

INDIA and CHINA : AN ESSAY IN COMPARATIVE POLITICAL ECONOMY

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INTRODUCTION :

India and China are two of the oldest and still extant civilizations. For Europeans, they were legendary seats of immense wealth and wisdom right up to the eighteenth century. Somewhere between the mid-eighteenth century and early nineteenth centuries, both these countries became, in the European eyes, bywords for stagnant, archaic, weak nations. For China, this happened between the adulation of Voltaire and the cooler judgment of Montesquieu; in India's case, it was the contrast between Sir William Jones's desire to learn things Indian and James Mill's dismissal of Indian history as nothing but darkness.

Twentieth century brought nothing but a deepening of the perception of the two countries as bywords for misery and the perceptions were not too far behind actual conditions of the two countries. For one thing they were and remain the two most populous countries. In 1820, they had a combined population in excess of half a billion and by 1900, 700 million. Within the twentieth century, their population had trebled. But they were also two of the poorest countries, typically thought of as locations of famine, disease, backwardness and superstition, of women with bound feet and men with long pony tails, untouchables beyond the pale and myriads of gods with many heads and limbs.

In mid-twentieth century, particularly in the 1960's, the fortunes of these two countries seemed to have reached their nadir. They were independent republics supposedly launched on their path of development, but both suffered devastating famines. China's famine was hidden, perhaps more from China's own ruling classes than from its people or the world, but it had followed swiftly upon the debacle of Great Leap Forward, a memorable piece of policy making by fantasy. India's double harvest failure in 1965 and 1966 brought India to its proverbial knees in terms of foreign policy and dependence on US food aid. These two countries were "basket cases" in the then fashionable terms of international diplomacy.

Within the following forty years we are discussing China and India not as failures nor for their ancient wisdoms, but as dynamic modern economies. The Economist has to write editorials to tell the world not to be afraid of China's economic power. American legislators pass laws to prevent their businesses outsourcing work to India's software and telecommunication services. China ranks as the second largest economy in terms of GDP in PPP dollars. Together the two countries account for 19.2 % of world GDP- China 11.5% and India 7.7%. This is still below their share of world population 37.5%- with China 21% and India 16.5%.

National income estimates covering a long period are, by their nature, broadly indicative rather than precise. [Beyond this vague assertion I do not intend to go into statistical measurement problems] Angus Maddison, in whose debt the profession is for making these calculations his life time work, gives the shares of world GDP and population of China and India for two earlier dates in the 20th century as follows

	GDP%		POPULATION%	
	China	India	China	India
1913	8.9	7.5	26.4	17.0
1950	4.5	4.2	21.7	14.2
1998	11.5	7.7	21.0	16.5

[Maddison (2001)]

The table above succinctly describes the course of the two economies over the 20th century. They start with the share of income below that of population. Over the previous century they had slightly different trajectories. India's per capita income is estimated to have grown from \$533 in 1820 to \$673 in 1913 while China's per capita income declined from \$600 in 1820 to \$552 in 1913. [all money sums in 1990 international dollars, hereafter Maddison dollars-M\$] But during the first half of the twentieth century both countries saw a decline in their per capita incomes. India from M\$673 in 1913 to M\$619 in 1950 and China from M\$552 in 1913 to M\$439 in 1950.¹

This says two things: India and China both suffered a declining per capita income and a rising population during the first half of the 20th century, but that India was slightly better off than China between 20% [Kumar] and 40% [Maddison]. By 1998 this is reversed. Both countries are better off, but China is much better off than India. China's per capita income was \$3,117 while India's was \$1,760. Thus, while India roughly trebled its income, China increased it sevenfold. In earlier periods China, while more populous than India, was not noticeably richer. In terms of GDP the two economies were of roughly similar size. Ratio of China's GDP to India's was 1913 1.18 (241/204) ; 1950 1.08 (239/222) but in 1998 it was 2.28 (3873/1702) [Figures in parentheses billions of M\$ GDP].

So one theme of this paper is the contrast between the economic performance of China and India and its proximate causes. But there are also a lot of similarities between the two both in the path to modernization and, as we shall see later, the future prospects for their economies. There are also political similarities and contrasts between the two both as to their 20th century history and 21st century challenges

¹ Dharma Kumar who independently made comparative estimates of India and China over the early 20th century arrives at not dissimilar estimates. She makes India's per capita income as \$ 60 in 1952 dollars and China's as \$ 50. Kumar (1998)

Historical Legacies :

(a) Political :

While both India and China have a long history, their histories are very different. China has been by and large a stable, centrally run state through its history with limited periods of instability and lack of a single authority. India's history has been exactly the reverse. The periods when a single King or political authority ruled over even the major part of India's territory can be counted on fingers of one hand. In China's case there was a deep desire for unification of the country as a driving force of nationalism in the 20th century. But it was called reunification. Thus at the onset of World War II, China was divided and Jonathan Spence expresses the drive for nationalists as follows

“The solidification of such a group of new states [i.e. war lords, KMT, communists and Japanese enclaves] would return China to the situation that had prevailed before the Qin conquests of 221 B.C., during the so-called Warring States period when ten major regimes controlled the country among them; or it might bring a recurrence of the shifting patterns of authority and alliances that typified China's history from the third to sixth century A.D., and again from tenth to the thirteenth.” [Spence (1999) p.426]

