CHAPTER I

INTRODUCTION

A. Background

India and People's Republic of China are two countries located in Asia. They are the country with the largest population and have big territory in the world. The two countries attracted the attention of the international community through the development of their economy sped up to catch up from other developed countries. People's Republic of China and India have a policy of development in which it can improve the state of the world economy when the economy is in an unstable state. India and People's Republic of China is now widely recognized as an economic power in the world's next superpower.

India and People's Republic of China has been widely recognized as the future of super powers in the world economy. By playing a variety of roles, as consumers, suppliers, competitors, innovators and provider of qualified human resources, India and People's Republic of China will shape the world's economy. Both countries become a formidable player in the production cost reduction, improved technology and services, as well as having a strong defense in advancing the state. Even the great economists urged both like to think back on free trade and comparative advantage.

The progress achieved from India and People's Republic of China is [illegible] from the transforming and opening themselves that have been done. Compared to India, China is the first that open up and make progress and then India follows the steps taken by the People's Republic of China. India and People's Republic of China took a policy to join the world economy. This policy is the right choice for the India and People's Republic of China to initiate the development of their country. The two countries have abundant natural resources which is exploited maximum the potential is there. It is also supported by the development policies pursued by the government so as to make the India and People's Republic of China's new economic giant in Asia.

In contrast to People's Republic of China in 1991 are to be positioned uphill to raise, the Indian economy is at a critical level. At that time India was bankrupt caused a total of 110 million people into poverty in just over two years ie in 1989 until 1991. Inflation reached 17% of the people take a small income. Indian government finances when it collapsed.[1] But this time India was able to emerge from the downturn with the continued economic growth convincingly.

These conditions push the government to make the country's development policy to liberate the economy. At that time, India was under the leadership of Narashima Rao, minimizing the role of the state and increase the role of markets. Prime Minister Rao loosens industrial policies and efforts. In July 1991, India begens a historic reform. India's finance minister of the time, Manmohan Singh, devalued Indian currency more than 9% in order to boost exports, which will bring in foreign currency is needed.[2]

Government policy also lifted restrictions on imports and made a number of structural reforms to further boost exports. Furthermore, the Government abolish export subsidies as part of an effort to balance India uncontrolled deficits. Over the next two years the government started to reform almost every week. State-owned banks, airports and petroleum industries are open to foreign investors. Led by Singh, India's ongoing reforms in various sectors of the economy by removing the antitrust limits for large companies. Singh lowering income tax from 56% to 40% through 1993, as well as funds allow mutual cooperation (mutual funds) and entities other investors to buy shares in Indian companies on the Bombay Stock Exchange.[3]

Government policies that brought a dramatic effect to the Indian economy. Rapidly growing economy, low inflation, extensive work opportunities, paid off debt and foreign reserves are enough. Indian assets which includes a large group of engineers, scientists, operators service center, accountants, financial analysts, medical technicians and other professionals, highly skilled and fluent in English, is also a driving factor economic progress of India.

The experts and professionals in various fields of the previous leave India because India's economy collapsed during the crisis. They returned to ... more opportunities for professional development when policies are made with the salary and income rocketing for experienced executives who are willing to return to India. People's Republic of China and India are now the two major economic powers when joining the complementary strengths of each one another. People's Republic of China will remain dominant in mass manufacturing, as well as being among the few States that build the multimillion-dollar plant that is worth. While India is a rising power in software, design and service as well as industries that require precision.

Development policy reform People's Republic of China was began when Deng Xiaoping's economic reform emerged as a leader of the People's Republic of China. Deng Xiaoping is a reformist politician and leader of the Communist Party of China. Deng Xiaoping took the first step and important for China journey towards modernity and the market economy. Deng shed the shackles of the national economy and innovate by making reforms that brought China into developed countries as it is today.

The first reforms taken by Deng Xiaoping, namely in the field of agriculture, which to this day is still a work farm 40% of the people of the People's Republic of China.[4] Experiments in the field of agricultural policy reform is limited only in the province of Heilongjiang, one of the areas of the country's grain production in northeast China.[5] Land farmer groups were distributed to each household head and the farmers began hired each year end based on how much they grow in their fields. The government has pledged

[4] John, Naisbitt. China's Megatrends. 2010. Jakarta: Gramedia, pg.8

[5] New gov't tests first major reform in agriculture. Retrieved from http://www.chinesetimeschool.com/id-id/articles/new-govt-tests-first-major-reform-in-

deeper reforms in rural land management system to speed up the transfer of rural land to improve efficiency and promote large-scale commercial farming.

