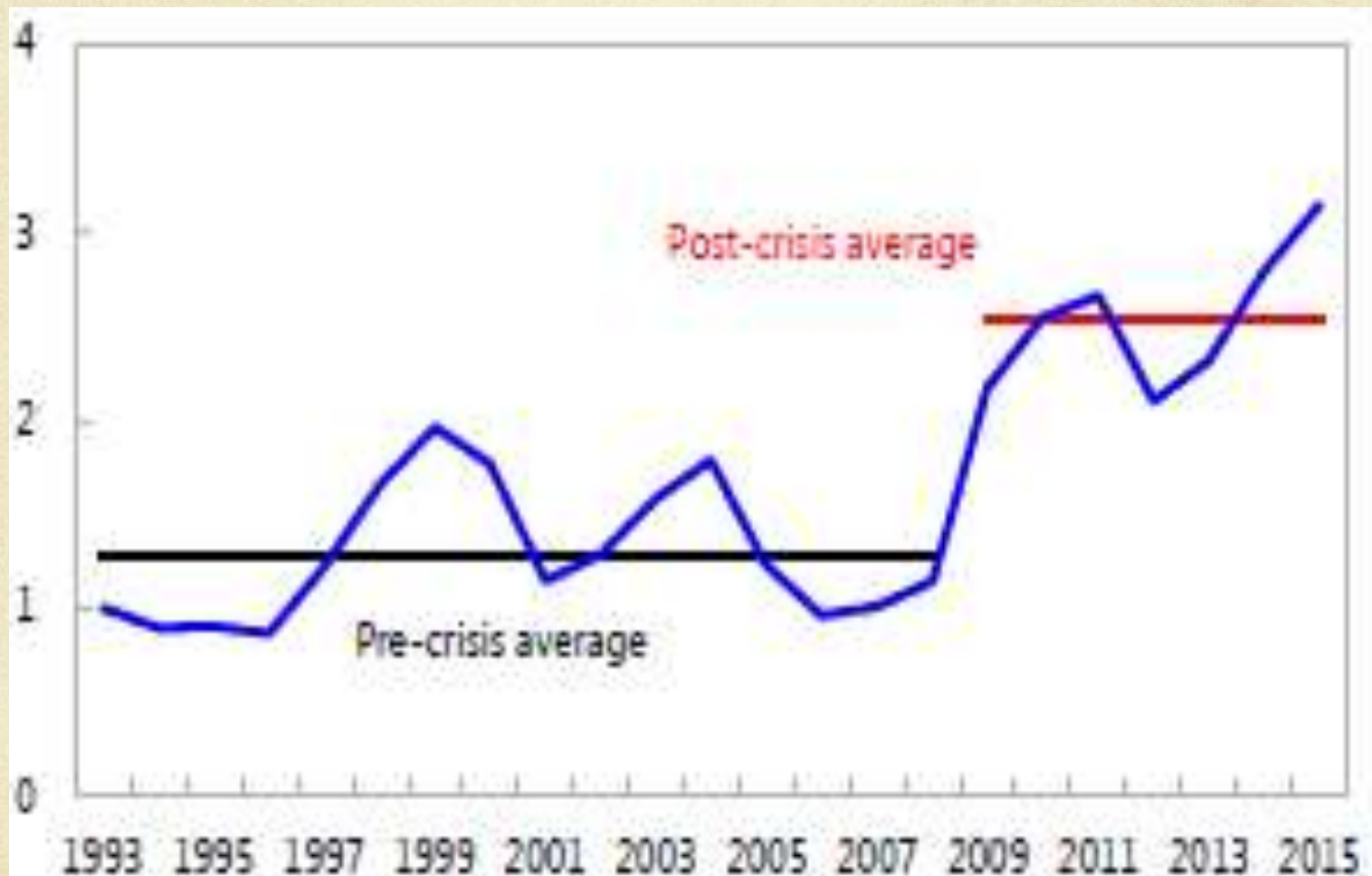
# Recent growth based on unsustainable debt burdens

Debt ratios in China  
(% of GDP)