In India's case there never was any authority which has ruled over all of India; indeed not even the British or even the present Indian government. India has been an idea in world culture for millennia, but its borders have been fixed only in the late 19th century sometime after the British gave up on Afghanistan and drew the Durand line. Kings have ruled over much of North India- the Maurya and Gupta dynasties just before and after the BC/AD division. The Mughals could be said to have ruled over much of India between the years of Akbar's maturity in 1570 and Aurangzeb's death in 1707. Their empire extended to Kabul but did not take in all of South India. The British could be said to have ruled over two thirds of India between 1857 and 1947, with the remaining third with native princes under their paramountcy but not direct rule. In 1947 India was partitioned and thus even what is now called India is not what Nehru in 1946 wrote about in his *The Discovery of India*. [Nehru (1946)] [see the chart reproduced from Keay]

Indian system of kingly power was not so much like a pyramid, but like a multi-tiered cake. It was flatter and while there was a top and a bottom plus layers in between, the power of the top king over his vassals below was not absolute. Loyalty though owed by the lower tiers to the top, was always negotiable and there had to be some give and take. [Inden (1999)] The British were perhaps the first rulers to try a more absolute and hierarchical structure of power under the limitation of oversight by a democratic Parliament back in London.

Yet in one sense it was British rule which gave India its definitive territorial extent, fixed its boundaries and gave it a structure of provinces and central government with an administrative 'steel frame'. The British gave India their language which facilitates even today India's access to global markets as do the legal system of property rights and western orientation of its elite. India's independence movement was critical of the

economic ruin the British had caused – deindustrialisation, drain of treasure, deskilling and diversion of agriculture into commercial crops away from food crops etc. But India began to acquire railroads and modern industry a quarter of century earlier than China -in 1850's rather than 1870's. More foreign capital per capita was poured into India than in China; in 1913 India had \$6.9 per capita foreign capital while China had \$3.7 [Maddison p.99].

There is however another much less mentioned benefit that India derived from British rule. Of course, it might have been better for India to have never suffered foreign rule, and united under a native King or republic. But between 1500 and 1800, India had several foreign trading companies vying for control- the Portuguese, the Dutch, the French, the Danes and of course the English. As a counterfactual of history, it is possible to imagine what we call India today and take for granted as a single country being made up of several different 'countries' in west, south, east and north with different foreign languages being spoken along with local languages. Thus the Tamils could have been French speaking and the Maharashtrians Portuguese speaking and so on. Thanks to the religious wars of Europe in the 17th century and British victories in European wars in the 18th century, India ended up with a single foreign power, and thus the idea of India as a single country developed with its modern nationalism. This is not entirely fanciful since South East Asia with a population and extent not dissimilar to India's was ruled by the Dutch (Indonesia), the French (IndoChina) and the British (Burma, Malaysia and Singapore) with Thailand being independent. What is more, the hegemonic political ideology of the nationalist movement- liberal democracy – was also borrowed from the foreign rulers. The India we talk of today is a 19th century product in more than one sense.

China, by contrast, never suffered foreign rule over majority of its territory. There were foreign concessions in ports and later in interior towns extracted by several foreign powers in circumstances the Chinese found humiliating. But until 1931 when the Japanese invaded Manchuria and later in 1937 when they occupied large chunks of Eastern and Central China, China had not suffered classic imperial rule. [I am treating the Manchus as not being foreign, though many Chinese at the beginning of the 20th century emphasized that they wanted to remove the Manchu empire and establish a Chinese Republic] Yet China's attitude to foreigners was and is much more hostile than India's. The removal of foreigners, especially the reversal of concessions, became a driving force for China. For India, the hostility to things foreign, except perhaps for foreign private capital, melted like snow in spring soon after independence. If anything, India in its early days after independence sought foreign capital from public rather than private sources and from a variety of countries rather than merely its old colonial masters. China after 1949 relied on one country, the USSR, and soon came to regret its connection. China's problem, unlike that of India, was the multiplicity of foreign powers gnawing at its sides with no single hegemonic ruling ideology as India had with liberal democracy from Britain. It had German, Japanese, American, French and British jostling not so much for rule over Chinese minds as over their cash boxes. There was some missionary input, more than in India, but eventually China had to forge its own ideology

of modernity. It had to struggle to confront Confucianism against Western ideologies- liberalism, Fascism, Communism.

These historical legacies shaped both the politics and economics of the two countries. For India, the problem was achieving unity in diversity, accommodating various languages and religions in a political structure that would give its center power enough to maintain its territorial integrity but its regions enough room to develop their diversities. India had a problem of articulating a single vision of Indian nationhood since it has been a nation only since mid nineteenth century and even this was asserted against the foreign rulers saying India was not a single nation but a motley collection of races and religions. . [Desai (2000)] India thus chose a federal polity with a strong center able to alter state boundaries, split up states or create new ones. India even then is a soft state in Myrdal's famous description where the government has to work consensually and exert control sparingly and only against serious threats to national integrity.² India's fear is break up of its territorial unity as happened in the Partition [Myrdal (1968)]

China has always had a vision of itself as a nation. Through much of its history, there has been a strong central power, and China has been run as a unitary polity. Indeed Sun Yat Sen and his communist supporters viewed the prospect of federalism as akin to feudalism. [Spence,p.315] The theme of reunification in early 20th century China meant recentralisation of authority. China has its minorities but it is viewed and indeed views itself as a country of the Han people- a solid homogenous mass. While there are differences between Mandarin and Cantonese, the language is the same for an overwhelming majority of the Chinese. China is thus a unitary hard state which can pursue a single goal with determination and mobilize maximal resources in its achievement. It has ever been thus be it in building the Great Wall or the system of grand canals or in recent times in the Great Leap Forward.

