

An Understanding of Neoliberalism Order in China and India

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What is Neoliberalism?

- Neoliberalism is a market-driven approach to economic and social policy. The idea of neoliberalism is completely based on neoclassical theories of economics. The keywords for neoliberal economic, political and social order are the efficiency of the enterprises, liberalized trade and more and more open markets based upon the logic of competition in every sphere of economic and social life.
- At the centre of neoliberal ideology is market. Market here becomes the metaphor of everything. One can say worldview of neoliberal doctrine/ideology is spelt in term of market.
- In this neoliberal conception of market there must be more than two agents. Because neoliberal market is just not the market for exchange.
- Rather, for a market to be market in neoliberal sense has to be competitive, has to be based upon competition. This demands that there are at least three entities in the market so that competition is ensured.
- It seeks to maximize the role of the corporate sector in determining the political and economic priorities of the state. In doing so, it strives at creating individuals as economic in the society, political as economic and state as economic in the sense of market.
- It aims at construction of individuals as *human capitals* who will be the pivotal force in this *enterprise economy* as *ability machines*. This individual is rational in the sense that he can always make 'rational decisions' based on some cost-benefit calculations and can act on that basis which leads him to be efficient in terms of generating surpluses, profits, incomes for others and also for himself.

What is Neoliberalism?

- Neoliberalism in its endeavour to project an economy and society on the basis of free and competitive market also targets at a political order, which would pose state as economic only replacing the image of state as welfare-centric interventionist one in the modern liberal days – particularly aftermath of the Great Depression of 1930s and the Second World War.
- In neoliberal order state should be active only in promoting the interests of the market and eve, wherever necessary directing market for the sake of market only (not for state or otherwise).
- State remains passive in other cases.
- State follows the signals of the market and act accordingly to ensure the fundamental political conditions of existence and sustenance of the neoliberal order, and market.
- Every individual here is projected as ability machine who are guided by self-regulation. They are optimising agents, and in that sense they are rational.
- Not only individuals everything in neoliberal order is projected as commodity of market, say, a city, region, nation and even state/government.

What is Neoliberalism?

- In this neoliberal political and economic order/regime, economic growth *per se* is the *mantra* of development, transformation and progress. So, the aim of this market economy is to produce high economic growth in the macro sense but the logic of this growth, the means of this growth is to be found, theoretically speaking, in micro-foundations of neoclassical theory. One can in this regard cite the literature on endogenous growth theory as a support in favour of this claim.
- In one word, in our own rendition it can be said that every human life following neoliberalism as an ideological pursuit of the day of the official political regime almost everywhere in the world since last three decades has its meaning, existence and (de)construction in terms of market only.
- So, through market, and that too free and competitive market worldwide through the global circuits of capital *capitalism as hegemony* attempts to dominate over everything and at the same time tries to foreclose those which are non-capital(ism) and also, through the stylised presentation of economy *a la* neoclassical theory, forecloses the presence of *class processes* in the society and thereby, forecloses an understanding of capitalism as hegemony based on class processes and hence, exploitation and looting of surpluses created by the performers of those surpluses.

State Policies under Neoliberalism

§ Neoliberal state adheres certain types of state policies to ensure the conditions of market:

1. Fiscal Policy
2. Redirection/Restructuring/Reduction of public spending
3. Tax reform
4. Deregulation of interest rates
5. Floating exchange rates
6. Trade liberalization
7. Liberalisation of the "capital account" of the balance of payments
8. Privatization of state enterprises
9. Deregulation
10. Legal security for property rights
11. Flexible labour regime
12. Financialisation of capital



Three Points Merit Attention Regarding Neoliberalism in China and India

Note 1

- It is not necessary that all the features of neoliberalism are in-to-to followed or adopted by all the countries of the world in their pursuits to establish a neoliberal regime.
- What is important to note is the fact that all the countries following neoliberal order in their own domestic economies render their economies to be market driven, to be guided by the logic of competition, efficiency and self-regulation as far as possible. The common features of all neoliberal economic settings include positioning of state which is market friendly and provides or even dictates in terms of their policies conditions for functioning of market mechanism and accordingly, endeavour to produce efficiency-focused, profit-oriented image of economy where economic growth remains the *mantra* of development, progress and sustenance of the very neoliberal political and economic orders.
- In this respect, China and India are no exception although there are some differences – particularly with regard to the role of the state in these two countries.
- To be competitive in markets – especially global markets as every neoliberal order aims at global integration of their economies in terms of opening up policies (meant for free flows of goods and services as well as financial capital across global borders) – every neoliberal needs source for their own competitiveness which is spelt out in terms of flexible labour rules and regulations which only ensure cheap labour at least in the short run, and also, some fine-tuning of their financial regime in line with neoliberal dictate – although the course of this fine-tuning may differ from country to country as the experiences of China and India indicate. Two countries differ to a large extent in this respect.

