CHINESE COMPETITION
Challenges and Opportunities

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"Free Enterprise was born with man and shall survive as long as man survives".

— A. D. Shroff
1899-1965
Founder-President
Forum of Free Enterprise

INTRODUCTION

The Forum of Free Enterprise, of which the late Mr. A. D. Shroff was the Founder-President and moving spirit, organises an annual lecture in his memory on a topic of public interest. This is in keeping with the Forum's object to educate public opinion. This year's A. D. Shroff Memorial Lecture was on "Chinese Competition – Challenges and Opportunities".

China was considered an enigma two decades ago. It is no longer one and has emerged as an important economic power. It is today the largest producer for cement, steel, coloured TVs and even several consumer durables. Its total exports this year will touch $300 billion. China has been able to achieve this remarkable progress because of its singular dedication to growth and improving the standards of living of its 1.3 billion people. In 1980 China's per capita income was below India's. Today it is more than twice ours.

What is remarkable is that though it still continues to be a highly regimented society, with little personal freedom and liberty, it has offered enormous incentive and impetus to the private sector, both local and foreign, in a wide range of industries. Though there are many infirmities by way of a very inadequate legal system and excessive centralisation, the amazing thing is that the country has recorded unparalleled and sustained growth for two decades.

Apart from its abundant natural resources China has given far more emphasis on human development than India. The

Chinese are very thrifty and have one of the highest savings rate in the world, over 40% of GDP. Further, next to USA and UK, it has been the highest recipient of foreign direct investment estimated at over $55 billion in 2002, more than 5% of its current GDP.

Foreign investment apart from supplementing domestic savings has greatly rejuvenated the manufacturing sector with inputs of modern technology and managerial practices. China's robust competitiveness in world market is often ascribed to low labour cost and long working hours. However, this is not the whole story. Perceptive students of the Chinese economy have high praise for the toughness, commitment, adaptability and high productivity of Chinese labour. Besides Chinese manufacturing prowess is as much driven by huge domestic demand as export growth.

India has its own strengths and can emerge as an important industrial power if it only can emulate the commitment to discipline and the single minded dedication to growth which the Chinese Government and people have displayed.

The Forum is pleased to circulate this booklet incorporating the text of the Lecture delivered by Mr. P. N. G. Subramanian, I.F.S. (Retd.), on 23rd October, 2002 in Mumbai. Mr. Subramanian was Consul-General of India in Shanghai for some years, and has made a deep study of China.

Mumbai,
30th October, 2002

Minoo R. Shroff
President
Forum of Free Enterprise

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P.N.G. SUBRAMANIAN, I.F.S. (Retd.)*

The basis of China's economic development: Since its abandoning of Class War and the adoption in December 1978 of socialism with Chinese characteristics, that is labelled as Economic Capitalism and Political Socialism, China's was one of export-led development. Hence, its strong emphasis, as a result of liberalization, on boosting of exports and China's special efforts to price its exports in such a way that no other supplier/manufacturer can match its cost effectiveness.

Over the years, after tasting success of this strategy, China has graduated towards technology-linked investment flows from the west including Japan, thereby re-inforcing mutually export capabilities of China and dependence on China and her markets for the Western investors. The eminently desirable latter result has been the outcome of its negotiating strength in including in the contractual agreements a proportion of the production being exported. So successful

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* The author was formerly India's Consul-General in Shanghai. The text is based on the 36th A. D. Shroff Memorial Lecture delivered in Mumbai on 23rd October 2002. The meeting was arranged by the Forum jointly with Indian Merchants' Chamber and India-China Chamber of Commerce and Industry.

has this policy been that, China has been able, in recent years to be choosy about the kinds of technology and the areas in which it wants imported technologies. This investment and technology inflows enormously benefited not only the industrial sector but also the allied sectors like services sector. It also benefited a great deal the underlying primary sector like Agriculture, which received, after Initial indifference from the planners during the eighties, the early period of liberalization, enormous attention, paving the way for food security in a land of floods and droughts and *inter alia* ensuring supply lines for food processing industry, especially receiving support in foreign investment and recently attracting foreign partnership with multinationals.

Though, many countries with much less imposing natural resources have made a decisive impact on world's economy, like Japan and Singapore for example, Chinese case is unique in the sense, it combines the abundance of natural resources with the availability of a hard-working, ambitious, proud and patriotic manpower managed by an efficient and, to us Indians, unaccustomed to it, a comparatively ruthlessly efficient administration. This compact and efficient management has been possible in the Chinese Society. Unsurprisingly, an overwhelming majority of the Chinese welcome this strictness in governance for the sake of the greater glory of China.