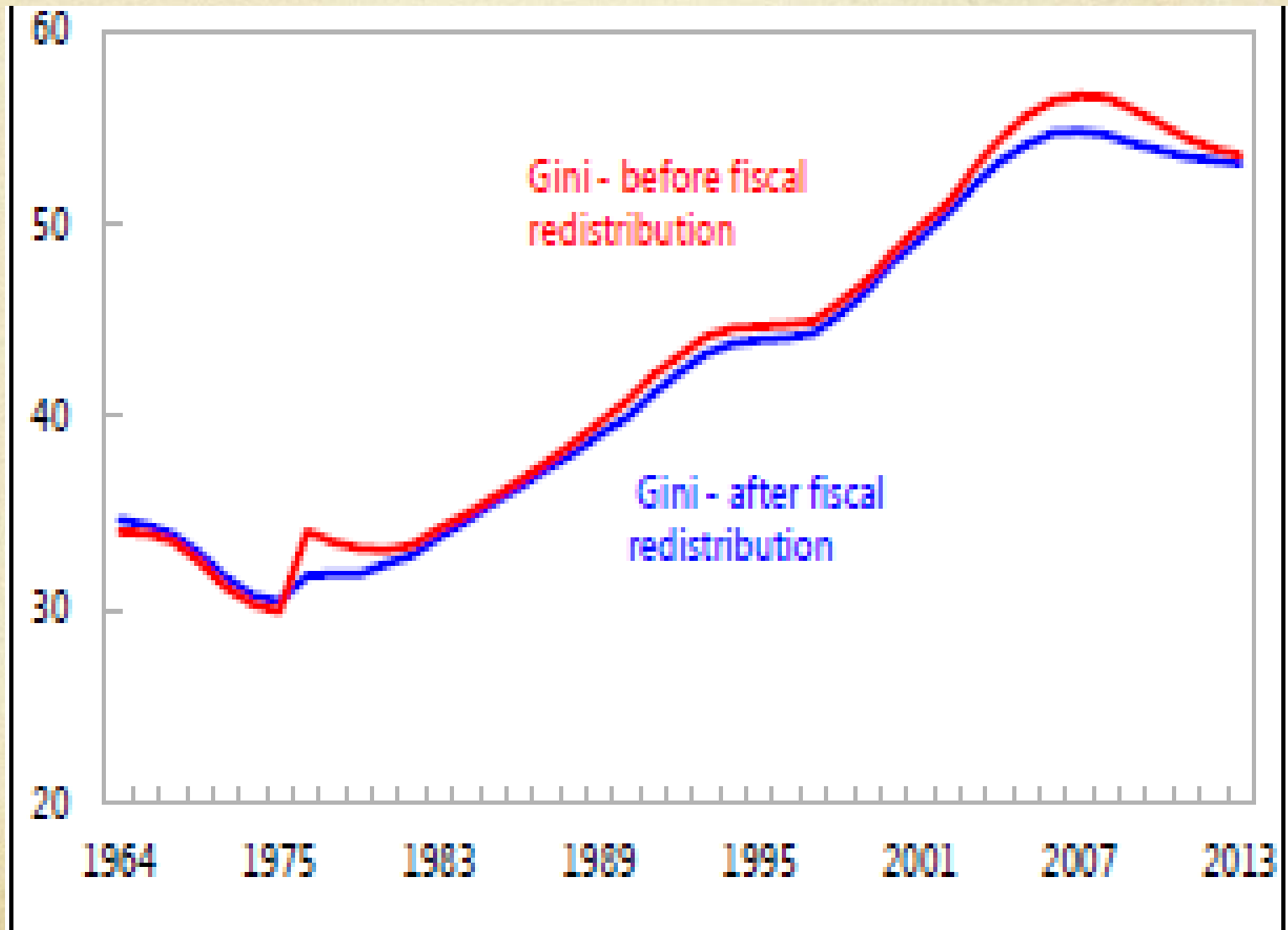
# Credit intensity in China

(new credit per unit of additional GDP)



ources: CEIC Data Company Ltd.; and World Economic Outlook (WEO) and IMF staff estimates.  
Plotted as 3-year rolling average.