There was a further advantage of being a unitary state which has often not been recognized. As Kent Deng has said in a recent survey of Chinese economic history

“ ...a basic structural factor- namely that for most of the time most of China had a nationwide market, a single government (which was active in maintaining food supply, famine relief, and price control), a standardized written language, a uniform calendar and a system of weights and measures, a dominant Confucian code of conduct, a nationwide transport network, and the mechanisms for social mobility and inter-regional migration “ [Deng (2000) p.6] China could claim to have been a proto industrialized country by the 13th century and indeed has been considered by many scholars to have been a prime candidate for a capitalist revolution which it missed³

² I have learnt a lot about federal structures and federalism in India while co supervising Katherine Adeney. See Adeney (2003)

³ Deng op.cit surveys this literature. There has been a similar though less extensive discussion among Indian historians as to whether India could have had its own capitalist revolution. See Habib (1968)

But anticipating somewhat later themes, strong states can also be brittle states while soft states are difficult to smash and break since they are pliable. India has through its history been ruled by many authorities and sometime none, but it has had a social stability which is remarkable. In India's case the enveloping unity was provided by the Hindu social structure, especially the caste system which determined the basis on which interregional mobility could be conducted. Indeed the caste system proved to be so powerful that even among the Muslims and Christians a caste hierarchy took root and developed. While the concept of the Asiatic Mode of Production is much derided nowadays, its essence was about a society in which the state was epiphenomenal and the peasant society went on impervious to changing rulers. India was through its history like that. [see O'Leary (1989) for a critique of the AMP. Also Habib (1983) for a sympathetic account of Marx's views on India. Deng (2000) sees AMP as a useful concept.] China on the other hand strong as it was became subject to spasmodic breakdowns which lasted several years. Within the modern period, we have had the Taiping rebellion [1851-1864], the Boxer uprising [1900] which eventually led to end of empire [1911] and four decades of warlordism, and more recently the Cultural Revolution [1966-1976]. Even the Tiananmen incidents of 1989 are more a sign of brittleness than of strength.⁴

(b) economic :

Both India and China were a highly urban civilization by the 18th century, though of course the bulk of the population lived in rural areas.. China was much advanced in science and technology, with gunpowder, printing, paper and paper currency as its inventions. China's scientific and technological achievements are known to us thanks to the monumental efforts of Joseph Needham [Needham (1954-)]. India was known for its mathematics and its philosophy. The Chinese gave the world the wheelbarrow and bureaucracy; India gave the world the zero, decimals and Buddhism. Both were major exporters of fine textiles, silks and muslins; their ships sailed around the world and indeed dominated the seas till 1500. After that the Chinese withdrew from the seas and while the Indians continued, the powers that be in Delhi or Agra had no need for a navy. It was the kingdoms in South India which were maritime adventurers. As they declined in power under the Mughals, Indian shipping began to be conducted increasingly on a private basis rather than a state sponsored one. The control of the seas passed to a series of Western European countries. Yet the two countries remained economically vibrant till the late 18th century.

China had a higher productivity in its agriculture, the iron tipped plough having been in use at least half a millennium before it made its appearance in India. Thus Needham attributes the animal drawn plough to the period of the Warring states, while Habib says that the iron plough came to India in the first century AD. [Needham (1965) Habib (1995)] Chinese irrigation systems were bigger and better than any in India [Oriental Despotism, a notion begotten by Wittfogel from Marx and Engels's Asiatic Mode of

⁴ "Throughout its history China was not only invaded many times by nomadic peoples from outside its borders, but was also turned upside down many more times by its own citizens, mainly the peasants: in all, there were 1,109 main military conflicts between the Chinese and the northern nomads from 215 BC to AD 1684 and as many as 225,887 recorded armed rebellions between 210BC and AD 1900" Deng (2000) p.7

Production, was supposed to be good at hydraulic projects. [Wittfogel (1957)] Be that as it may, the abandoned city of Fatehpur Sikri is a monument to how a Mughal King built a city where he failed to provide water supplies.] Maddison's estimate of \$ 600 per capita income for China and \$ 533 for India in 1820 is roughly the right sort of relative difference.

The difference was made up in the next hundred and thirty years. By 1950 India had caught up with China as we saw above in the per capita as well as total income estimates. In output per person employed, Maddison shows India at M\$ 1377 in 1950 and China at M\$1297. [op.cit, p. 350]. The story is that in the 19th century India did enjoy a rising per capita income. This is not uncontroversial as every thing else about British impact on India. But it is consistent with much data. [Heston in Kumar (1984)]. India was a land surplus rather than a labour surplus country in the 19th century with a population of about 200 to 230 million, i.e. one fifth of the current level, and much the same amount of land. It became for a while agricultural exporter rather than industrial exporter but still managed a trade surplus. By late 19th century India began to acquire modern infrastructure and industry not large relative to its population, but large relative to other countries. India is in this sense an early industrialising country. In 1945, it was the seventh largest industrial country by volume of output.

But their history drove both China and India to define industrialisation rather than economic development as their prime goal. Even within industrialisation, the strategy was one of concentrating on basic goods such as Steel and machinery- Department goods in Marxian terminology- rather than consumer and low tech goods. Both countries were inspired by the example of the USSR and its planning achievements. They both sought independence of foreign capital and self sufficiency..