Chinese progress towards accession to the WTO was guided as much by historical sense as by realistic pragmatism. This ancient country could afford to wait out the machinations of western interlocutors till China got the best deals on market access, exemptions and investment, by playing the reluctant bride to importunate suitors. Thus it was, China, an industrial giant and trading giant and a preferred destination today, for majority of foreign direct investment in Asia, was permitted to accede to the World Trade Organization (WTO), the predecessor to which, the GATT, China had, in an ideological fervour of Chairman Mao Zedong, spurned in the early fifties as an instrument of imperialist design to neo-colonise the world. WTO might still be such an instrument. But now, China is in a position of playing in strength in such an instrument.

Economic Growth in Recent Years : Economic growth has been seen by the Chinese to have speeded up in the recent years from 1992 with enhanced comprehensive strength. According to official figures, the Gross Domestic Product (GDP) of the year 2000 was 8,940.4 billion Yuan RMB, up by 8.0 percent over the previous year at comparable prices. This growth rate was 0.9 percentage points higher than that in 1999. The growth of the primary industry was 2.4 percent, and that of the secondary industry was 9.6 percent, and 7.8 percent growth for the tertiary industry. At the current exchange rate (roughly US$1 = Y8.25), the gross domestic product of China had topped 1,000 billion US dollars. But, there has been some inconsistencies in the state statistics. The official statistic has been undervalued by some informed analysts to have been bloated to suit the official needs for shoring up the investment scenario and make Chinese economy look better than it might actually be.

Agriculture : During 2000, the output of grain decreased by a large margin while the product mix was further optimized. Influenced by severe droughts and structure adjustment of sown areas, the total output of grain for the whole year was $462.51 million tons, down by 9 percent over the previous year. Since the domestic textile industry was turning for the better, the demand for cotton increased, resulting in picking up of prices for cotton. Farmers were enthusiastic in planting cotton, the sown areas of cotton increased by 300,000 hectares over the previous year, up by 8.1 percent. With the structural adjustment, the production of vegetables grew at fast speed. The product mix of vegetables was further optimized with more quality, special and fine products.

Industry and Construction : Fast growth was registered in industrial production in 2000. The total value-added of the industrial sector was estimated at 3,957.0 billion yuan, up by 9.9 percent over the previous year.

Industrial Restructuring : Industrial structural adjustment has made significant progress. Fast growth was registered in the production of those products that enjoyed high technology and added value. The output of new industrial products was up 26.3 percent over the previous year. Manufacturing of electronic and telecommunications products became the first pillar of the industry. The production capacity of equipment manufacturing industry improved to some extent.

The closure of small coal mines and the reduction of coal production in coal industry achieved progress. The prices for coal were stable with the trend of picking up. As a result, the total losses of coal industry shrunk by a large margin. Active progress was seen in controlling the total production by metallurgy industry. The output of steel for the whole year grew with slow speed and the prices for steel rose up with significant improvement of profits made. The sugar-refining industry, which suffered from losses for consecutive four years, had turned loss into profits through optimizing the structure of planting areas, adjusting and cutting down the outdated production capacity. Undergoing three years of adjustment, the textile industry witnessed fast growth of profits in 2000, following the previous year's making up of the deficit.

Investment in Fixed Assets : Investment in fixed assets kept fast growth. Driven by central government's active fiscal policy and other polices of expanding domestic demand, investment in fixed assets reversed the trend of significant slow-down of the growth rate in the previous year and showed the momentum of fast growth. The important point here is the investments in fixed assets have come out mostly from domestic savings. China has a large number of airports connecting even small towns to the international air lanes. A substantial portion of these investments has indeed come from the overseas Chinese who have any way provided a substantial proportion (some figures suggest 80%) of the total investments of US$300 billion pledged and nearly US$ 250 billion accrued.

Construction Industry : The construction industry developed steadily, and the economic efficiency was turning for the better. In 2000, the value-added by construction enterprises was 591.8 billion yuan RMB, up by 6.2 percent over the previous year. During the late '90s, China suffered largely from over production and excess inventory while India could be considered to have suffered from under capacity utilization of many of its major industries and also lack of effective local demand. *In addition, industrial restructuring in China during the late 90s in China went smoothly increasing the efficiency of industries, due mainly to increased investment and technology flows from western countries, leading to a situation where its production ability posed a threat to our production methods and supply abilities.* This has resulted in Chinese encroaching into Indian markets successfully.