# Income inequalities are still a big concern

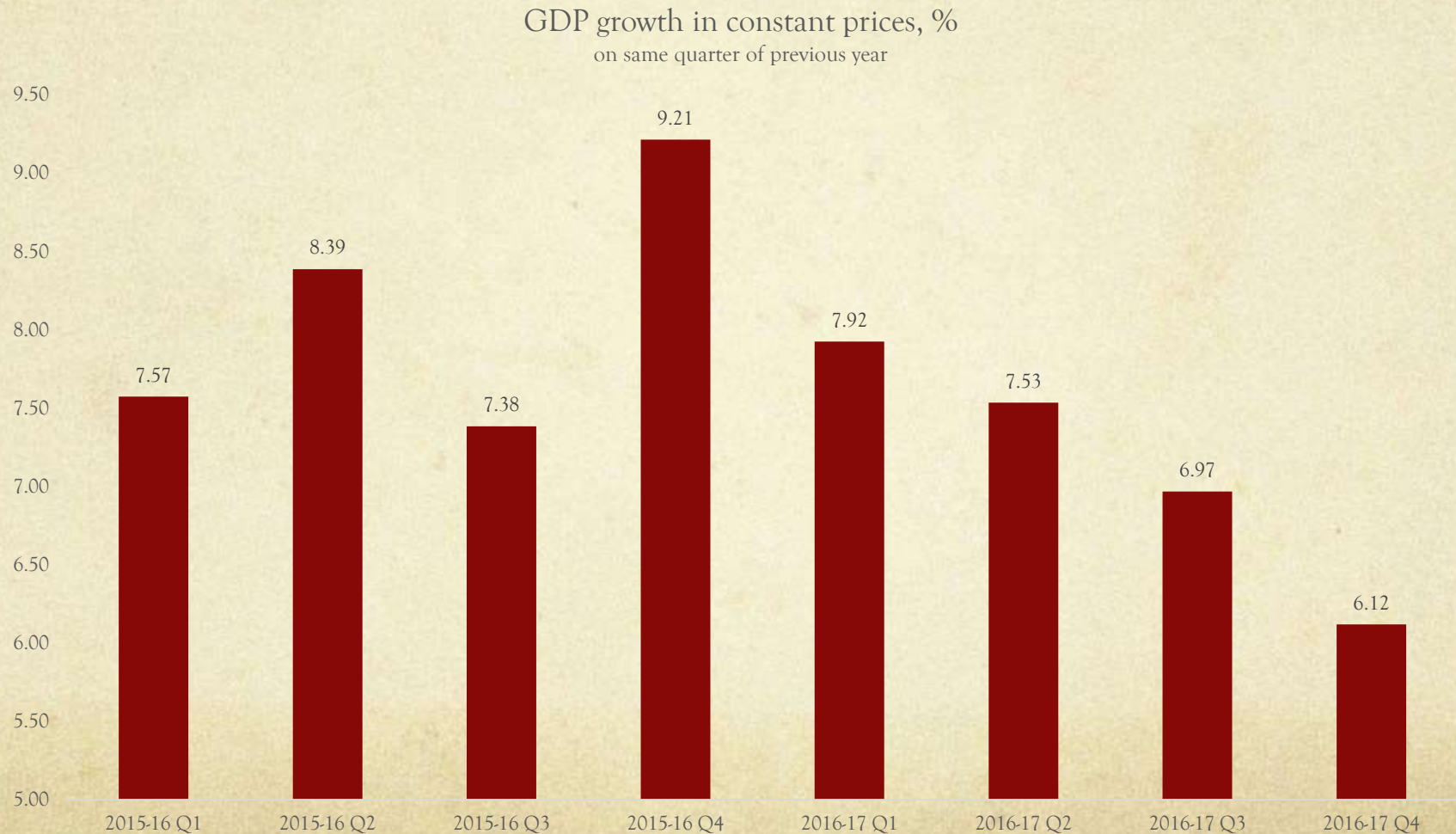




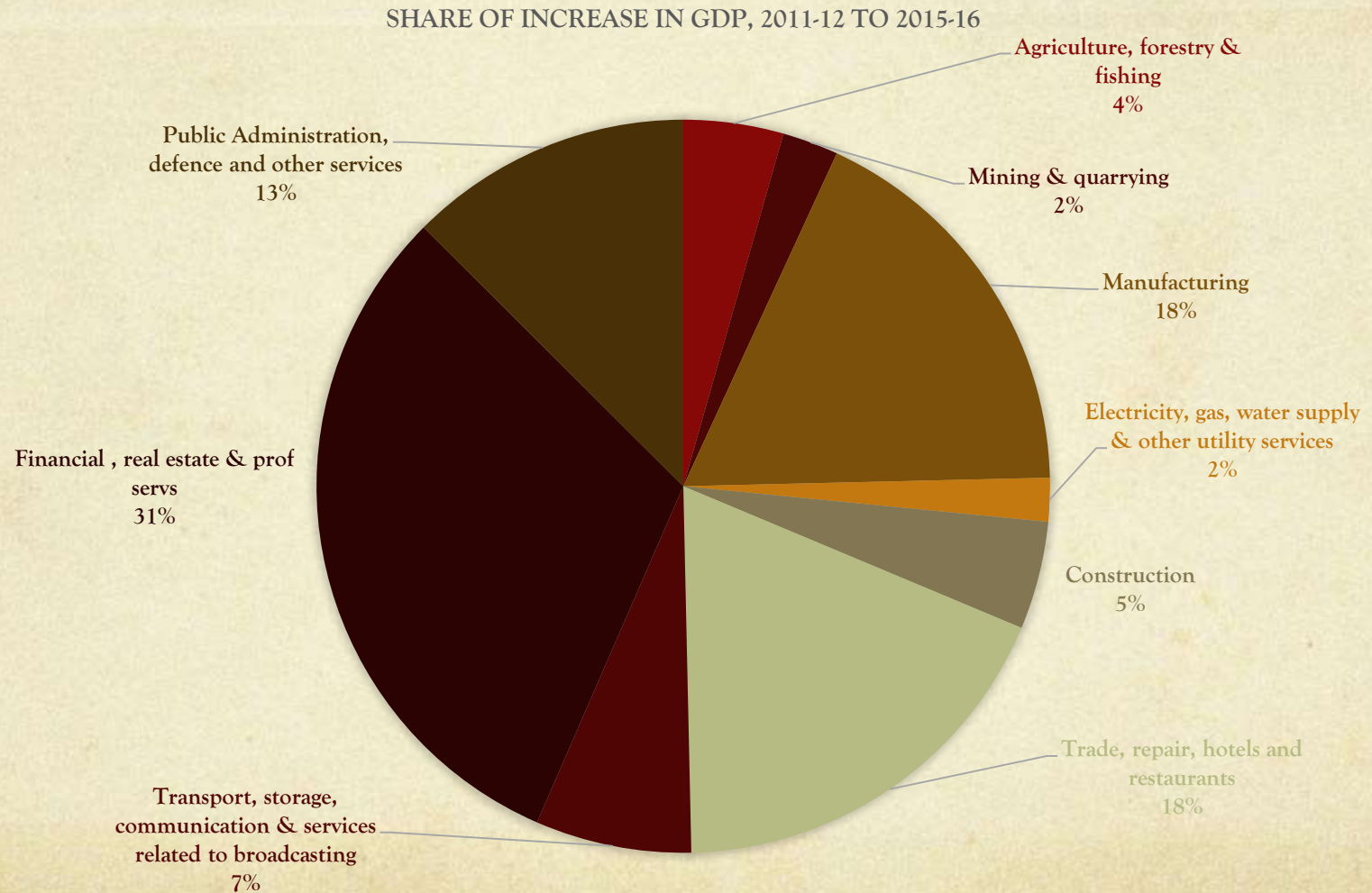
# India: Recent GDP growth slightly slower than before but still among fastest in the world