The contrast between the two was most stark in agriculture. Being vast territories there is a similar diversity in the eco- agricultural make up of regions in both countries. But China's central rule meant that a uniform revenue collection system and land ownership pattern prevailed especially while the central power was effective. India by contrast had different legal patterns of revenue collection and different land tenures as a result of a lack of central authority reinforced by British experimentation with Ryotwari, Zamindari, Mahalwari etc. Land reform was a straightforward issue of changing ownership of large landholding across China as far as the Communists were concerned. They were also committed to it as soon as they could become the sole powers. In India land reform was a maze of regional complexity and the Congress Party was not a revolutionary organization. Land reform thus became a state/ provincial subject rather than a union/central policy issue. Thus India added legal and economic variation to the eco agricultural one.

Development Paths :

Differences between the two appear much greater from the vantage point of 2003 than they would have in 1973 or even 1983. Each has gone through two broad phases. I would characterize them as

[a] Taking Nationalist Ideas Seriously, Making Mistakes and Learning From Them

Both countries feared foreign domination and considered development as synonymous with industrialisation. Both considered the State as the engine and the driver of growth and suspected the private sector's initiatives. The ideology forged during the long march to independence – Marxism- Leninism- Maoism in China and Gandhism, plus an amalgam of Social and liberal Democracy in India shaped the response more than economic realities warranted. One Man ruled the roost though his closest associates did not share his beliefs as much as they said while he was still around. Mao for China and Nehru for India laid down the path from which each country had to deviate, if only because the path led to a blind alley.

For China the first period lasted from 1949 to 1978; for India from 1947 to 1980. China learned quickly thanks to Deng Xiao Ping. India did not have a Deng. Blood proved much thicker than pragmatism in matters of economic ideology. India began a half hearted change in 1980 when Mrs Gandhi abandoned self sufficiency as an ideal and took a big loan from the IMF. But that loan and subsequent hard currency borrowing were frittered away. India could be said to have wasted ten years in a half hearted liberalization which hit the buffers in 1991 when the country nearly went bankrupt.

[b] Living in The Modern World and Adapting to it :

In the second phase each country forgot the lessons it had thought it had learned from its history- xenophobia, fear of foreign trade and foreign capital, distrust of private initiative and decentralization. Each adapted to the rhythm of the world economy rather than sail against the wind. Being large vessels, they have a bit more freedom of manoeuvre than small countries. They misused the freedom in the first phase and corrected themselves in the second phase. Their comparators would be two smaller countries both with colonial past- South Korea and Taiwan who did not go through a two phase path. After 1960, South Korea single mindedly pursued growth with spectacular results. Taiwan had a similar colonial background to Korea's but it also had the influx of the Guomintang elite which transformed property rights in Taiwan and achieved what it could not on mainland- a successful growth strategy.

The comparison between the two pairs of countries is revealing. In 1950 China and India had per capita incomes of M\$439 and M\$619 while South Korea and Taiwan had M\$770 and M\$936. By 1999, the numbers were China –M\$3259, India M\$1818, South Korea M\$13317 and Taiwan M\$15720.

Let me examine the two phases in some detail

First Phase 1947/9- 1978/80

Both China and India saw a development of Department I goods- steel, cement, machine making machinery- as pivotal to its growth programme. India had at this time a viable

world class textile industry which it chose to stifle in its search for employment intensive growth strategy which meant favouring small scale and low tech firms against large scale industrialised firms. India diverted resources from domestic consumption goods production, especially of the machine produced variety, to investment goods production in the industrial sector and small scale industrial consumer goods. Even its savings rate was not significantly raised and the growth rate remained modest. China seems to have concentrated its industrial efforts also on the basic goods sector initially, but soon after the first three four years switched to an all round emphasis on heavy as well as light industries. Apart from the aberration of back yard steel furnaces in the Great Leap Forward phase, it was not saddled with a small scale industry strategy. But China had a more successful resource mobilization strategy than India did. The Indian Second Five Year Plan [1956-61] ran into a resource constraint by 1958. China on the other hand ran into the evils of overweening ambition in launching the Great Leap Forward. There seems to have been a slowdown in China in the 1960-1965 period, whereas in India it came in the second half of the Sixties after the Third Five Year Plan [1961-66].

China managed its agrarian reform better than India. Starting from a higher level of productivity, China went onto transform not only the tenurial relations in agriculture but also transformed the production conditions. Thus abolishing of landlords, forming cooperatives and then communes changed not only the distribution of surplus, but also its size. India concentrated on changing the tenurial relations by abolition of zamindari and of intermediaries to redistribute the surplus. Reform was of course different in different regions as the polity dictated. But India did little to change production conditions – land pooling, technology used or deployment of labour resources. These changed in India in the 1960s with the advent of the Green Revolution where a combination of foreign knowledge, domestic subsidies and rural private initiative brought a capitalist revolution to the Indian countryside. Despite this, China's lead in agricultural productivity remained to the end of the first phase and indeed increased when in the second phase China went over to a more private initiative system.

But above all China did very well by human development. Long run calculations of Human Development Index [HDI] have been made by Nicholas Crafts. For China and India he has estimates for 1950, 1973 and 1992 . The Human Development Report [HDR] has over the various years published trends in HDI from 1960 onwards. Its methodology has evolved over the years and so the estimates have also been revised even for earlier years. Using HDR 1997 and HDR 2002 we can see the trend up to 2002. The HDR estimates start in 1960 and are not strictly comparable to Crafts's estimates but they are close enough.