Basic problems of the Chinese economy that need urgent attention stem from an apparently inefficient public sector economy.

State-owned Enterprises (SOE's) : For decades, these have been the bed-rock of Chinese economy. These were called Iron Rice Bowl. They sustained the poor industrial workers numbering hundreds of millions, who still scrimped and managed to save, thereby sustaining the ever increasing thirst of national exchequer for funds. The advent of liberalization and the consequent need for technology infusion and redundancies, have made these behemoths uneconomic and unviable under modern conditions, some of which were dictated by foreign investors, most of whom were, ironically overseas Chinese – descendants of the very Chinese diaspora who had fled China for a better life in the 18th, 19th and the 20th centuries. The SOEs, which once contributed over 90 percent of industrial and mineral production, were progressively in the red, threatening to bring down the Public Sector Banks, including the major ones like Bank of China, Agricultural Bank of China, The Bank for Reconstruction and the Industrial and Commercial Bank of China, due to non-performing assets. Currently, the share of the SOEs in China's industrial production, and exports is still about 50%, thus substantial. The Chinese Government is keen to implement policy of bankruptcy harshly, thus hoping to avert the calamitous crisis of runs of Banks. But Banks are under pressure from NPAs.

Reforms in State-owned Enterprises : The targets set for the reform of state-owned enterprises (SOEs) and lifting those enterprises out of difficulty are being slowly met. Modern enterprises system was initially set up in most of the large and medium-sized SOEs. In particular, some large enterprises and enterprise groups were merged and reorganized according to international conventions. They were successfully listed on the international capital market. Measures such as reorganization, combination and merging promoted the transformation of operating mechanism of small SOEs and the improvement of their performance. Reportedly, over 70 percent of the 6,599 large and medium SOEs that were suffering from losses at the end of 1997 either became profit-making or were merged or reorganized by the end of 2000. This report is still somewhat an exaggerated hope.

The key economic issue that the Chinese leadership faces today is the question of liberalization of the economy without undue destruction of the State sector – the State-Owned Enterprises, the SOEs – which continues to play the key role of social stabilization and that of an employment agency, although increasingly less and less so.

Being important components of the market economic system, the government macro-control and adjustment policies such as financial and monetary policies themselves will influence economic growth to a considerable extent. The government macro-control and adjustment will face the dilemma of "maintaining a relatively high economic growth rate and continuing to keep inflation under control". The preferred policy is maintaining the economic growth rate at 8 to 9% and keeping the inflation rate at one digit. The aim of the macro-control and adjustment policies is to properly deal with the relations between reforms, development and stability and to combine the control of social demand with the improvement of effective supply. Equal importance is also attached to the stimulation of economic growth and the crackdown on inflation. The scope of investment in fixed assets and bank loans are two key links for the realization of goals. The reforms concerning SOEs, the financial system, social security system and administration when carried out further will engender social welfare problems.

Foreign Trade : China, with total foreign trade of almost

US$500 billion is world's 10th or the 9th largest trading nation. The integration of such a large entity, with gigantic natural resources, into the world's economy demanded by the foremost multilateral trading body, the WTO, has already impacted on all other countries – big and small. Like most challenges, this one presents India with both opportunities and challenges.

China is indeed relatively becoming comparable to most modern western nations, due perhaps to a greater efficiency of labour and technological penetration. It has captured 2.5 to 3% of International trade in the past 5 to 6 years. China's International trade in 2001 of almost US$ 500 billion means China's External Trade contributes almost 50% of the GNP (Gross National Product) making China one of the countries most dependent on world trade for its economic development. (For example, in the case of the USA it is 8-9% and in the case of India it is around 14%, the two continental economies that can be compared to China). This makes China indeed susceptible to volatile trade cycles. We need to understand this in order to appreciate why China was keen to accede to WTO; at the same time, we must appreciate its negotiating ability, and strength and success of negotiating position – entailed no doubt by its size, magnitude of natural resources, strong governance, military strength and permanent membership of the Security Council.

What are the kinds of challenges, India faces, while dealing with China and where are the opportunities? Before we deal this question, let us look at the kind of advantages Chinese manufacturer/exporter/importer has:

Tariffs : Import tariff rates are divided into two categories: the general tariff and the minimum (most-favored-nation) tariff. Imports from the United States are assessed at the minimum tariff rate, since the U.S. has concluded an agreement with China containing reciprocal preferential tariff clauses. The five Special Economic Zones, open cities, and foreign trade zones may offer preferential duty reduction or exemption. On top of normal tariff duties, both foreign and domestic enterprises pay either value-added taxes (VAT) or business taxes, depending on the nature of their business and the type of products involved. VAT applies to enterprises engaged in import-export, production, distribution or retailing activities.