Three Points Merit Attention Regarding Neoliberalism in China and India

Note 2

- China and India differ in terms of their initial conditions of reforms, liberalisation, and globalisation.
- China in 1949, after its revolution, under Mao started a socialist way of economic development process which can best be dubbed as Mao-brand of socialism. The basic feature of this socialism was centralised planning in the sphere of production, distribution and even, in consumption. It is guided by Central Planning Authority at the dictate of the (communist) party-state. In this regime, there is absence of market.
- India in 1947 after gaining Independence from her colonial rule adopted a mixed economic framework in which centralised planning (indicative planning) was put into place and where public and private sectors coexisted simultaneously. So, state and market coexisted. And it was the state which was more powerful and market was state-regulated. State was an interventionist state in every sense of the term.
- But the commonality of economic regimes of both the countries in their own pre-reform periods is that both the countries aimed at the process of economic development on the basis of grand industrialisation of the economy. A modern economy in both set up was spelt out in terms of modern industries and urban societies.
- So, when reform started market was not totally unknown in India whereas in China the idea of market as posed in neoclassical economics and Western society was not to a large extent known – it has to be created then.

Three Points Merit Attention Regarding Neoliberalism in China and India

Note 3

- China in 1978 started her economic reform programme under the leadership of Deng on its own term. It was not fuelled as such by any economic crisis. Rather, it can be said that economic stagnation prompted China to adhere to the path of market-driven economic programme.
- Deng perceived that socialism was brought into China by Mao before the full development of capitalism and that is why, the Mao-brand of Chinese socialism ultimately led to economic stagnation and might prove to be a threat for the very existence of communist regime in China. Hence, as he felt and pursued, there should be first development of market based on the some basic principles of capitalism, as portrayed in neoclassical economic theory, which include efficiency, profit and continuous expansion and of course, economic growth.
- On the contrary, Indian journey towards neoliberalism was fuelled by her economic crisis – the crisis she faced in her external payments situations with burgeoning and unsustainable fiscal deficits, large external commercial debt obligations and huge current account deficits in 1991. This forced India to approach the IMF for rescue. The rescue package came in the form of standard macroeconomic stabilisation and structural adjustment programme of the Fund-Bank (as pronounced in Washington Consensus). And thus came the neoliberal order/regime in India at the dictate of Fund-Bank conditionalities.

FISCAL POLICY

CHINA

- With the inception of economic reform China changed her stance in fiscal policy.
- One of the major thrust of fiscal policy is to make it surplus-generating one
- There is restructuring/withdrawal from many social security based commitments of the government in the pre-reform days.
- Change in fiscal policy is more pro-active in terms of generating more savings in the economy as can be found from the high savings rate of the Chinese economy in the post-reform days.
- But the fiscal policy stance of the government, unlike India, does not imply complete withdrawal of government; rather taking more and more active stance in directing market.

INDIA

- India was very much concerned with its large fiscal deficit when the reform started. It was at that time as high as 7% of her GDP.
- On the advice of the Fund-Bank, India started reducing her deficit over the years.
- Concept of different deficits and how they differ from the previous concept.
- Fiscal Responsibility and Budgetary Management (FRBM) Act
- By strimming down the fiscal deficit there is a change in governance – from interventionist one to market-friendly.
- Public-private partnership
- Targeted approach to social sector than previous universal one

Redirection/Restructuring/Reduction of Public Spending

CHINA

- With changed fiscal policy stance which is directed towards market, there is restructuring of public spending.
- Reduction in social security spending from the pre-reform days.
- Public spending more for infrastructure development than for setting up new state-owned enterprises.
- Redirection of public spending towards the cause of the market – which causes rapid and high economic growth
- Limited social sector expenditure
- Fiscal stimulus in response to the Global Crisis in 2008 – high savings
- Reduction in subsidies

