

Afterword

This book is about some of the long-run structural and political-economy factors in the two giant Asian economies. In those respects not much has changed in the last three years since the original version of the book went to press, although parts of the international economic scene have become a bit murkier, and business confidence in the persistence of high growth in both China and India has receded somewhat. In both countries the mainspring of growth is domestic, even though foreign trade and investment play an important role, and what happens to domestic political governance and how it shapes the dynamics of capitalism and public reaction to it will mainly determine their economic future, as already indicated in the last chapter of the book.

After three decades of phenomenal growth and poverty reduction, China is now nearing the point of largely exhausting the possibilities of catch-up (using off-the-shelf technology, learning, imitating, etc.), and much will now depend on what China can do in orienting the economic system toward technological innovations beyond catch-up and investing the surplus in social protection and citizen welfare (thereby also rebalancing the economy from the construction frenzy and wealth accumulation of recent years to mass consumption). But there is some danger that the crony capitalism that has developed in China, with a tight relationship between business leaders and an authoritarian, though partly meritocratic, Party, may resist pressure

against frittering away resources in corruption and rent-seeking, and bolstering of the giant but low-productivity state firms manned by loyal apparatchiks. The Hurun Report, the Shanghai wealth monitor, suggests that in 2011 the 70 richest delegates to the National People's Congress (China's equivalent of Parliament) have 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 (lower House of) Parliament, the corresponding total wealth of the 70 richest of them will be much less than half a billion dollars. Six of China's 10 richest individuals serve on either the National People's Congress or the Chinese People's Political Consultative Conference, the political advisory body. The collusion between Indian billionaires and politicians, while rampant, is somewhat less direct, and more subject to political scrutiny. There is evidence to believe that the too-big-to-fail state-owned companies and politically-connected private firms in China may have led to a serious misallocation of capital and blocked entry of new firms and exit of inefficient ones, spelling trouble for China's innovation prospects, even though China is investing a large amount of resources in R and D. An atmosphere of tight control over a free flow of ideas and creativity will also curtail (possibly disruptive) innovations. Without innovations, China cannot sustain its high rates of growth, as the artificially low prices of land and capital for politically favored firms become difficult to maintain and the supply of cheap labor gets exhausted. While sustainability of the recent high rates of growth is questionable, it does not necessarily mean that the current Chinese political-economic system is likely to collapse any time soon. The Party may make compromises at some loss of efficiency for the sake of retaining control over the political and

economic processes, and, even with a lot of waste of capital and financial market rigidities, may still be able to ride out the lurking macro-economic dangers and continue with roughly the current system much to the exasperation of democracy optimists. (The long duration of the corrupt one-party regime of PRI in Mexico in the last century suggests that the Chinese Party with its better management, a more meritocratic administrative tradition, and large cushions of domestic savings and foreign exchange reserves, may even last longer). Nevertheless the management of an increasingly complex economy (without independent regulators) and a more articulate polity (without any effective rule of law or independent judiciary) will remain a major challenge for an opaque, jittery, and control-freak Party.

On the other hand, there are some on the Left who believe in the Party rhetoric of its having achieved a unique and stable form of 'market socialism'—to this one can suggest that the Chinese system currently is neither socialist nor fully market-oriented, it is more like a statist oligarchic form of capitalism with important but limited operation of the market principle. As we have pointed out in the book, while the all-powerful Party can undo individual capitalists at short notice, it is now sufficiently enmeshed in a profit-oriented system and it will be much more difficult for the leadership to unravel a whole network of capitalist relations, by now thickly overlaid with various vested interests and knotted with *guanxi* ties. The Chinese economy being largely dual, with the state deriving profits and political rent from its monopoly control in the upstream sectors (energy, finance, basic metals, transport and communications, etc.) that provide intermediate goods and services to the largely private (or

joint-venture) successful downstream sectors, the Party-state may not want to kill the capitalist spirit in the latter that lay the golden eggs for the former.

It is, of course, a hopeful sign that public scrutiny on the internet (particularly the difficult-to-control micro-blogs) and general discussion is increasing in China, and the countryside is also getting more openly restive against arbitrary land acquisition and toxic pollution. One should also mention that, to the credit of the Chinese government, impressive attempts have been made in the last few years in slowly extending the coverage of pensions and medical benefits to common people and in vigorously developing new energy-efficient technologies (all of this on a scale much larger than in India).

China is economically and administratively decentralized but politically centralized, so that there is very little accountability of officials to the local people. India is economically centralized (in the sense particularly of vertical fiscal imbalance, with most of the elastic sources of revenue vested in the central government), but now, to a large extent, politically and administratively decentralized mainly to the provincial level, with local (village and municipal) elections still mostly determined by provincial and national issues—in that sense there is very limited accountability to the local people in India as well. As emphasized in the book, accountability failure is at the root of both countries' problems.

In India in the last three years the headline economic stories have involved a stalling of much of policy reforms, the hue and cry about the pervasiveness of corruption, and the slowing of (agricultural and industrial) growth and (particularly public) capital formation. The

main factors in the former two problems and the infrastructural and land acquisition constraints to growth have already been discussed in the book. Added to this has been the rise in the cost of capital for industry, caused by the large public borrowing necessitated by the mounting fiscal burden of subsidies and the restrictive monetary policy pursued in a desperate attempt to fight the runaway inflation. The central political problem for quite some time will be that as the inequalities rise and the public resentment of the economic and environmental depredations of the corporate oligarchy and the land (or mining) mafia heats up, the pressure for short-term populist palliative measures (in the form of subsidies, handouts and loan waivers and of immobilizing official decisions for avoiding the possible taint of corruption) will rise, often at the expense of pro-poor long-term investments in infrastructure (roads, electricity, etc.) and education and health. (In China populism takes mainly the form of wallowing in nationalist glory and a form of nationalist petulance; the government tries to manipulate this in deflecting domestic criticism by pointing to an interventionist West and by building wasteful gigantic “image projects”).

Political fragmentation in India’s fractious democracy is also rising, rendering collective action for making short-run sacrifices for long-term development more and more difficult, as already mentioned in the book. With the decline of the national parties that used to have some semblance of encompassing interests, their dependence on shaky coalitions at the center, with regional parties and fiefdoms demanding accommodation for their special interests in constant day-to-day bargaining, comes at the expense of long-term policy consolidation. The opposition parties block reforms that they

themselves advocated while in power. None of this is helped by pressure from outside the political parties: India's active NGO groups with their narrow single-interest agenda, for example, allow hardly any compromise on environmental and land issues where there could always exist some trade-offs (problems of land acquisition and environment clearance have stalled many development projects), or the 24-hour media are busy sensationalizing even the smallest conflicts, diverting attention from a long-run vision. In China the recent stories of lurid political intrigues tumbling out of a tightly managed and censored system also point to internecine faction fights, often expressed rhetorically in the form of contrasting political approaches to development and cultural expression ("red songs").

The problems in both countries are thus largely those of political governance, even though the specifics and the context are different, and will keep on constraining their undoubted potential for momentous progress.

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