But recent GDP data indicate a slowdown even though they do not capture the impact of demonetisation especially on informal activities



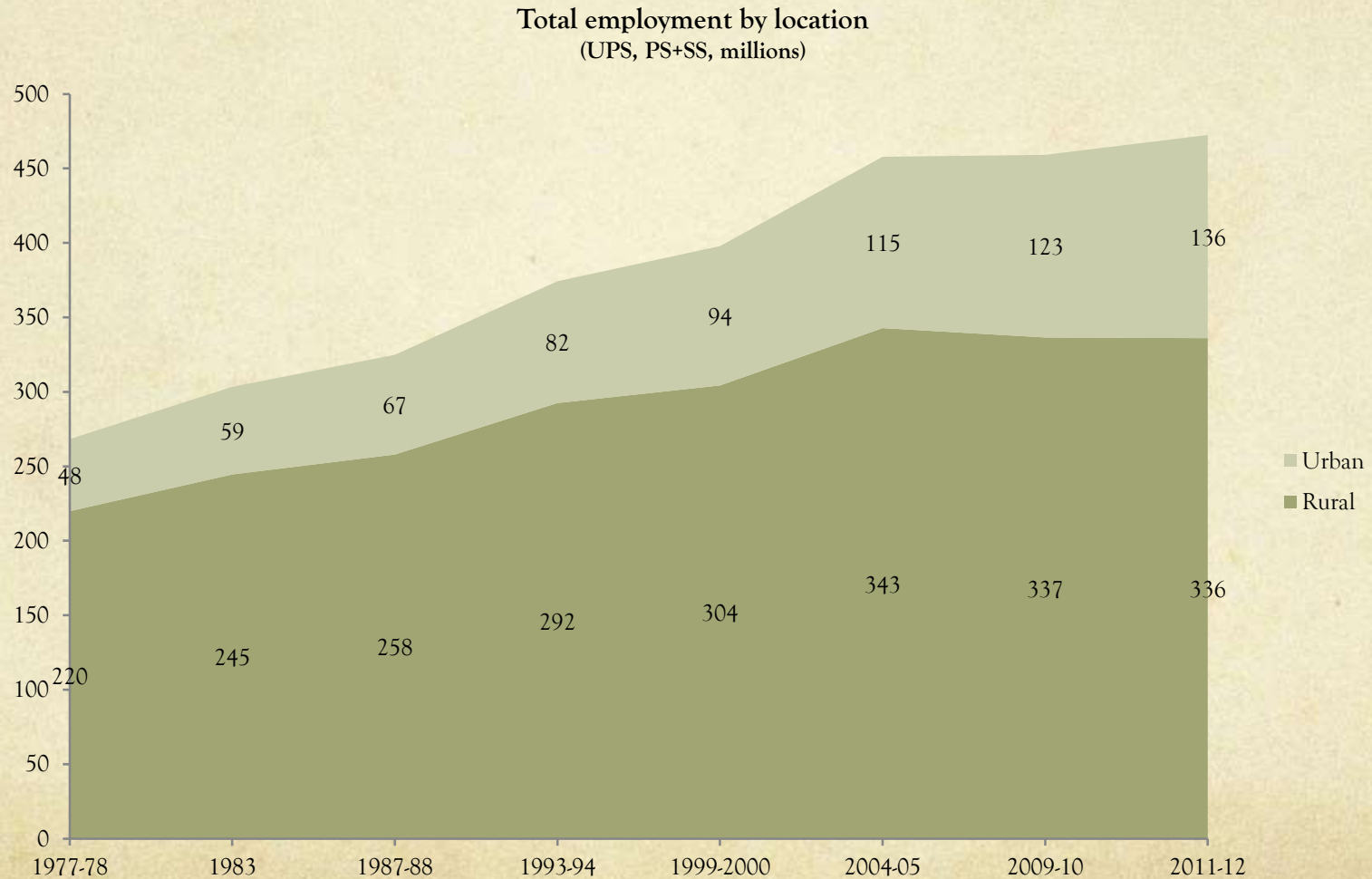
# Growth in recent years dominated by FIRE and government spending on public administration and defence



# Pattern of growth now a cause for concern

- Investment continues to languish – has fallen in real terms over four years, and investment rate (as share of GDP) has now fallen to below 30 per cent from around 34 per cent just five years ago.
- Over the last two quarters (Oct-Dec 2016 and Jan-Mar 2017) it has been based on agriculture (because of good monsoon) and government consumption expenditure in the form of public administration and defence.
- But farmers across India are protesting because crop prices have crashed below their costs, because of depressed demand post-demonetisation.
- Other employment has simply not increased enough and there are huge livelihood concerns.
- Public spending has not been increasing in important social sectors like health, education and nutrition.