China offers a comprehensive program of tax incentives and concessions. The general VAT rate is 17% but necessities, such as agricultural and utility items, are taxed at 13%. Enterprises regarded as small businesses are subject to VAT at the rate of 6%. Unlike other VAT payers, small businesses are not entitled to claim input tax credits for VAT paid on their purchases. Different standards apply regarding VAT rebates. The applicable rebate method is a function of the establishment date of the enterprise. Certain limited categories of goods are exempt from VAT.

China's accession to the WTO is likely to accelerate the phase out of its two-tier tax system for domestic and foreign enterprises. Domestic enterprises have long resented rebates and other tax benefits enjoyed by foreign invested firms. The move towards national treatment will mean the gradual elimination of special tax breaks enjoyed by many foreign investors. In addition, increasingly sophisticated collection methods are reducing loopholes for all market participants.

Tariff rates significantly lower than the published MFN rate may be applied in the case of goods that the Chinese Government has identified as necessary to the development of a key industry. This has been particularly true of high technology items. These products benefit from a government policy to encourage investment in high technology manufacturing by domestic and foreign firms. Foreign investment firms that produce certain types of high technology goods, or that are export-oriented, do not have to pay duty on imported equipment which is not manufactured in China and which is for the enterprise's own use. China's Customs Administration has also occasionally announced preferential tariff rates for items that benefit other key economic sectors, in particular the automobile industry.

Tariff rates for sectors in which China is trying to build international competitiveness remain especially high. Under the bilateral WTO agreement, after China's accession to the WTO in 2001 its industrial tariffs should start to fall from an overall average of about 15% to an average of 9.4%, several years after accession. If China's signature to the Information Technology Agreement (ITA), on China's WTO accession, should see tariffs on all ITA goods – such as semiconductors and computer hardware – eliminated by January 1, 2005. Until accession takes place, however, tariffs continue to act as an effective import barrier.

Import Quotas : WTO rules bar quotas and other quantitative restrictions. China has been gradually eliminating them and will continue this process after accession over a several year phase-in-period.

Import Licensing : Since the early 1990s, China has eliminated many import license requirements, a process that is likely to continue as China prepares for WTO accession. However, many products subject to import quotas also require import licenses, including some wool, grains, oilseeds and oilseed products, cotton, iron and steel products, commercial aircraft, passenger vehicles, fertilizer, hauling trucks, and rubber products.

Import Substitution Policies : China committed to eliminate all import substitution policies and regulations as one of the conditions of the 1992 market access MOU, but periodically continues to **issue** such regulations.

Anti-Competitive Practices : China continues to struggle with economic inefficiencies and investment disincentives created by local protectionism, predatory pricing, preservation of industry-wide monopolies, and monopolistic practices designed to protect the state-owned sector. In some cases, industrial conglomerates operating as monopolies or near monopolies (such as China Telecom) have been authorized to fix prices, allocate contracts, and in other ways restrict competition among domestic and foreign suppliers. There are several existing competition laws, and China is drafting a new anti-monopoly law.

China Trade Barriers : China restricts imports through a variety of means, including high tariffs and taxes, non-tariff measures, trading rights restrictions, and other barriers. Prohibitively high tariffs, in combination with taxes and other import restrictions, block many imports. Chinese officials are increasingly aware, however, that such protective measures contribute to endemic economic inefficiencies and encourage smuggling. Chinese Government has, indeed, undertaken measures to reduce these barriers. The number of firms with trading rights is continuing to increase; after WTO accession foreign entitles are expected to have benefited from this right. China is reforming its tax system to minimize distinctions between domestic and foreign entities according to the WTO principle of national treatment. In addition, China substantially reduced the number of goods subject to import quotas. China is clarifying its licensing procedures in accordance with the WTO's transparency requirement. Finally, in preparation for WTO accession, the Chinese Government cut tariffs on many goods on January 1, 2001.