Furthermore, the Government release the State monopoly to buy and sell agricultural products, so that farmers can put their own prices on food they sell. In 1978 and 1984, rural income People's Republic of China they rose to 15%. They are still living on less than 1 dollar per day however, it's already a huge improvement compared to 4 cents per day.[6]

If we look 25 years after the first reforms, there are 22 million businesses that were once banned in the era of Mao Zedong, ranging from small businesses such as roadside stalls to large businesses that manufacturers of auto parts. Most companies that serve new markets created by the increase in spending money. The internal reforms to improve the lives of hundreds of millions of people the People's Republic of China, but when it has not been looked after by the international community.[7]

This policy not only in agriculture alone, People's Republic of China government policy to tax relief and other intensive deliver results. Currently, factories and other investments worth hundreds of billions of dollars have come to the People's Republic of China. Well above the 2006 foreign investment only reached 69 billion dollars. Foreign investment is mostly located in Beijing or Shanghai or other place along the coast of the People's Republic of China.[8]

Government of People's Republic of China also attracts foreign investors aiming to transform his country into modernization. Government requires foreign companies to use, and teach the People's Republic of China workers how to use, their latest techniques, flooding this technology behind country with the knowledge, and spur future industrial revolution quickly.[9]

Success of the People's Republic of China in industrialization bring a dramatic effect in reducing poverty in the People's Republic of China. In 1981 the poor in China reached 250 million people and in 2011 had dropped only lived become 26 million.[10] People's Republic of China managed to fight poverty in the base area of poverty in rural areas as it did in the first reform. It is inseparable from the development of the manufacturing industry is about 50% of profits dedicated to the people.[11]

Such a natural transformation in the People's Republic of China, the India also turned into a country of prosperity and unlimited opportunities, although not as fast as the People's Republic of China. Together with China, India is predicted to become one of the economic giants of the future. With a population of nearly 1.2 billion and rapid economic growth, India meets many requirements to leave the class as a developing country and become developed country.[12]

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[9] *Ibid*, pg. 25

[10] Angka Kemiskinan China Turun Lagi. Retrieved from http://economy.okezone.com/read/2011/09/14/20/502474/angka-kemiskinan-china-turun-lagi on Mei, 20th 2013.

[11] Rony Ariyanto Nugroho, Fokus Membangun Pedesaan, Kompas, terbit 10/3/2010, pg. 34

[12] India Akan Menjadi Negara Maju
http://international.okezone.com/read/2010/04/12/18/321575/18/india-akan-menjadi-negara-

B. Research Question

What is the similarities and differences of development policies between India and People's Republic of China?

C. Theoretical Framework

Concept is an abstraction that represents an object, trait or phenomenon[13]. Concept is a word that symbolizes an idea which is used in everyday life to simplify a complex reality to categorize the things that we find based on the characteristics that relevant to us. Concept in the social sciences refers to the properties of the object being studied (e.g., people, groups, countries or international organizations) that are relevant to the study.

While the theory comes from the Greek, "see" or "show"[14]. The existence of theory helps to explain and predict the political phenomenon by describing, explaining why it happened and perhaps predicting recurrence in the future. When explaining a phenomenon, it requires proof of theory in a systematically. The theory is well supported or rejected by a clear analysis and use of data in a systematic way.

1. Theory of comparative advantage

A theory proposed by David Ricardo in 1817s. According to him, international trade occurs when there are differences in comparative advantage between countries. He argues that comparative advantage will be achieved if a country is able to produce more goods and services at a cost that is cheaper than other countries[15]. In the theory of comparative advantage, a nation will be able to improve the living standards and income if the country is specialize doing the production of goods or services that have high productivity and efficiency. This theory is based on the assumptions[16]:

a. Labor Theory of Value, as, namely that the value of an item is determined by the amount of labor are used to produce the goods, where the value of goods exchanged balanced by the amount of labor are used to produce it.
b. International trade viewed as the exchange of goods with the goods.
c. Not accounting for the cost of transportation and others.
d. In terms of marketing the production run with fixed costs, this case means the scale of production has no effect.
e. Factors of production are not mobile at all between countries. Therefore, a country will specialize doing in the production and export of goods if the country will have the advantage and import goods that needed if you have losses in manufacturing.

According to the Heckscher-Ohlin, the basis of comparative advantage is [17]:

a. Factor endowment, the possession the factors of production within a country.

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[15] Teori keunggulan komparatif. Retrieved from http://id.wikipedia.org/wiki/Teori_keunggulan_komparatif on January, 10th 2013.

b. Factor intensity, which is the technology that used in the production process, whether labor intensity or capital intensity.