# Total employment has stagnated in a period of rapid GDP growth



# Organised sector employment (including workers with informal contracts) has barely grown, despite years of high growth



# Even in formal sector, wage shares are falling as wages have not increased along with labour productivity

Wage share in value added  
in Indian organised manufacturing

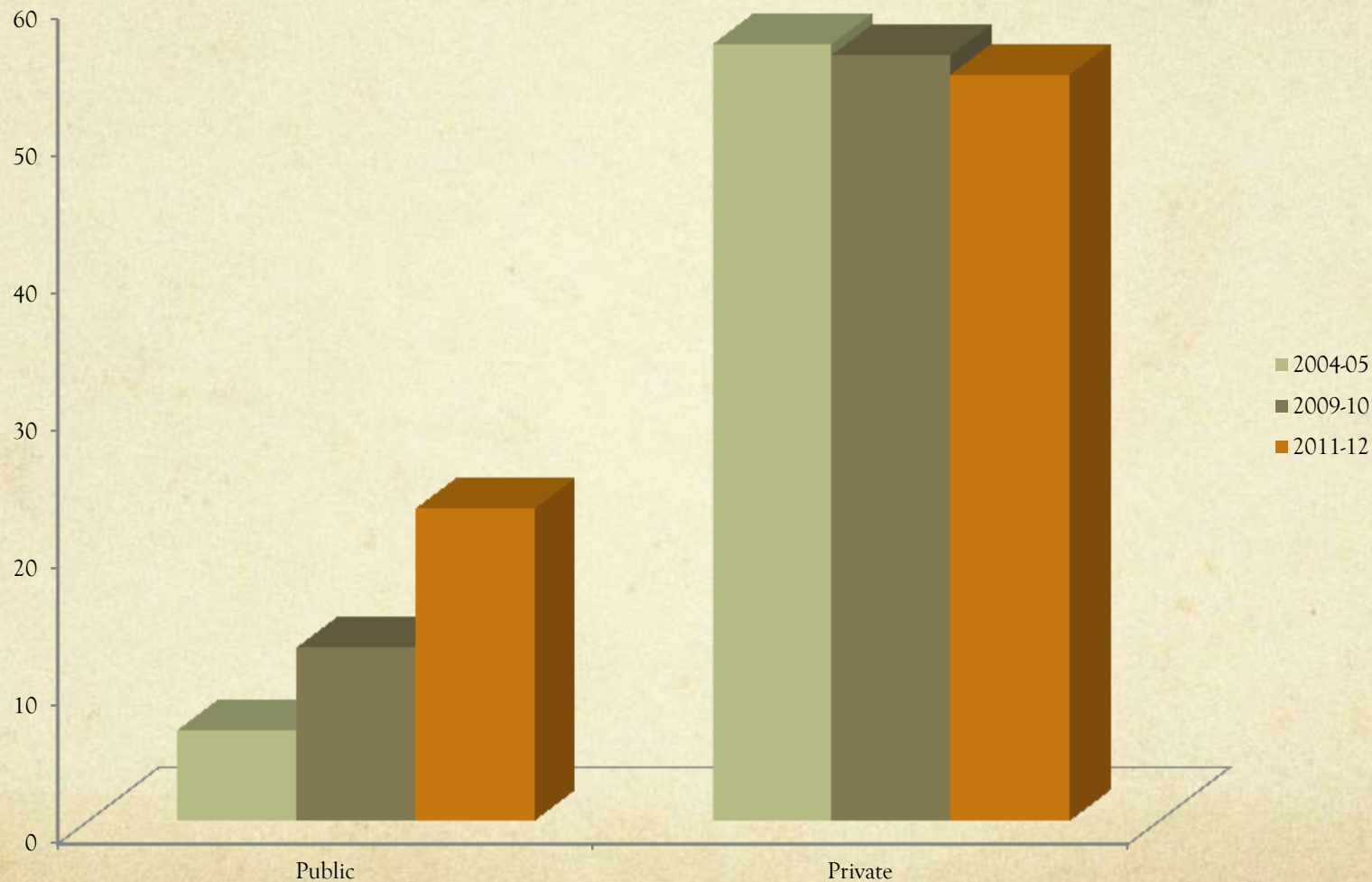


# Informalisation dominates the Indian labour market

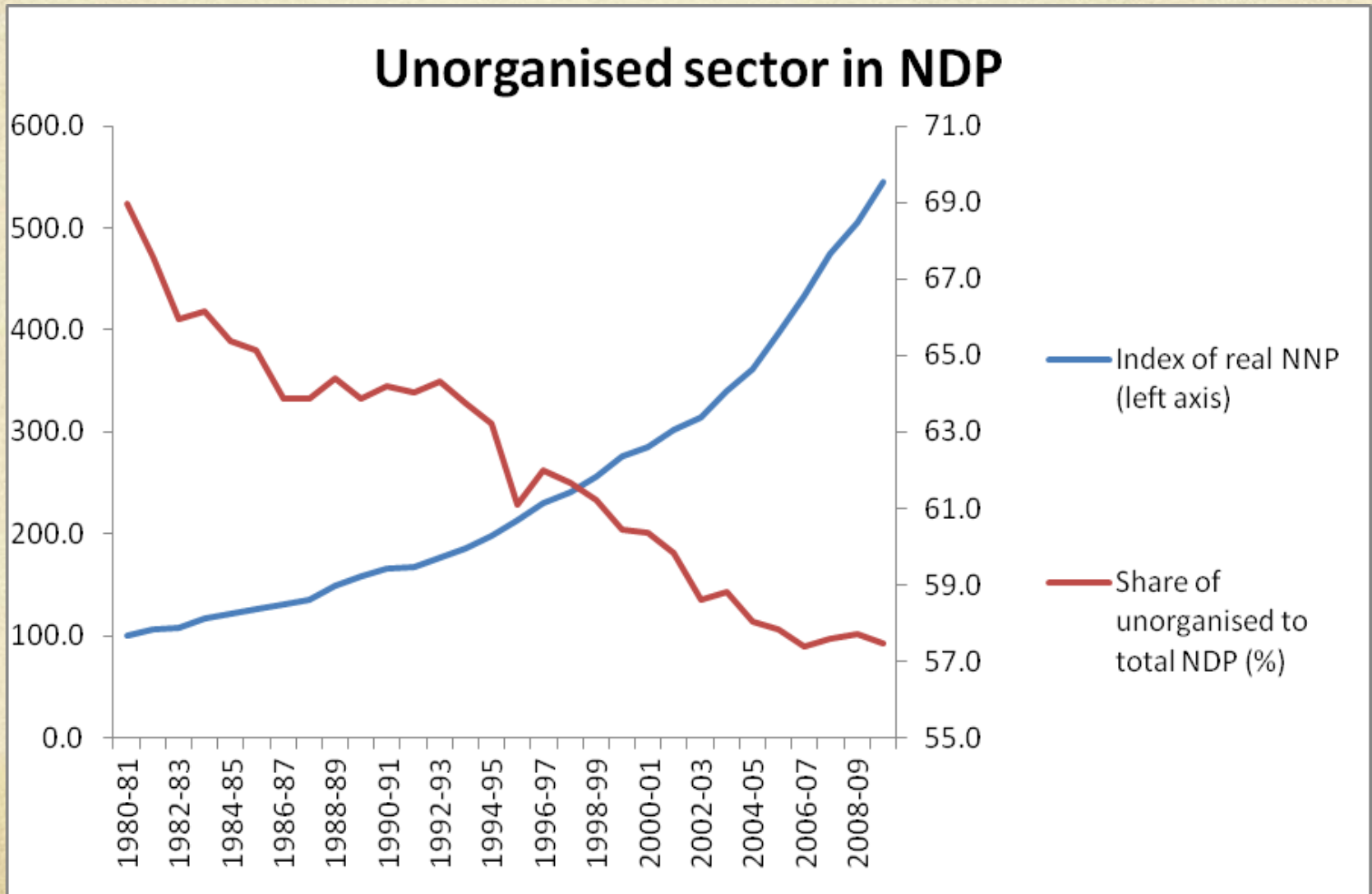
- Formal employment refers to any worker with **any one** of the following: a written contract; OR social security like pensions; OR paid leave