HUMAN DEVELOPMENT 1950 - 2000							
	1950	1960	1973	1980a	1980b	1992	2000
China	0.163	0.248	0.407	0.475	0.554	0.594	.0726
India	0.160	0.206	0.289	0.296	0.434	0.439	0.577

Sources 1950,1973 and 1992 Crafts(1997); 1960, 1980.a HDR 1997 1980b and 2000 HDR 2002

Thus we see that although level pegging in 1950, China soon left India behind by 1973, although they had similar per capita incomes. Over the fifty year period although the HDI numbers are not strictly comparable, China enhanced its HDI four and a half times while India did so only three and a half times. Taking the estimates for 1950, 1980b and 2000, We see that in the first thirty years China advanced much faster- three and a half times than in the last twenty years -only by a third more. India on the other hand took its HDI up two and three quarters time between 1950 and 1980 and again by a third in the next twenty years. Some writers have argued that the slowing down of China's advance in human development was due to the disbanding of the communes and with it the downgrading of the health care facilities available to all. [Dreze and Sen (1984)]. On the other hand the higher up towards a country's HDI climbs towards the value of 1.0 the harder each step becomes. Whichever way we look at it, China has done much better in human development than India has.

While there may be an argument about the state of health care facilities in China after the Deng reforms were launched, it is in other dimensions that China kept on doing well. Its emphasis on education for all from early on paid handsome dividends while education remains a blot on India's record. Here again the centralist versus federal polity makes a lot of difference. Social conditions differ immensely across India in terms of caste structures, influence of religion and superstitions. Hinduism is not an egalitarian religion even in theory and Islam at least in India is not so in practice.⁵ It is only when you go south where the influence of Christian missions was felt and social movements against the caste system were successful in early 20th century that you witness an improvement in human development statistics. India continues to pay a heavy price for its neglect of education especially as it concerns women. [The usual exception in India is of course Kerala which shows what can be achieved even in a democratic society by committed public action. Kerala has had the benefit of a democratically elected Communist government ever since the mid 1950's. But historically Travancore Cochin, which was the native state in what became Kerala, had a higher literacy rates even by the 1940s than its surrounding British India districts. Matriarchy and Christianity plus an enlightened ruler played their role here]

The first phase, despite the differences in approach to agrarian transformation and human development, altered the relative positions of China and India from what they were in 1950, but not by much. By 1978, Per capita income of China was \$979 and of India \$966. China had caught up with India over the thirty years, but not dramatically surpassed it.

⁵ The distinguished French anthropologist Louis Dumont has celebrated India's inegalitarianism in his *Homo Hierarichicus* as well as other books. [See Dumont (1980)]

Agricultural productivity per worker was almost identical in 1975 in the two countries – China 2.3 and India 1.9 [relative to USA = 100] and in per hectare terms 218.2 and 212.4 respectively again relative to USA as 100. [Maddison et al (2002)] One may ask why this was so. Why that is it was that China despite its revolutionary effort in industry and agriculture, its immense achievements in education and poverty reduction did not do much better than India. There are two responses to that question.

One is that of course it did. China's income doubled while India's only went up by fifty per cent. Of course China had suffered from the ravages of war and civil war through the fifteen years since Japan's invasion of Manchuria in 1933. So its per capita income in 1950 was below its potential. But even then we must acknowledge that China's growth was not smooth. While it was rapid, China's growth suffered from the tendency of Mao to take immense risks and plunge the economy into catastrophes. I am personalising the problem because Mao was a dominant influence in China to an extent that Nehru never was. This is where a totalitarian system can differ from a democratic one. It can accelerate growth and mobilize immense resources, but if the direction is wrong it can also crash and waste an awful lot of resources in a short period of time. But added to that, the political culture of China has been long used to such imperial power while India has been a much less commandable polity. Thus Mao plunged China into the Great Leap Forward as well as the Great Proletarian Cultural Revolution [GPCR] and it was the structure of centralized and personalised power which led to the catastrophic famine of 1962. China must have paid a price for this in terms of death, starvation and wasted resources in abandoned projects. Much human capital, of university teachers and students was devalorised during GPCR.

India, by comparison, had its muddle and mess but no great discontinuities in its development experience. It had a multi party system and even within the Congress Party antagonistic factions which could mobilize opposition to Nehru.. Even before his death, Nehru was forced to abandon his preferred policy of cooperatives in agricultures by the farmers leader Charan Singh, but then besides Nehru no one else in the Congress took cooperative agriculture seriously and had done nothing about it since the Agrarian Reforms Committee of the Congress proposed it in 1949. The Second Five Year Plan had to be modified due to resource shortages, but the Third Five Year Plan kept to the same basic strategy. During the 1960's India went through what was known [in a Maoist parody] as the Three Twos- death of two Prime Ministers, Two Harvest Failures and Two Wars. There was a policy reversal in agriculture when the High Yield Variety programme was adopted; rural and regional political bosses asserted their hold over the Congress and displaced the urban westernized elite after Nehru's death, but they in turn were displaced after 1969 when Mrs Gandhi regained control of the Congress. India had to devalue and felt the heat of US and World Bank disapproval. Yet the economic strategy did not [sadly] change. The crisis of slow growth came in 1975 when in face of popular unrest Mrs Gandhi was driven to suspend democracy and declare Emergency. But that did not last long, proving yet again that India cannot be commanded by centralized and personalized power. [Desai (1975)]

The Second Phase:

It was China, after 1978 under the influence of Deng, that accelerated leaving India far behind. In the next twenty five years China's per capita income more than trebled while that of India merely doubled. The logic of compound growth rates is pitiless and China's income is thus almost double that of India. How did China do this ?