INDIA

- Reduction in public expenditure – particularly those pertaining to social sector spending
- Restructuring of public spending keeping in mind the objective of attaining high economic growth
- Redirecting public expenditure towards the cause of market like aiding in developing special economic zones, shopping malls etc.
- Fiscal stimulus in response to the Global Crisis in 2008
- Targeted social sector expenditure – like targeted public distribution system, national rural employment guarantee scheme on the basis of identifying below the poverty line (BPL) households in rural areas
- Reduction in subsidies

Tax reform

CHINA

- In the post-reform days, China has a tax regime which favours large corporate business in the country – particularly the foreign invested firms
- China did not follow a tax regime of raising tax revenues by lowering tax rates
- Rather, Chinese tax regime automatically got defined/fine-tuned with change in the economy as middle-income group emerges in the economy
- The emergence of middle-income group helps to raise more tax revenue
- Chinese government is extremely cautious to see that the tax regime does not come in contradiction with the high savings rate of the country

INDIA

- Tax Reform in India – Chelliah Committee
- Income Tax Reform, Customs Duties Reform and Services Tax
- Lowering of Corporate Income Tax
- Rationalisation of Income Tax Regime over the years
- Rationalisation of customs duties/import tariffs
- Agriculture is not taxed till the date
- Many tax benefits to business firms locating in SEZs, or foreign firms or firms oriented towards to exports
- No tax incentives to small firms any more (removal of all sorts of incentives for small firms)



Deregulation of interest rates

CHINA

- China has not followed a market-oriented interest regime
- It has retained a directed banking sector
- Still now it follows a directed interest rate regime
- But now the interest rate is set by the authority taking into account the market conditions and signals
- But interest rate remained of late higher than those in the Western countries to attract foreign capital flows

INDIA

- India used to follow an administered interest rate regime
- India deregulated the interest rate regime
- Interest rate regime in India at present is closely an aspect of monetary policy regime and one of the important factors influencing the interest rate regime is prevailing rate of inflation in the economy
- But we find that for a long time the monetary authority kept the interest rate low so as to tackle the high public debt of the government
- Interest rates in India remained higher than those in the Western countries and this helped in attracting large foreign capital inflows – particularly in the form of foreign portfolio investment

Floating exchange rates

CHINA

- China continued with her fixed exchange rate regime for a long time even after she started her economic reform programme.
- It adopted a managed float regime long after initiation of its economic reform programme in 1978.
- But even today China follows an exchange rate regime which is more close to an administered regime.
- Kept RMB weak artificially but despite that capital inflows continuing
- Current currency war
- It is possible to maintain such an exchange rate regime due to China's huge foreign exchange reserves.

INDIA

- India adopted a flexible exchange rate regime immediately after initiation of her economic reform programme.
- LERMS in 1992
- Fully market-determined exchange rate regime in 1993.
- Managed floating
- Intervention in the foreign exchange market by RBI
- It is possible because of large foreign exchange reserves of India
- While China has kept her currency devalued now the Indian authority has allowed her currency to follow market signal and hence, rupee has remained appreciated or strong in recent time

Trade liberalization

CHINA

- China's economic reform started with her trade liberalisation programme with more and more emphasis on foreign trade.
- Import liberalisation for production and exports
- Direct efforts in export promotion
- Gradual opening up
- Rapid increase in share of foreign trade
- Chinese trade policy has to be understood along with her industrial policy reform
- SEZ

INDIA

- India's trade liberalisation programme started way back in mid-eighties with mainly import liberalisation
- India in her new trade policy regime shifted from import substitution regime to import liberalisation regime
- Rationalisation of tariff and other trade and non-trade barriers in line with WTO
- Emphasis on exports – shift from export-pessimism of 1950s and 1960s to export promotion
- India is still not a trade-dependent country
- SEZ and EOUs

Liberalisation of the "capital account" of the balance of payments

CHINA

- China does not have a fully convertible capital account.
- It has made to some extent (not to large extent) few capital inflows convertible whereas capital outflows are totally inconvertible
- Rather it has, what can be dubbed as a directed capital account regime with every capital account item (inflow as well as outflow) is subject strict vigilance of the authority.
- Over the years China has eased many restrictions which storngly used to regulate capital flows.