- 23% of workers in organised public sector and 54% of workers in organised private sector **did not have any of these** and are “informal” workers.
- Total informal workers in the economy amount to around 96 per cent of the workforce.
- Organised manufacturing has less than 14 million employees in total, while IT services employment around 3 million, out of a recognised work force of around 500 million.



# Share of informal workers in organised non-agricultural activities (%)



But the informal sector but gets less and less share of national income



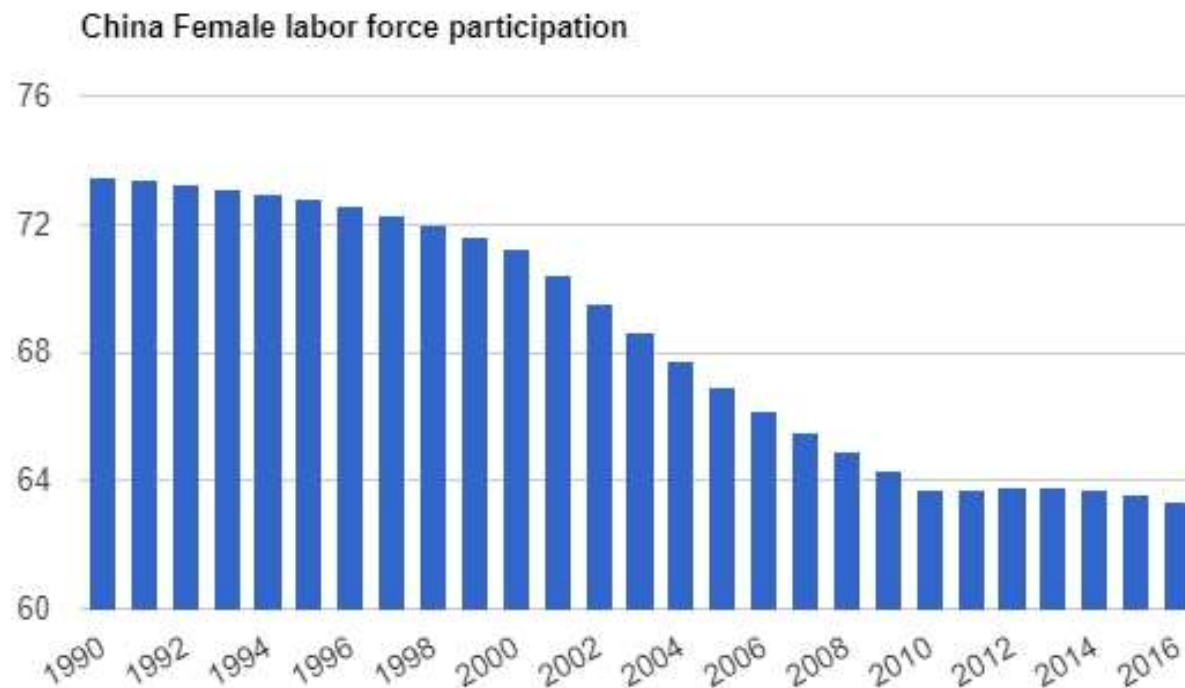
The viability of informal activities is being hit by new policies, but the formal sector is simply not generating enough employment to make up