Services barriers : China's service sector has been one of the most heavily regulated parts of the national economy – and one of the most protected. The service liberalizations included in the bilateral WTO agreement will improve dramatically foreign access to this sector. The Chinese economy itself will benefit from the increased scope of services, professionalism and technologies that foreign investment in services will bring. There will be substantial efficiency gains to the domestic economy as well from increased foreign participation in financial, insurance, telecommunications, distribution and professional services, after sales service and repair businesses. At present, however, foreign services providers are largely restricted to operations under the terms of selective "experimental" licenses.

Legal Framework : Laws and regulations in China tend to be far more general than in most strict operational limits on entry. This vagueness allows Chinese courts and officials to apply them flexibly, which results in inconsistencies. Companies have difficulty determining precisely whether or not their activities contravene a particular regulation. Agencies at all levels of government have rule–making authority, resulting in regulations that are frequently contradictory. Finally, while there seems to be no shortage of rules and regulations, there are few procedures in place to appeal regulatory decisions. A China with full WTO membership is likely to and is already attracting greater flows of Foreign Direct Investment (FDI) to the detriment of other Asian developing countries, especially of India.

The phasing out of the Multi-Fibre Arrangement (MFA) by

2005 will bring an end to reserved quotas for developing countries' exports of Garments and Textiles to the developed; this will result in China capturing a larger market share in this sector, affecting even more adversely India's efforts in this area, important to us. China's exports of Electric and Electronic items will also rise dramatically. Similarly, China's exports of Shoes, footwear, Toys, leather products, and certain labour-intensive low-cost items would increase dramatically.

Perspective Planning : Importantly, China's perspective planning, which assumes a broad canvas of some 5, 10, 15 to 30 years is fairly ambitious and plans for equalling the United States in almost all fields of human endeavour by 2030 A.D.

Investment: Chinese investments amount, during the past 23 years of liberalization, to a total of over US$300 billion (pledged) and over US$250 billion accrued. Out of these US$250 billion, 10% to a quarter might have been reverse flow – investments from offshore units of Chinese companies, to take advantage of preferential tariff rates. Even then, the total inflow is enormous. Now the Chinese have more money flowing in, despite negative reports; they are now choosy looking at investments ever since 1994. They want a high technological content in US, European and Japanese investments. Moreover, they are specifying the Tech areas in which they prefer the foreign investments in.

Raw Material : China has abundant raw material for a wide range of industrial activities. If unavailable locally, most industries, especially those priority ones including export-focussed industries, are free to source them from anywhere in the Globe, at negligible or price competitive, customs duty.

Human Resources : The development in this sector seems the crux of Chinese industrial, services and external trade development. If we are seeking a sustainable industrial development and wish to develop as export oriented economy, the only path seems to be through innovation. To innovate means to improve and develop products and process technologies, enter into new functions (design or marketing) and to move into new industries. These should lead to the development of new capabilities which in turn need upgrading of skills and knowledge. An outstanding example is that of Singapore. Singaporeans benefit from a highly responsive education system. It has enabled local operating units to successively put in higher value-adding production activities from the home base of MNCs. Much of this emphasis has been duplicated by the Chinese, who aim to produce ten thousand Singapores in their country. Chinese educational system has changed much from the chaotic days of cultural revolution - 1966 to 1976. In 1976, when Deng Xiaopping stepped into power, one of the earliest things that he turned his attention to was education. Now, the educational system is one of the streams of specialization from the age of seven onwards.

In Singapore, the revamping of educational system was aimed at enhancing local development of technology through the medium of technology-based small and medium enterprises. Much of Chinese effort has similarly met with success.

Thanks to close linkage with western technology giants, the Chinese R&D expenditure is more than India's. High levels of education does not necessarily mean the automatic creation of technological dynamism and productivity catch-up. It was evident from the former centrally planned economies that high level of education was not associated with technological dynamism and innovation, generally speaking, with some exceptions.

China's Population of 1.2 billion (120 crores) makes it the world's most populous country. But, given the system of strong and comparatively efficient governance and shrewd well-thought out perspective planning, and given a broad-based, ambitious educational programme of training appropriate people in modern technologies, in sufficiently large numbers of excellent quality, it also poses threat eventually to the economies of even the most modern of well-developed countries by its sheer human ocean of competence and clear aims.

The major focus of policy initiative should be on enhancing the role of education, suitable to a system of production being driven by skills, knowledge, technology and networking. In revamping the system of education and administration issues pertaining to the employability characteristics and entrepreneurial capabilities, Chinese have scored over us.

