

LESSONS FROM COVID, CHINA

Relevant for: International Relations | Topic: India - China

Promoters of free trade say countries that trade with each other are unlikely to go to war with each other. The volume of India-[China](#) trade has been growing for many years. Yet soldiers of the two countries are skirmishing along their borders. Ten years ago, the Indian ambassador to China pointed out that while the volume of trade was growing no doubt, the pattern of trade was worrying. China's exports to India were many times India's exports. Moreover, while India was exporting more raw materials, China was exporting manufactured goods. This was the trade pattern between a colonial power and its colony, the ambassador said.

The contrast between India and China's growth since 1990 is stark. In 1990, India's per capita income was \$368, with China lagging at \$318. By 2019, China's per capita income was \$10,276, five times larger than that of India's. In 1990, India's industrial capacity was the same as China's and in some sectors, machine tools and power equipment, for example, India was ahead. Whereas, by 2010, India was importing sophisticated power equipment, machine tools, and electronic items from China, in addition to toys, footwear, and simple products.

India's and China's growth trajectories began to diverge sharply from 1990 when the two countries adopted different policies for trade and industrial growth. China has built strong industrial capabilities since 1990. India's industrial policy, if it had one, has clearly failed. In fact, after India fell in line with the Washington Consensus in the 1990s, industrial policy to build domestic capabilities was frowned upon. Ambitions of self-reliance were dismissed as autarkic. Indian consumers would benefit if they could obtain products from the cheapest sources in the world, free trade theory said. Assemblers of products would also benefit, and their customers too, if they could buy their inputs from the cheapest sources in the world. Thus, barriers to imports were reduced, while domestic capabilities were not built up as fast. Between 1990 and 2010, China's economy became five times as large as India's, and its production of machine tools 50 times as large.

China did not fall in line with the rules of trade that WTO wanted all countries to follow. In fact, China is accused of flouting the rules, "stealing" technology, and protecting its domestic industries. India tried harder to comply with the rules, and yet was accused of flouting them when it tried to encourage domestic production of electronic items, or grow its generic drugs industry, or support its domestic producers of power equipment rather than importing equipment from China.

Trade policy must be linked with foreign policy no doubt. However, foreign policy must be linked with industrial policy too; and, to complete the circle, trade policy must be linked with industrial policy. Otherwise, as the ambassador had suggested, India will become strategically even weaker. Merely increasing the size of India's economy to \$5 trillion will not make India a developed country. India's policymakers must change the approach to economic development focused on the top line that they have followed in the last three decades. They must focus on the bottom line for all citizens, which is decent jobs, with better wages. A new approach, combining industrial development, trade, and diplomatic policies is necessary to create millions of decent jobs, with better wages, all over the country. Only then will India become a "developed" country for all its citizens.

There is no point in moaning over the time lost with an approach to development that has not worked well; nor in debating who is to blame. India must move on, and move fast. The potential size of the Indian market— a country with 1.2 billion people — can be a temptation for investors.

However, the market will grow only if incomes of citizens grow. The success of India's industrial policy must be measured by the number and the spread of jobs created. Therefore, attracting investments for large factories using automated machines, and thereby increasing the share of manufacturing in India's GDP, cannot be India's strategy. More jobs must be created in India's heartlands and its rural areas, not only in its cities and around its ports.

Most Indian citizens do not have the skills for modern industries yet. Nor can they afford to lose their incomes to take time off to learn new skills. They must learn as they earn. To earn they must be engaged in industries that will employ them with whatever capabilities they presently have. And, to learn at the same time, they must stay on the job and they must be trained while they work. Most of all, they must be treated as human beings who have a will to learn; and not as temporary hands to be merely used and discarded.

What has been done over the last 30 years cannot be undone. China holds stronger cards than India on the industry and trade fronts. India's economy will be vulnerable in a trade war. However, India's consumers and industries must be prepared to tighten their belts, just as our soldiers are along the border. India needs jobs to provide incomes for its citizens, and it needs industries to provide the jobs. India needs to balance its trade with China to make it a trade between equals. Atmanirbhar Bharat is essential. Otherwise, "interdependence" will be a colonial-like interdependence as our ambassador astutely pointed out.

India needs a new paradigm for trade, industry, and development. The only silver lining of the [COVID-19 pandemic](#) for India is that the need to adopt a new paradigm has become obvious. It is needed not only to strengthen India vis-à-vis China, but to make the economy good for India's poorer citizens too.

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