- Problems in agriculture and the viability of farming
- Demonetisation and attempt to force digital transactions that involve costs
- A common system of Goods and Services Tax rolled out as of 1 July 2017
  - Very complicated – 5 different rates
  - Multiple forms to be filed, up to 4 per month plus quarterly and annual filings
  - Will add to accounting costs of micro and small enterprises
  - Will affect companies operating on very low margins and force shift to larger companies
  - Anti federal system that abolishes states' taxation powers

# Gender discrimination has been integral to accumulation and economic growth

- Enables social reproduction of labour that subsidises capitalist production by providing unpaid labour in a range of activities.
- Allows entry and exit of women from labour force based on life cycle and “culture”, which in turn expand or reduces labour supply.
- Creates segmented labour markets that provide cheaper labour from women workers as required.
- Provides social cushion that helps families and communities to tide over crises and results of fiscal austerity.

Women's labour force participation is declining in China as they revert to more traditional economic roles



Source: TheGlobalEconomy.com, The World Bank

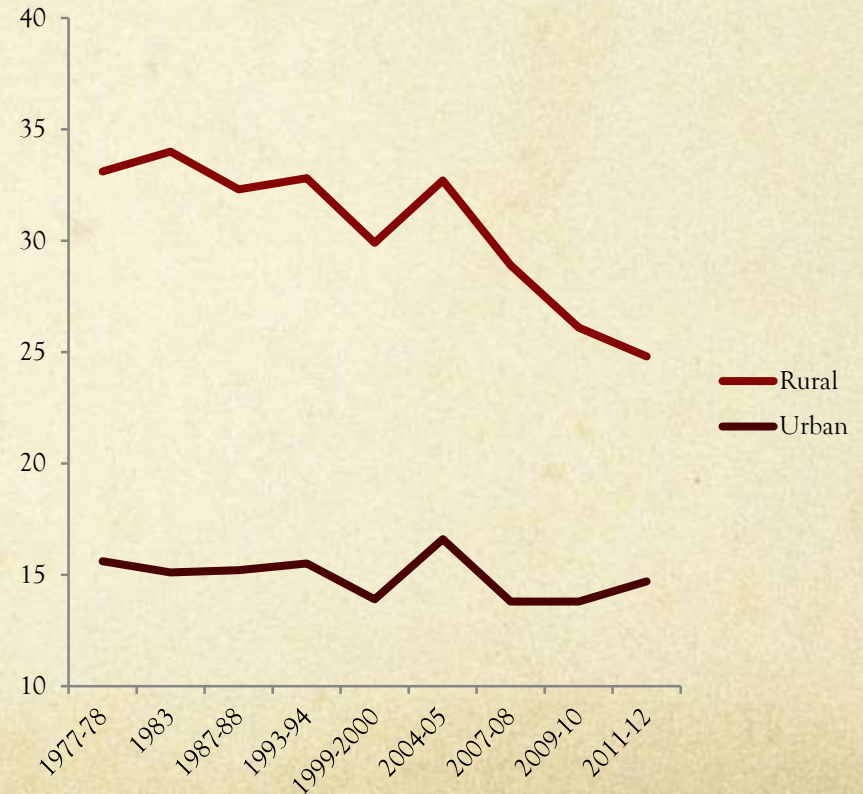
In India, female work force participation have remained low and even declined - mostly in agriculture

### All India Work Participation Rates

(Usual Status, Principal and Subsidiary activities)



