

China and India: The Pattern of Recent Growth and Governance in a Comparative Political Economy Perspective

By

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The two largest countries of the world with ancient agrarian civilizations, with many centuries of dominance in the world economy in the past and recently with impressive economic growth performance, draw obvious comparison. Over the last more than sixty years the two neighboring countries having adopted sharply divergent political and economic systems also provide a point of reference in any study of comparative systems. In this short essay we shall first briefly describe their patterns of economic growth primarily in the last three decades and their implications for the massive poverty and inequality in the two countries, and then move on to discuss the nature of governance both in public and private spheres, which shape those patterns.

In 1820 the two countries contributed about half of world income (measured in 1990 prices), in 1950 they contributed less than 10 per cent (the preceding century in the case of China and nearly two centuries in the case of India included rather unpleasant encounters with the international powers), and the very rough projection is that in 2025 the two countries will contribute about one-third of world income (China much more than India). In the 1870's as well as the 1970's per capita income in comparable prices was somewhat higher in India, but since then China has shot far ahead. Even accounting for some possible overstatement in the Chinese official rates of growth, per capita income has grown at least twice as fast in China than in India over the last three decades.

In the sectoral pattern of growth China has excelled particularly in manufacture, India more in services. China is widely regarded as the manufacturing center of the world (although this is not yet quite true in manufacturing value added, the share of US or EU in world manufacturing value added is still much higher than that of China). In India there has been dramatic growth in the modern service sub-sectors like software, communication, and finance, but nearly 60 per cent of the service sector income is still generated in the informal sector (only a small part of which is linked with the formal sector). In terms of sub-sectors Chinese expansion, at least in

the initial years, has been more in labor-intensive activities (production of clothing, shoes, toys, furniture, etc.) which employed large numbers of the unskilled poor, not in India, where the expansion has been more in skill-intensive and capital-intensive activities (like software, pharmaceuticals, or cars and car parts). All the service sector activities enabled by information technology employ only about half of one per cent of the total labor force in India.

Contrary to popular impression, in both countries the growth has not been mainly externally driven. The mainspring of growth in China has been domestic investment, and in India domestic investment and consumption. Even though foreign trade and investment have led to significant technological and managerial upgrading in China, their growth has contributed only modestly to aggregate economic growth. Even during the high global expansion of trade in the period 2002-07, the increase in exports (in domestic value added terms) contributed only a little above a quarter of total real GDP growth in China in the period, substantially less than the contribution of domestic investment. Chinese domestic saving and investment rates are significantly higher than in India. Household saving rates may be slightly higher in India, but enterprise and public saving rates are much higher in China. The consequent lower cost of capital (along with more decentralized financing and management, better cost recovery from user fees, and more peremptory land acquisition) have enabled China to build growth-enhancing infrastructure (highways, railways, ports, power plants, etc.) at a much faster pace than India.

According to World Bank estimates, taking a crude but common poverty line (like say \$1 a day per capita at 2005 prices), the percentage of people below that line was about 73 per cent (probably an overestimate) in 1981 in China (42 per cent in India); it went down to 7 per cent in 2008 in China (21 per cent in India)--a dramatic decline in China, a significant one in India. There is statistical evidence to suggest that most of the dramatic poverty reduction in China has been due to agricultural growth and public investment in rural infrastructure, not globalization (as is commonly believed). The non-income indicators of poverty (in terms of basic health, nutrition and education) continue to be dismal in India. In some of these indicators India today is where China was at the beginning of 1970's (a beneficial part of the socialist legacy in China). The environmental consequences of growth (like air and water pollution), which the poor bear the brunt of, may be larger in absolute terms in China, simply because of faster industrialization and urbanization there, but broad estimates of proportional damage and depletion (in terms of annual percentage of national income) seem to be similar in the two countries. Whether the Chinese central Government's energetic countermeasures in limiting environmental degradation launched in recent years will succeed in making a big dent on the problems needs to be seen. The Indian countermeasures have yet not reached the Chinese scale, but the environmental movement is more active as a watchdog in India.

Inequality has gone up in both countries, partly a result of the sectoral transformation (as the less unequal agricultural sector declines in importance in terms of income but not commensurately in terms of people whose livelihood still depends on it), and partly a rise in skill premium in wage and rental income from land and other appreciating assets. Contrary to popular impression globalization may not be the most important factor in raising inequality. For example, inequality within China is less in more globally exposed coastal areas than in the interior areas. Urban-rural disparity is higher in China than in India (within China wider in interior areas than in the coastal areas).