China did this paradoxically by adopting a much more 'capitalist road' or Bukharinist strategy [for those old enough to recall these arcane labels] than any other communist regime [Yugoslavia included]. What is more, China adopted a road that India could always have adopted; indeed right after independence except that no one, not even the Indian capitalists, were advocating greater import of foreign capital, opening up the economy to an export orientation, with Special Export Zones [in China's case not all that different from the foreign concessions in ports which were so much resented before 1949]. While India went on restricting its large native capitalist class after independence, China had to practically reinvent its own bourgeoisie after 1978. Indeed according to a newspaper story cited by Dharma Kumar [op.cit], China, which had invented the examination system for selection of bureaucrats in the mists of time, approached India in the 1980's to seek its guidance about conducting examinations for its civil servants on the lines of UPSC exams in India.

Of course China's policy revolution was not seamless and Deng had to struggle to establish his hegemony. There is a debate among China scholars about the fang/shou [stop-go] cycle in Deng's reforms in the eleven years between 1978 and 1989. [Baum (1994), Shirk (1993)] But once established, his control over policy was absolute; the political culture's habit of obedience to emperors helped. [After all, the establishment of Imperial authority had to go through such transition periods throughout Chinese history but to support that claim will take me too far away from my theme as well as my competence.] Deng transformed agriculture by introducing the Family Responsibility System- privatization Chinese Communist style. He then took on the industrial sector and opened it up to foreign capital while making room for the growth of Village and Local enterprises. He left the Public Sector Enterprises untouched but slowly brought modern methods of fiscal and financial control to China. China had to introduce property rights and contract laws which India has had since Macaulay

India meanwhile also started to jettison some of its own orthodoxies, but the personality in power was still the same. Mrs Gandhi abandoned the fetish of national self sufficiency and began to borrow abroad, from the IMF to begin with. She however changed little else in the dirigiste logic of Indian economic policy. The collapse of India's textile industry was symptomatic of the malaise. Within thirty five years of independence, India had managed to bankrupt its once globally competitive industry. Freed from the constraint of foodgrain availability thanks to the Green Revolution, India did not manage to apply to its industrial sector the lessons learnt in its agricultural revolution- use foreign knowledge, rely on the dynamic private sector and deploy subsidies selectively. Instead, foreign borrowing was used to ease the consumption constraint in the public sector and to cushion loss making public enterprises. Ian Little and Vijay Joshi argue in their book on

Indian economic reforms that Indian policy making alternates in five year spurts of radicalism, followed by a quiescence when it again flares up under political or economic pressures. [Little and Joshi (1994)]

India really changed course only after the shock of 1991 when it was nearly bankrupt and had reserves which would cover only two weeks' imports. But in the change the same personalities were involved as in the old dirigiste regime. Manmohan Singh as Finance Minister was crucial to the reform, but he was no Deng and neither was Narasimha Rao, who was Prime Minister 1991-1996. Indeed by 1994, India began to reveal its reluctance about economic liberalisation. Ever since, India has been reforming its economy, but in a much more embattled way than China. Given the nature of the political culture, reform can only be introduced by broad consent and all the potential losers [many of whom are in power] have to be bribed [sometime literally so] to advance matters.

Thus while China has received a lot of foreign capital, India has not. By 1998, Maddison's calculations show that China had \$183 FDI per capita and India had \$14. Even if a lot of China's FDI was due to the Chinese diaspora, it only shows the failure of India to attract its own diaspora to invest, in spite a lot of trying. Indeed India has sought portfolio capital more than FDI since suspicion of foreigners remains strong, not only among India's politicians but even more among its capitalists. There has been some change for the better in the last five years under the BJP/NDA government but there is a long way to go.⁶ There are other more usual reasons for the difference in economic performance. For one, the Chinese savings rate in the high 40's is nearly twice India's which is in the mid 20's. Indeed given the higher savings rate in China plus the FDI influx, the growth rates are less far apart than should be the case. India has averaged 5.5% in the 1980's and around 6.5% in the 1990s. Even at 7% to 9%, China's growth rate implies inefficient use of capital barring gross measurement errors. Or it could indicate sharply diminishing returns to capital, but I doubt that given that a lot of FDI embodies the latest knowledge.

The reason may be that in both countries there is a large public sector where enterprises are seriously loss making. Both countries are wedded to Soviet style emphasis on inputs rather than outputs and accumulation for its own sake. India had begun to shed some of these and has always had a smaller public sector than China. So the waste of resources by malinvestment [to use an old fashioned Hayekian word] is larger in China. In both countries there is also a budget deficit which is out of control; perhaps more so in India due to the exigencies of democratic and coalitional politics, as well as weak central control over provincial budgets.

The two countries have mobilized savings through their financial structures, but the mobilization has left the financial sectors in fragile states. Non performing assets in the banking systems as well as the non banking financial sector [ITICs in China] indicate a problem ahead. India has failed to impose arms length regulatory regimes free of politics

⁶ For recent restructuring efforts in the organized private sector in India see Forbes,N.(2002) Doing Business in India : What Has Liberalization Changed ? in Krueger (2002)

and the result has been fraud and corruption in equity market related activities- UTI, Stock market scams of Harshad Mehta etc.[Saez (2001), Desai, Saez and Gupta (2003)]

It is difficult to predict whether a combination of budget deficits, domestic debt and financial sector weakness will cause a major crisis in either country. Both have managed to run their external accounts fairly well. Their reserve positions are healthy, exchange rate policy – pegged to the dollar in China and a dirty float in India –are prudent. India has moved faster to full capital convertibility in recent months while financial sector reforms are yet to be undertaken. China has not moved as far with convertibility but its peg to the dollar may cause problems if the dollar weakens to any significant extent. India's foreign liabilities are more weighted towards the short run and portfolio end, while China has a larger FDI flow. The Asian crisis reminded us that even sound macroeconomic numbers are no guarantee against a run on the currency if the markets suspect a mismatch between internal and external balance. Here it is India which is more fragile than China.