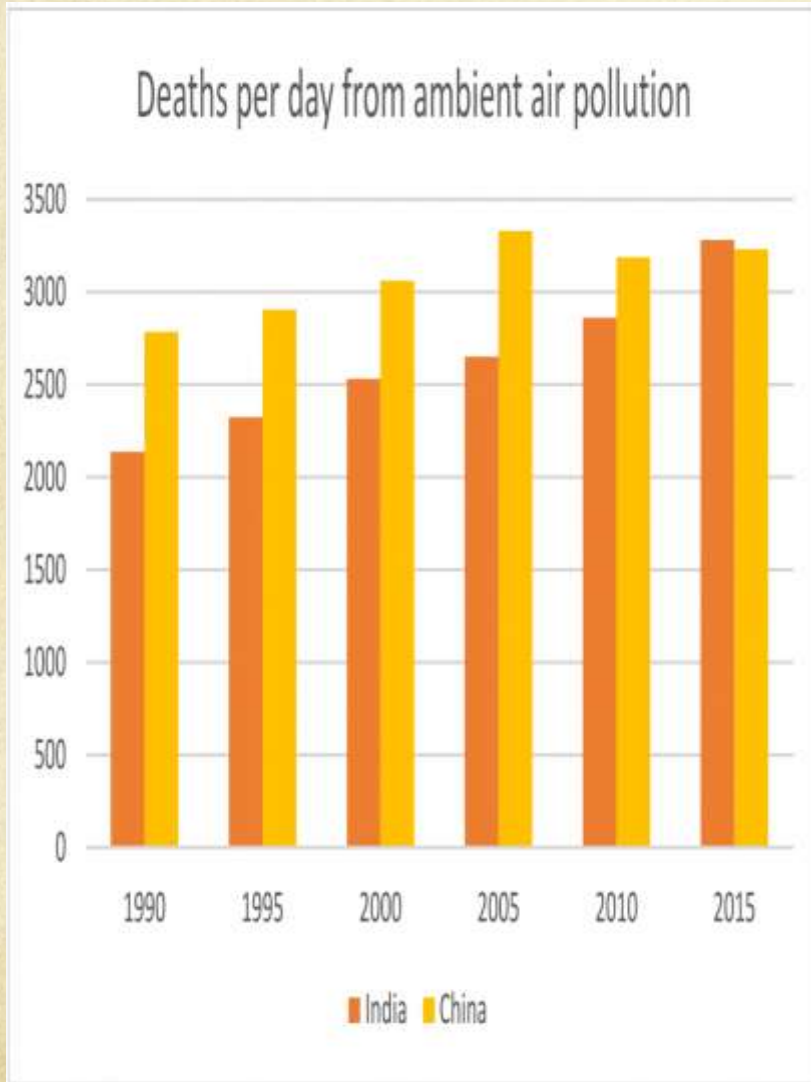
### Female work participation rates



## In both countries, shift from **paid to unpaid labour** of women

- In China, shift to focus on social reproduction and domestic care – especially evident in middle and upper income groups.
- In India, big increase in number of women engaged in “domestic duties” as well as those engaged in unpaid collection of fuelwood and water for household use, and other activities like kitchen gardening, poultry, other processing for family consumption.
- Because such activities are not classified as “employment”, this unpaid labour effectively a huge subsidy on recognised economy.
- This also messes up aggregate productivity calculations.

# Atmospheric pollution is causing higher mortality and morbidity



- Cities in these countries dominate in top worst affected in the world.
- China and India account for more than half of global air pollution deaths – and India at much lower level of industrial development
- Increase in respiratory and cardiac illnesses, strokes, asthma and cancer.
- Problems spreading from urban to peri-urban and semi-urban and even rural areas



# Will the future be about water wars?

- In China, desertification in North and environmental concerns like waterlogging and salinity from Three Gorges Dam and river interlinking projects.
- Most watersheds, lakes and rivers polluted, and massive contamination of underground water sources.
- Growing internal dissent and conflict over both water allocation and water quality: around 50,000 protests in a year related to water degradation
- In India, water shortages now acute in rural and urban areas and big increase in time spent on water collection.
- Organic and bacterial water pollution dominates because of discharge of human, domestic and industrial waste into water bodies mostly in an untreated form from urban centres
- Links to food safety, illness (including cancer) and deaths

# Water as toxic froth



# So what's going on?

- This pattern reflects accumulation strategy in both countries: privileging GDP growth driven by incentives to large capital and debt-based cycles, in the hope that it will “trickle down” to better conditions for all.
- Just as in some advanced countries, even in these globalisation “success stories”, this strategy is generating more inequality, increased material insecurity and worse conditions of life – as well as more disaffection and unpleasant social/political responses.
- Need “bubble up” strategy instead, based on good quality employment growth that creates domestic demand and multiplier effects, universal provision of public social services and reduced reliance on debt cycles.

# The way forward

- Public provision of infrastructure, amenities and basic services, based on progressive revenue raising
- State as employer of last resort, with emphasis on **good quality public employment generation** – both regular (public services and the care economy) and casual (employment guarantee) with strong multiplier effects.
- Wage bills as source of effective demand – not just “cost”.
- Focus on MSMEs in all sectors and creation of effective policy packages (credit, inputs, technology, marketing).
- Factor in environmental costs in past, current and future projects

# Important role of universal public provision

- Universal good quality provision of basic amenities like access to housing, water and electricity and essential social services such as nutrition, sanitation, health and education.
- Universal social protection.
- Targeting only to the poor creates errors of unfair exclusion and unjustified inclusion, and has been shown to be inefficient and susceptible to elite capture.
- Universalism creates wider public demand for better quality of public services, which in turn enables more progressive tax collection that flattens income distribution even as it produces more social stability.
- Strong employment multiplier effects that generate sustained growth with better quality of life.

# Macroeconomic policies

- Ensuring that wages increase along with labour productivity.
- Increasing the productivity and remuneration of small-scale and self-employed activities.
- Progressive income taxation and redistributive social transfers targeting education and health spending as well as public child and old-age benefits
- Policies to regulate finance and financial returns
- Strategies to curb the excessive concentration of ownership or control of land and other resources.

Thanks for your attention!