INDIA

- India does not have a fully convertible capital account regime
- A very cautious approach towards full capital account convetibility
- Tarapore Committee
- Trade account liberalisation
- Current account liberalisation
- Partial capital account liberalisation with inflows remaining mostly convertible and some, not all, outflows are convetible
- There still exist strict restrictions on many capital outflow items.
- It is unlikely that in near future India will move towards full capital account convertibility

Privatization of state enterprises

CHINA

- No private enterprise/entrepreneurs at the time of initiation of reform
- Privatisation of State Owned Enterprises (SOEs)
- Establishment of different types of firms along with SOEs – JVs, FIEs, TVEs etc.
- Profit orientation and streamlining businesses following Western balance sheet/accounting principles
- Privatisation of state enterprises in which communist party members and their family members and friends getting majority stakes
- Privatisation through JVs
- Stress on private investment (even in agriculture)
- Aiming at efficiency, competition and profit

INDIA

- Privatisation of public sector enterprises (PSEs)
- Withdrawing of social objectives of PSEs
- Efficiency, Profit orientation
- Stress on private investment (even in agriculture)
- Garnering more autonomy to major existing PSEs
- Navaratna (Nine Jewells), Miniratna, Maharatna status – more and more autonomy in decision making regarding raising capital and making enterprises efficient and competent in the market
- Closing down of loss making (inefficient) PSEs
- Public-private partnership (PPP)
- Government Departments are also run through the concepts of efficiency (based on cost-benefit calculations) and PPP
- PPP in Government projects including social sector programmes

CHINA

- Chinese reform measures are characterised by deregulation
- Deregulation implies withdrawing/relaxing state controls and regulations which are anti-market
- But in Chinese case they are replaced by new state regulations and controls which support market
- These regulations are more and more *modern management* oriented which facilitate market
- But there is no till the date not much effective financial deregulation except setting up of stock exchanges in early nineties
- Finance is till today directed and controlled by state
- China retains effective control over the market (control by the party-state)

Deregulation

INDIA

- Deregulation of state controls and regulations
- Particularly in the case of industrial policy
- Particulary in the case of foreign investment flows and foreign trade
- Delicensing
- Dereservation
- Decanalisation
- Relaxing MRTP Act, FERA
- Management orientation like FEMA
- Deregulation of finance but not fully as in the Western world
- State as one of the players in the market where state follows the signals of the market
- State intervention only when market is in trouble and it is temporary

Legal security for property rights

CHINA

- No private property rights at the time of initiation of reform
- Installing private property rights in gradual manner
- Change in tenurial system in agriculture
- Real estate boom indicating more and more inclination towards owning house property by those who can afford
- Investment in real estate in the belief that real estate prices will always rise in future
- Gradually redefining property rights in line with the claim of the modern capitalist market following China's entry in WTO
- Still it is said by the Western World that Chinese property rights are not full and complete in their own terms

INDIA

- Private property rights ensured in the Constitution of India from very beginning
- So, there was no need for changing the property rights status after the initiation of reform programme in 1991
- Tenurial system in agriculture changed in 1950s with the abolition of intermediaries (ZAMINDARS – the big land owners) and land reform in some states like West Bengal
- State has no control over the private property from the very beginning
- India follows Anglo-Saxon legal system from the very beginning
- India has till the date retained many of the colonial laws like Land Acquisition Act, 1894

Flexible labour regime

Key to Neoliberal Order in China and India

CHINA

- China adopted the flexible labour regime with wage flexibility, working hour flexibility etc.
- Easy hire and fire
- Cheap labour
- Informal labour
- Family labour
- Child labour
- No effective trade union/voice representation as trade unions are attached to the ruling communist party
- Huge rural-urban migration
- No social security
- No social responsibility of the state to generate employment
- Short-term employment with no job security

INDIA

- *De facto* flexible labour regime as weak enforcement of existing labour laws
- Informalisation, Casualisation
- Wage and working hour flexibility
- Erosion in Social Security
- No job security
- Changing conception of work
- De-unionisation and faint voice representation
- Cheap labour
- State's responsibility to provide employment shrunk
- Reducing formal/organised employment
- National Labour Commission Report, 2000
- Although a formal change in labour laws yet to take place due to political opposition