Speculations and Counterfactuals :

I now turn to some very broad and highly speculative considerations. Having looked at China and India over the years since 1820 against a longer background, it is worth exploring a longer future. What follows is even more my own view than what has been said so far.

In a *long duree* perspective, the present strong relative position of China can be attributed to the radical changes in China since 1978, thanks to Deng. Of course the foundations laid in the first phase wherein China doubled its per capita income obviously helped. But the similarities in their respective per capita incomes in 1980 merely reflects the longer history of the two countries. A priori, there is no reason why China should have opened such a large distance in such a short period of time. This is especially so because as I have already remarked above, China adopted a policy which it was always possible for India to adopt. Indeed anyone looking at the two countries at any time between 1950 and 1975 could have thought that India had a better capitalist infrastructure as well as commercial culture than China had. The diasporas of both China and India have always been adept at commercial activity so there is nothing in Chinese or Indian culture as such which could make a difference. The difference arises out of the political and institutional differences inside the country and these are very much short run and changeable.

Can China Combine Capitalism with One Party Rule ?

China appears to have been able to separate the political institutions of a Leninist State with single party dominance from its economic imperative of state ownership of all means of production. This is unique in political economy of modern times. The transition is not yet fully complete as there is still a lot of central control over economic life and a large state owned sector. It would be a bold person who could predict how far China could go in this separation. Thus could one have a fully capitalist or even a largely capitalist economy with a Leninist State? This is not the same as Market Socialism but

more like State Capitalism although the word has now been much maligned in the polemics on the Left. When Lenin spoke of State Capitalism he had the German War Economy during WWI in his mind- a private ownership economy run in a centralized fashion. [Desai (2002)] The Chinese version of State Capitalism could in the limit amount to private diffuse ownership with single party monopoly of political power. Is this feasible or likely?

Normally we associate rise of democracy with a prosperous middle class with plenty of 'bourgeois' elements. A private ownership economy is bound to require a lot of economic freedom and as we are all crude materialists in this matter, we associate economic freedom with political liberties. While there is some opening out in the direction of separation of powers in some local jurisdictions [SEZs such as Shenzhen] it is difficult to envisage separation of powers in the absence of multi party democracy with free elections and a possibility of change of the party in power. China's experiment is thus one of the most interesting episodes in modern political economy. Will China be able to sustain one party rule with a private enterprise economy? Is State Capitalism feasible in peaceful post revolutionary times?

The implicit Chinese answer seems to be that if the CCP delivers on fast and sustained economic growth while restructuring the economy continuously in a capitalist direction, then the CCP monopoly of political power will become feasible with limited concessions such as separation of powers but no party competition. Marxian and every other political economy says that this is not easy, even not possible. [Moore (1969) Desai (2002)] Economic freedom will spill over into demands for political freedom. Even authoritarian governments- i.e. non communist dictatorships- have been unable to sustain monopoly of political power with developed capitalism. Leninist State formations in Europe collapsed along with their economic forms. Apart from China, only North Korea and Cuba remain as major non capitalist economies and non (liberal) democratic polities. Can China defy the so-called laws of historical materialism [or even cross section growth regressions of new political economy] and avoid the transition to democracy ?

One particular problem in this respect relates to the legal framework. While civil and political liberties can be curtailed, once you grant property rights certain liberalizing consequences inevitably follow, as any 18th century political economist will tell you. Thus the Communist Party qua contractor or buyer and seller of property cannot be above the law. There has to be accountability and auditing, legal sanctions and punishments for non delivery or non performance. From this requirement follows the need to have law courts and a legal profession which enjoy a certain degree of immunity from the perennial habits of Communist Parties to bully if not liquidate all those who disagree with them. An independent legal profession needs further freedoms of speech and association and so on. It is this compulsion to establish a rule of law which will be crucial for China. In a fascinating and detailed study of the growth of the rule of law in China, Peerenboom makes the following observation which despite its length is worth quoting

“In the end, however, a transition to democracy is likely to be necessary to overcome the Party's legitimacy deficiencies, to address accountability issues, and to reduce growing

social cleavages. It is possible that over time the Party could stave off extinction by transforming itself into a Social democratic party. The Party could well gain support of its citizenry if in the next decade it is able to reduce corruption to a tolerable level and to sustain economic growth while dealing with such pressing problems as SOE reforms, reform of the banking and financial sectors, and the need to establish a social security system and to clean up the environment. It could further broaden its appeal by gradually relaxing its grip on society and allowing citizens greater, albeit still limited, freedom of speech, assembly, and association. In short, it could adopt a more communitarian approach. If it does not, and elections are held, it could very well lose out to the party that does adopt such an approach, all else being equal“ [Peerenboom (2002), pp572-3]

This is a tall order for any country much less China. Indeed India itself has not eliminated corruption nor reformed its banking and financial sectors. But people will tolerate corruption if they can throw the corrupt out of office, even if this exit is only through a revolving door. Democracies coexist with all sorts of imperfections and can indeed even withstand a lot of misery unlike authoritarian regimes, as the fate of the USSR in face of the stagflation crisis of the 1970's showed in contrast to Western economies. What Mrs Thatcher could do to the British economy, Brezhnev, Chernenko or Gorbachev could not. So China does not have to make things perfect if it can only grant bourgeois freedoms to its people. If not it has to be better than the most perfect democracy. Can China find its way out of this paradox ?