2. World-system theory

This theory was raised by Immanuel Wallerstein in the 1970s as a critique of the dependency theory, which only describes the dependency relationship between the peripheries against the central state, where the periphery is a weak state, which is always in exploiting by the state central, which is a strong country.

The most important contribution from Wallerstein is about his thoughts on this "world system". In its historical development, Wallerstein said there are three systems become a historical: The Mini System, The World Empires System, and The World Economic System.

Wallerstein understands the "modern world system" as a development, the world capitalist economy are interlocked, who grew up in its modern form in the 16th century. This world system is also understood as the world economic system, which is the main level of analysis Wallerstein. He does not use the concept of the relations of production from classical Marxism in analyzing the development of capitalism but using a broad interpretation of the Marx's understanding about the essence of capitalism.

In a world system perspective, each country or region is seen as inseparable entities from the world system as the global economic ... Immanuel Wallerstein's define the world system as "A Unit with a Single Division of Labor and Multiple Cultural System". Wallerstein says, "a world system does not necessarily mean that he controlled the whole world. But this system is formulated, a unit with a division of labor with a wide range of cultural system ". The division of work is divided into three groups of countries, namely Central, Semi Periphery, and Periphery.

According to Wallerstein, core of the difference from these three groups are the political and economic power from each group including aspects of industrial processes. Another central factor is technology, developed countries, and less developed on the fringes. Peripheral countries structurally limited to experience the kind of development that reproduces their subordinate status.

Furthermore, according to Wallerstein, the countries could experience "rising or decrease in class", for example, the center state became the semi-periphery state, and then periphery state and otherwise. This process is formulated by Wallerstein into three strategies, namely:

a. The increase in class happen with grabs the opportunities that come. It is based on a dynamics that exist on the world economic system, when the prices of primary commodities become cheap once, and the industrial goods price is expensive. As a result, the peripheral countries are no longer importing the goods industry. In these circumstances, a country that's pressed taking a bold action to start

b. The increase in class through invitation. According to Wallerstein, this happens because the giant industrial corporations in those center countries need to expand out, Thus was born the multinational companies. These companies became partners in developing countries for example by investing. As a result of these developments, industries emerged in the peripheral countries will be invited by multinational companies to cooperate.

c. The increase in class, by making the country independent economy, and free from the dominance of the central state. If the state can take action secede, that country could rise class to the semi-periphery country. But all these things are certainly depends on the condition of the existing world system, whether at that country tries to be independent, the chance of the world system is exists or not. Otherwise, of course, this effort could fail.

3. National Power

National power is contextual in that it can be evaluated only in terms of all the power elements and only in relation to another player or players and the situation in which power is being exercised. A nation may appear powerful because it possesses many military assets, but the assets may be inadequate against those of a potential enemy or inappropriate to the nature of the conflict.

The Elements of National Power. It is convenient to organize the determinants of power. The natural determinants (geography, resources, and population) are concerned with the number of people in a nation and with their physical environment. Social determinants (economic, political, military, psychological, and more recently, informational) concern the ways in which the people of a nation organize themselves and the manner in which they alter their environment. In practice, it is impossible to make a clear distinction between natural and social elements. For instance, resources are a natural factor, but the degree to which they are used is socially determined. Population factors, in particular, cut across the dividing line between both categories. The number of people of working age in the population affects the degree of industrialization of a nation, but the process of industrialization, in turn, can greatly alter the composition of the population.

a. Natural Determinants of Power

- Geography

  Geographical factors, whether they are location and climate or size and topography, influence a nation's outlook and capacity.

- Population

  Demographics in the form of size, trends, and structure are important aspects of national power. A large population is a key prerequisite, but not an automatic guarantee of strength.

- Natural Resources

Large amounts of natural resources are essential for a modern nation to wage war, to operate an industrial base, and to reward other international actors through trade and aid, either in modern industrial products or in the raw materials themselves. But these resources, whether they be arable land and water or coal and oil, are unevenly distributed around the world and are becoming increasingly scarce. Moreover, as in the case of the geopolitical ownership of strategic places, the physical possession of natural resources is not necessarily a source of power unless a nation can also develop those resources and maintain political control over their disposition.

b. Social Determinants of Power

- Economic

Economic capacity and development are key links to both natural and social determinants of power. In terms of natural resources, as we have seen, a nation may be well-endowed but lack the ability to convert those resources into military hardware, high-technology exports, and other manifestations of power. Ultimately, however, economic development in a nation flows from the social determinants of power, whether they be political modernization and widespread formal education, or geographic this, of course, is worked out against the backdrop of balanced military investment. An excess of military spending can erode the underlying basis for a nation's power if it occurs at the expense of a larger economy and reduces the national ability to invest in future economic growth.