More than income inequality, one may be ethically and politically more interested in inequality of opportunity. We do not have direct measures of this inequality, but in these two countries it is likely to depend on inequality in distribution of land, education and social status. Most estimates suggest that inequality in land and education is much worse in India than in China (largely because of the much larger population of landless and illiterate or semi-literate in India). The level of inequality of social status is also likely to be worse in India, partly on account of the legacy of the caste system in India (but the trend over time is in the positive direction with movements toward political equality brought about by democracy leading to changes in social status and occupational distribution). The picture of gender inequality is mixed: in terms of gender imbalance in survival of children it is worse in China (in the 0-5 age-group, for 100 girls there are now 122 boys in China, 109 boys in India), but in terms of female literacy, maternal mortality or female participation in the labor force China is far ahead.

In matters of governance the dominant issue in public discussion in both countries is the rampant corruption of public officials and politicians. It is, of course, difficult to get reliable estimates of comparative corruption. There are some reasons why incentives for corruption may be somewhat less in China: the punishment is severe (in many cases, execution); Chinese politicians, unlike their Indian counterparts, do not have to procure funds for the increasingly expensive general elections; since career advancement of local officials depends on local-area economic performance (unlike in India where promotion is mostly seniority-based, and with frequent transfers there is no incentive to develop a stake in the local economy), so the Chinese local official, even while stealing, may take care not to steal too much. On the other hand, democratic India has more institutionalized mechanisms for checking corruption (the Right to Information Act, free media and a more vigorous tradition of investigative journalism, an active NGO movement as watchdog, etc.). In fact the connection between business and politics being tighter and less subject to public scrutiny in China, 'crony capitalism' is much more evident there. In India in the allocation of scarce public resources (land, mining rights, telecommunication spectrum, etc.) there have been many accusations of official corruption. But with powerful political families controlling some of the monopoly state-owned enterprises in China and 'princelings' running private enterprises and real estate companies, Chinese

politicians have got away with more opportunities for converting their political oligarchic power into massive wealth. The Shanghai-based Hurun Report suggests that in 2011 the 70 richest delegates to the National People's Congress (China's equivalent of Parliament) had a net worth of about \$90 billion. Just to get an idea of comparative scale, if you look at the accounts of (declared) assets of the members of the Indian Parliament, the corresponding total wealth of the 70 richest of them will be much less than half a billion dollars. While crony capitalism is not absent in India, the Indian private corporate sector has a longer tradition of vigorous autonomous development and is comparatively less dependent on political rent-seeking. As the state-owned and politically-connected private firms in China become 'too big to fail', it may hurt productivity by blocking entry and exit of firms.

At the local level of governance, decentralization has been more effective in China in both social service delivery and local business development. The incentives and resources to sub-national governments to pursue local development projects are much stronger in China than in India. Of the total government expenditure more than 50 per cent is spent at the sub-provincial level in China, the corresponding percentage in India is nearer 5 per cent. Inter-area competition and market integration through development of infrastructure and trade are much stronger in China. But capture of local governments by locally powerful elite is pervasive in both countries. Except in a small number of states in India, the local landed interests and local middlemen and contractors often divert much of the money coming from above away from the intended beneficiaries of development projects. In China local officials in collusion with local business often hurt the poor through arbitrary land acquisition, toxic pollution and violation of safety regulations in factories and mines. In both countries this is possible because of accountability failures (largely due to lack of democratic processes in China, weak sub-provincial democracy in most regions in India).

The issue of accountability brings us directly to the question of the relation between democracy (or lack of it) and development. For some years now it has been the conviction of the Chinese elite (often termed as 'the Beijing Consensus') that authoritarianism is good for development. This is a false and pernicious idea. Examples are easy to show that authoritarianism is neither necessary nor sufficient for development. The relation between democracy and development is more complex than is made out in much of the simplistic discussion both in China and the West. Democracies make fewer catastrophic mistakes (of the kind China has made much too often in the last fifty years), they manage social conflicts (of which India with a more heterogeneous population has more of) better, and with popular social movements they keep capitalist excesses somewhat in check. But the Indian experience suggests that democracies easily lend themselves to a form of competitive populism where much of the scarce resources are frittered away in short-run subsidies and handouts (promise of free water and electricity is a frequent electoral gesture in many Indian state elections), which hurt the cause of long-run pro-poor

investments (like in roads, irrigation, water and electricity). The pragmatic and professional Chinese leadership often shows the ability to take quick and decisive actions more than the Indian leaders, but in the face of crisis or political shocks they often over-react, suppress information and act heavy-handedly, which raise the danger of instability. For all its apparent messiness the Indian democratic governments are in a deeper sense less fragile, as they draw their strength from legitimacy derived from democratic pluralism. In the long run democracies may also foster more innovativeness through inducing more free flow of information and creativity.

Both China and India have had impressive economic performance in recent decades, but they are both hobbled by their different types of structural weaknesses and accountability failures.