My interim answer to this is that the odds are stacked against China being able to do this. Not that it is impossible or even unlikely but the odds are not favourable. There is one major reason for this, for which I appeal to Chinese history. This is China's inability to handle dissent and defiance of central rule without a lot of damage. The episodes of Taiping and Boxer rebellions in the Imperial era and GPCR, as well as the 1989 troubles which were not confined just to Tiananmen, show that China is fragile if not brittle when it comes to dissent. In the next ten years, China will be adjusting to economic restructuring due to WTO as well as facing up to global media exposure due to the 2008 Olympic Games. It will be an open invitation to human rights movements and Falun Gong to expose the regime to international scrutiny. Moscow's experience of the 1980 Olympic Games proved crucial in the way the Soviet Union collapsed. What about China?

I expect China to survive as a powerful economy, but after a short period of political turbulence on the lines of the Taiping rebellion or GPCR. China will be forced to make a political transition as profound as the Eastern European states did with their economies. The final shape will be a more democratic China, but it may not necessarily be a liberal democratic Western type regime. There are after all living examples of “less-than-liberal” democracies- Singapore, Taiwan, Malaysia which China can follow. You can have a multi party democracy with a single party dominance as in Mexico and Japan and India till 1989. One can have dual power as in Iran with the Ayatollahs [Communist Party] vying for control with a democratically elected power. There are many choices on the way to a full transition to liberal democracy.

Can India catch up with China?

India has problems about delivering strong focused government pursuing a single objective with total commitment. Its great achievement is to have constructed world's most populous democracy against all the odds – illiteracy, multiple languages and religions, racial and social heterogeneity. There have been spurts of committed action- in the mid 1950s when the Second Five Year Plan was formulated, in early 1970s when Mrs Gandhi pursued her anti poverty programme, in the mid 1980s when Rajiv Gandhi pushed the import liberalization policy harder, the early 1990s with Rao and Manmohan Singh liberalizing the economy and finally in last five years when the reform process has been kept up rather than reversed as many had feared. The growth rate has gone up from 3.5% to 5.5% and now 6.5%.

India has also achieved another miracle relative to many post colonial societies. It has maintained its territorial integrity, unlike for example Pakistan. It has not had a civil war, unlike Nigeria or Sri Lanka and while multi ethnic federations such as Yugoslavia and the USSR have broken up, India has not. This has absorbed resources as India has had to fight subnationalisms in the North East Nagaland, in Panjab with Khalistan and in Kashmir with international subversion added to internal dissension. It has had communal strife between Hindus and Muslims, Hindus and Sikhs, between caste Hindus and Untouchables/Dalits and so on. It has also faced class based revolts in Telangana in the 1940's, in West Bengal, Andhra Pradesh and Bihar with the Naxalites. Through all this it has survived as a democratic open society based on consensus and debate. Life is about more than per capita income and its growth.

For India any hope of growing faster depends on less government rather than more, on harnessing the private sector entrepreneurial talent which has always been there but was stifled for a long time. But this requires a less interventionist government but a better regulatory regime. India's bane is the politicization of all aspects of economic life and the difficulty of constructing an arms length regulatory regime free of political interference. This is because of and despite its democratic politics.[Desai (2002a)] Thus even after a large piece of stock market fraud or mishandling of UTI customers' investments, there has been little by way of punishment. Indeed a large number of financial scandals have thousands of victims but no culprits convicted. [India Today (2003) for a recent list] One cannot expect a flourishing private enterprise culture in absence of trust and effective regulation. Thus a black economy, smuggling and criminalisation of financial markets flourish. Depoliticisation of the economy thus remains a challenge. This is the same challenge as the more frequent complaint about control of the budget deficit because the deficit is due to the compulsions of consensual politics with coalition government and weak powers over regions.

What then are the chances that we may see a strong effective government emerge at the Centre with effective fiscal control over its own budget as well as the budgets of states and an ability to depoliticise regulatory structures? Here there comes a deep dilemma of the Indian polity. India was set up after Independence as federal polity because of the awareness of the first generation of leaders of the difficulty of holding the various

linguistic and religious groups together. Indian nationhood was defined as unity in diversity. But lately a new more Unitarian construction of Indian nationhood has been advanced by the forces of Hindutva nationalism. Thus far it has been muted in its approach, but is also quite successful. If in the forthcoming months and years the Unitarian approach were to be pursued harder and if it was to be electorally successful, then India may emerge simultaneously as a non secular, Majority Hindu polity with single party dominance by the BJP and its parivar. The advocates of Hindutva often cite Israel as their ideal example.

Historically modernity in India was supposed to come with a secular and perhaps even socialist society. This was certainly Nehru's ideal, as well as practice, and at least the rhetoric if not practice for the two Gandhis. But the events of the last ten years or so raise the serious possibility that modernity in India will come with a Hindu or religious rather than secular as well as a capitalist dispensation. It is conceivable that such a Unitarian nationalism may accelerate growth by following a more liberal policy. But it is also likely to lead to greater social disharmony. Of course a majoritarian rule of the largest religious group is possible with non-discrimination of the minorities, but in the Indian context and given the history, not very likely.

Conclusion:

My own view is that India will remain a soft state, a consensual polity, and it will not be capable of sustained growth at the sort of rates which China has attained. To stay a stable peaceful society, India has to be a muddle and a mess. It is a miracle that proceeding in the way it has done, it has come as far as it has done, trebling its per capita income. But there will not be growth convergence between China and India [except unless China has a long breakdown in its transition to democracy]. India and China will both remove poverty in their midst and cease to be bywords for misery that they became for a hundred and fifty years after 1820. China will again become a viable Great Power; India may become just a Great Democracy.

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