- Military

Military strength is historically the gauge for national power. Defeat in war has normally signaled the decline if not the end of a nation's power, while military victory has usually heralded the ascent of a new power. But military power is more than just the aggregation of personnel, equipment, and weaponry. Leadership, morale, and discipline also remain vital factors of military power.

- Political

This element of power addresses key questions, many of which are related to the psychological element: What is the form of government, what is the attitude of the population toward it, how strong do the people want it to be, and how strong and efficient is it? These questions cannot be answered with simple statistics, yet they may be paramount in any assessment of national power. If a government is inadequate and cannot bring the nation's potential power to bear on an issue, that power might as well not exist.

- Psychological

The psychological element of power consists of national will and morale, national character, and degree of national integration. It is most ephemeral of the social power determinant that has repeatedly caused nations with superior economic and military power to be defeated or have their policies frustrated by less capable actor.

- Informational

The communications revolution, which began over a century ago with the advent of global transmission of information, has taken on new momentum in recent decades with the development of fax machines, television satellites, and computer linkages.

4. Development policy theory

Development is a normative concept which implies the options aim to achieve what is referred to as the realization of human potential . Development is not the same meaning with modernization, if we clearly understand the real meaning of the nature of the development itself . In Economic Development in The Third , Todaro , (2000) says : Kartasamita (1996) said the development is an effort to increase the dignity of the people in his condition are not able to escape the poverty trap and keterbelakangan.A Building community means enabling or memandirikan them . Commencement of the development process grounded in community development is expected to spur public participation in the development process itself.

According Tjokrowinoto (1997) , which appears to limit the development of free association values are in reality causing interpretations are often diametrically opposed to one another jehingga easily create the impression that reality is basically self development project a reality . Source of this difference of opinion also vary, ranging from differences in perspective - ontology epistemological philosophical level, to the differences in the definition of development as well as assessment of development manifested itself in the empirical context .

Budiman (1995) theory of the development divides into three categories namely baser modernization theory, dependency and post-dependencies. Modernization theory emphasizes the human and cultural factors are considered as a fundamental element in the development process. This category pioneered the likes of:

a. Harrod - Domar with the concept of saving and investment
b. Weber's Protestant ethic thesis and the spirit of capitalism
c. McClelland with the concept of need for achievement
d. Rostow with the five stages of economic growth
e. Inkeles and Smith with the concept of modern humans
f. Hoselitz factors with the concept of non - economic

D. Hypothesis

Based on the theoretical framework, then pulled the hypothesis that the strategy of development policy between India and People's Republic Of China is harnessing the strategy of the third increasing in class from the world system theory, which is attempt to break away from dependence on the West by producing goods industry itself.

E. Purpose of the Research

1. To analyze the strategy of development policy between India and People's Republic of China.
2. To identify the power and weaknesses of development policy between India and People's Republic of China.
3. To know the supporting and inhibiting factor of development policy between India and People's Republic of China.

F. Research Methodology

1. Types of Research

The author uses qualitative and quantitative approaches. Qualitative research because the data are translated into the word, phrases, and sentences. While quantitative research because the data described using

2. Source the Data

Data obtained are secondary data. Those obtained from books reference, print media and online media, and the Internet sites and other sources that support this research.

3. Writing Methods

This is a descriptive research, which describes the systematic, India strategic as a competitor of People's Republic of China to become a superpower. The descriptive research in this paper will be said the comparation of the strategy of development policy between India and People's Republic of China. What is the similarity or the differences between both of country within the development policy. The comparation will be explained in chapter IV completely.

G. Range of Research

This study focused on researching the history and condition of the development policy of India and People's Republic of China with all of the efforts of India and People's Republic of China as a new economic power.

H. System of Writing

In this paper, the authors will describe the contents of the study are systematically and sequentially from Chapter I to Chapter IV, and will be described as follows.

Chapter I, is named as Introduction. It comprises background, research question, theoretical framework, hypothesis, purpose of research, research method, range of research, and system if writing.

Chapter II focuses on the factors underlying the development of the India. The factors underlying the development of India and covering economic and trade factors; industry and technology factors; and science factors.

Chapter III focuses on the factors underlying the development of the competitor country of India that is People's Republic of China. Similarly with Chapter II, this chapter consists of the factors underlying the development of People's Republic of China and covering economic and trade factors; industry and technology and science.

Chapter IV contain the analysis of comparison of similarities and differences of India and People's Republic. And covers term policy strategy India and People's Republic of China.