China has graduated into manufacture of complex electrical and electronic products including computer hardware, telecommunication products, aerospace, precision instruments, fine chemicals and pharmaceuticals. These require advanced and fast-changing technologies, calling for large R&D investment, advanced technology structures, close interactions between companies and research institutions. Last but not the least, this is achieved by China through ability to interact with advanced western institutions including advanced research institutions, either through cooperative agreements or (calculated) placement of brilliant Chinese research students and professors in the fawlties of key institutions.

Opportunities : India and China are in many ways competitors in the marketing of industrial output but there are areas where they will be complementary and will have synergistic effects in cooperation. The per capita consumption of industrial products, though now higher in China than in India, the figure for China is still low compared to western industrialized countries, with whom it seeks to compare itself. So there is a big scope for exploiting each others market taking advantage of each others' merits and handicaps.

During his recent visit, Chinese Premier ZHU Rongji emphasized improving trade between the two countries from the present level of $3 billion to $10 billion. This type of quantum jump is needed to plan any long term investment plans, flow of traffic (travel between the two countries) to increase the share of mutual trade. There should be many confidence building measures and investment climate created for this. Combined together the market is vast and it needs careful planning and identification of trade off areas between the two countries. Initially it could be purely import/export of industrial output, rather than direct investment.

Action Plan : Some areas require our immediate attention for development with a view to embarking upon opening up opportunities for Indian industry immediately. These are : Agriculture, Mineral Ores, Building Material, Chemicals, Pharmaceuticals, Computer Software, Hotel Industry, Professional Services and Audio-Visual.

Agriculture : China's imports of Agricultural products are anticipated to rise substantially, as a consequence of her accession to WTO. Although India has surplus stocks of Rice and Wheat, it could be difficult to compete with the more agrresive and efficient traditional exporters like the

USA, Canada, Argentina, Thailand and others. China's import of Cotton and Cotton yarn could be targeted. A current estimate in China's imports of raw cotton is expected to reach US$ 360 million in another 2 years or so. Cotton yarn imported too are expected rise proportionately. Soya Meal imports, after the dramatic increase during 1997-1999 are set to increase after China's accession to WTO. Marine Products too should receive our attention, especially higher value-added spectrum of Chinese imports of this commodity.

Iron Ore and Chrome Ore have been staple exports to China. Here, India has to face competition from Brazil, Australia, South Africa, Chile etc. With Chinese demand for iron and steel rising steadily in the coming years, India can cash in on this opportunity, if we can overcome current complaints of non-maintenance of quality standards, non-timely delivery and non-acceptance of long-term contracts. This goes for Chrome Ore and Alumina too.

The current construction boom in China will continue in a foreseeable future, with continuously increasing foreign direct investment. Indian exporters of Granite, Marble and other building materials should build on their current successes.

The Chinese market for Indian Organic Chemicals is large and increasing. Indian manufacturers should find a niche in this industry by sustained work. Indian Pharmaceutical companies have been in China for sometime now. The non-tariff barriers to imports of Indian Pharmaceuticals is a thing of the past, after China's WTO accession. If Indian software companies could tighten computer security, entering China will open up vistas to Korea and Japan.

All these opportunities would have to be assessed under ground realities and suitable preliminary ground work would have to be undertaken before launching a venture. The share of manufactured exports from India is minimal. Thirdly, for enhancing our trade with China, somewhere down the line, knowledge of the Chinese language and culture is necessary.

Conclusion : It seems a good time, perhaps late in the day – but then better late than never – to marshal all arguments for and against emulating the Chinese Developmental Model. First of all, our political and economic model doesn't permit it. Secondly, while the Chinese Developmental Scenario appears to us, and as it appears to many others, as many times more spectacular than our sedate growth rates, what are the long term prospects of the Chinese maintaining this scenario! Thirdly, just how credible are these startling statistics, considering the innate secrecy of all official statistics/compilations? Finally, can China afford a long-term undercutting of manufacturing costs and still be able to avoid erosion of capital? There seems to be a general feeling of helplessness in India about lack of adequate capital formation. China seems to be adequately blessed to be able to match foreign investments with domestic capital formation. Basically this is ascribable to its high savings ratio – 40% against India's 18%. But the ability of Chinese Lending Institutions to extend capital loans at low rates of interest raised the question "how low can they go"?

Chinese development is a challenge to us, not because we might be able to emulate it. But it is a fact of life – to be faced. A Challenge!

The views expressed in this booklet are not necessarily those of the Forum of Free Enterprise.

"People must come to accept private enterprise not as a necessary evil, but as an affirmative good".

— **Eugene Black**

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