Financialisation of capital

CHINA

- Opening up of stock markets in early nineties
- Allowing derivative trading – commodity as well as financial derivative – of late
- Rapid capitalisation of market in very short time
- Hong Kong remaining the strong centre
- But retaining state-controlled banking sector along with directed credit system
- Development of asset market – particularly real estate market
- Monetisation of every exchange and perceiving every economic decision in terms of cost-benefit calculations which are in monetary/financial term
- High savings and its link to investment in stock market
- An emergence of stock market culture and stock market capitalism
- Large foreign exposure of financial institutions
- Gradual dominance of finance capital of late

INDIA

- Stock markets existed
- Capital and Banking Sector Reforms
- Insurance sector reforms
- Derivative trading – securitisation process
- Domination of finance capital over industrial capital
- Restructuring economic activities in line with the interests of the financial capital
- But still Public Sector Banks exist and they are the major banks but they are now profit oriented and they can raise capital from the capital market
- Viewing the fundamentals of the economy in terms of the BSE Sensex
- Large foreign portfolio investment flows
- Stock market capitalism
- Not much large foreign investment abroad by financial institutions
- Large corporate investment in financial securities

Economic Growth

- Ø Economic growth is the *mantra* of the new order in both the countries
- Ø Aiming at rapid and high growth
- Ø Growth by market
- Ø Growth for market
- Ø Growth of market
- Ø Believe that high economic growth will automatically solve through the market the problem of poverty and inequality in the society
- Ø Rapid and high economic growth but rising inequality and relative poverty
- Ø Competition led to the erosion of small and incompetent firms
- Ø Rise of big firms, dominance of big firms – corporates and MNCs
- Ø With more growth came more integration with the global market and global order
- Ø High growth triggers large foreign capital flows
- Ø Emphasis on enterprise economy with ability machines – human capital – neoclassical endogenous growth theory
- Ø But source of growth and competition is cheap labour

Development

- Meaning of development – growth centric – growth is panacea of ills in the society
- Transition towards a capitalist economy – capitalism as hegemony
- Foreclosing of exploitation through neoclassical theory
- Dual economy concept – informal sector – concept of abnormality and backwardness *a la* Lewis
- Rapid and modern industrialisation through private entrepreneurship
- Rapid and indiscriminate urbanisation
- Trickle down approach of development based on high growth
- Inclusive growth in India
- Recent social sector policies in China
- Targeted approach, not universal one
- Private provision of education and health services
- Land acquisition – primitive accumulation of capital – confrontation with peasantry of late

Market

- ü Economy and society market-driven
- ü Belief in market as social and all encompassing institution
- ü Belief that market cannot fail
- ü But when necessary state should intervene to protect market (as during recent Global Crisis)
- ü Marketisation of everything – goods and services, individuals as ability machines or human capital, even cities as locations, regions, countries etc.
- ü Flexibilisation of the concept of work with giving up the Fordist concept of division of labour – concept of employability, not employment
- ü Flexibilisation of production
- ü Market means efficiency and competition
- ü Emphasis not on man of exchange but on man of production, and hence on ability machines
- ü Market needs state – a state which acts according to the logic of market, and provides the necessary conditions of existence of market
- ü Market is panacea for everything and market will take care of everything
- ü Political is termed in terms of market

State

- ✓ China retains state control over every facets of life
- ✓ In China Market is state directed still
- ✓ India did not have much state control over the markets, but certain regulatory mechanisms are in force to aid market
- ✓ State in both the countries are trying their best to mould everything in terms of market, competition, efficiency and profit
- ✓ China differs in many respect from the neoliberal characteristics as far as state is concerned
- ✓ But Chinese political order is no longer visualised as anathema to global market and hence neoliberalism in general by the West as long as Chinese state provides necessary conditions of existence and sustenance of market
- ✓ Both the countries are successful already in terms of instaling neoliberal competitive market. Now, is the question of their sustainability in the long run.
- ✓ Chinese order should be dubbed as Chinese neoliberalism, which is what officially known as market socialism and similalry, Indian version of neoliberalism is Indian neoliberalism
- ✓ Both differ in terms of standard descriptions of neoliberalism.
- ✓ Neither state is now anathema to market as it was earlier.
- ✓ State uses forces for the cause of market as in China and India.
- ✓ Both the orders are now widely accepted all over the world as they convene now everything in terms of market – that too, neoliberal market.

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Thank you very much
Merci.