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Awakening Giants, Feet of Clay

Assessing the Economic Rise of China and India

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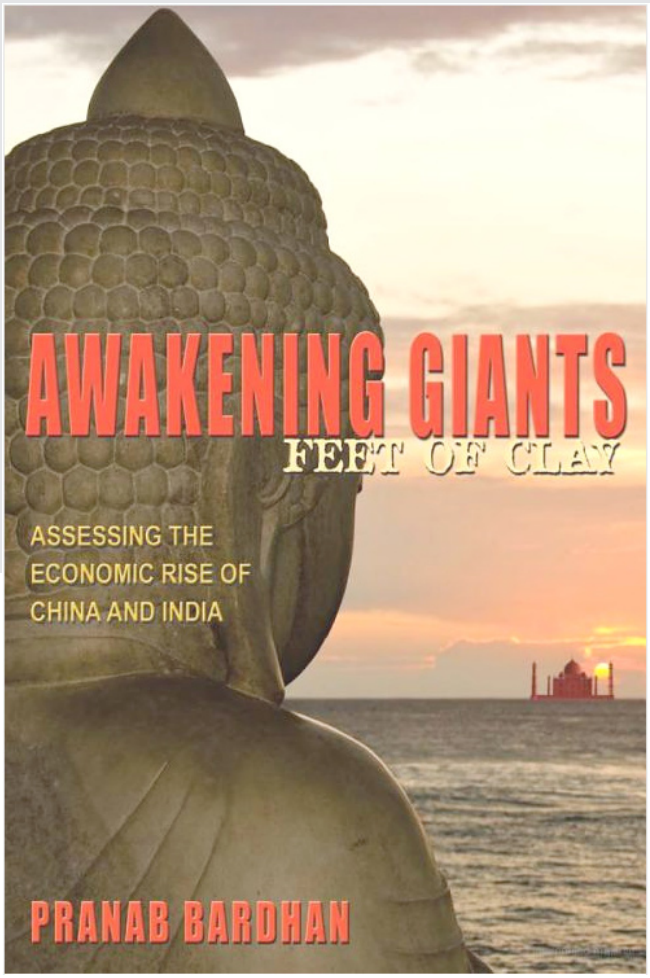
SUMMARY

The recent economic rise of China and India has attracted a great deal of attention--and justifiably so. Together, the two countries account for one-fifth of the global economy and are projected to represent a full third of the world's income by 2025. Yet, many of the views regarding China and India's market reforms and high growth have been tendentious, exaggerated, or oversimplified. Awakening Giants, Feet of Clay scrutinizes the phenomenal rise of both nations, and demolishes the myths that have accumulated around the economic achievements of these two giants in the last quarter century.



Exploring the challenges that both countries must overcome to become true leaders in the international economy, Pranab Bardhan looks beyond short-run macroeconomic issues to examine and compare China and India's major policy changes, political and economic structures, and current general performance. Bardhan investigates the two countries' economic reforms, each nation's pattern and composition of growth, and the problems afflicting their agricultural, industrial, infrastructural, and financial sectors. He considers how these factors affect China and India's poverty, inequality, and environment, how political factors shape each country's pattern of burgeoning capitalism, and how significant poverty reduction in both countries is mainly due to domestic factors--not global integration, as most

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summary contd.

would believe. He shows how authoritarianism has distorted Chinese development while democratic governance in India has been marred by severe accountability failures. Full of valuable insights, *Awakening Giants, Feet of Clay* provides a nuanced picture of China and India's complex political economy at a time of startling global reconfiguration and change.

Links to interviews around the book.

Interview with Reuters:
http://blogs.reuters.com/great-debate-uk/2010/05/31/pranab-bardhan-on-the-economic-rise-of-china-and-india/

One of two public lectures at the London School of Economics:
http://www.lse.ac.uk/resources/podcasts/publicLecturesAndEvents.htm#generated-subheading3

Romesh Vaitilingam's interview for Vox:
http://www.voxeu.org/index.php?q=node/5109

BBC World Service Forum:
http://www.bbc.co.uk/iplayer/console/p0080gs8

China and India both face serious hurdles in boosting living standards for people

Over the past few years the media have been all agog over the rise of China and India in the international economy – and their remarkable recovery in this current global recession. After decades of relative stagnation, these two countries, containing nearly two-fifths of the world population, have had incomes grow at remarkably high rates since since the early 1980's.

In the world trade of manufacturing, China, and in that of services, India, have made big strides, much to the consternation – as yet largely unfounded – of workers and professionals in rich countries. The industrial growth along with acquisition of international companies by China and India attract much of the Western media attention.

But more revealing is what has happened to the lives of people inside these two countries and under what structural constraints. It's imperative to demolish myths that have accumulated in the media and parts of academia around the economic achievements of China and India and get a better sense of the real challenges faced by them.

In the recent, often breathless, accounts of the economic rise of China and India, a set of simple generalizations have become part of the conventional wisdom. The familiar story runs along these lines:

> *Many decades of socialist controls and regulations stifled enterprise in both countries and led them to a dead end. Their recent market reforms and global integration have finally unleashed their entrepreneurial energies. Energetic participation in globalized capitalism has brought about high economic growth in both countries, which in turn led to a large decline in their massive poverty.*
>
> *In particular, China is now the "manufacturing workshop of the world" and its industrial growth during the past quarter century is hailed as historically unique, even better than the earlier East Asian "miracles." India's economy has been transformed by service-sector-led growth, but overall growth has not been as dramatic as in China. China's better performance suggests that authoritarianism may be more conducive to development at early stages, as demonstrated earlier in South Korea, Taiwan and Singapore.*
>
> *Global capitalism, however, has inevitably brought rising inequalities, more in China than in India. But all is not lost for democracy in China. The prospering middle classes will slowly but surely demand more democratic rights and usher in democratic progress in China, as they have in South Korea and Taiwan.*

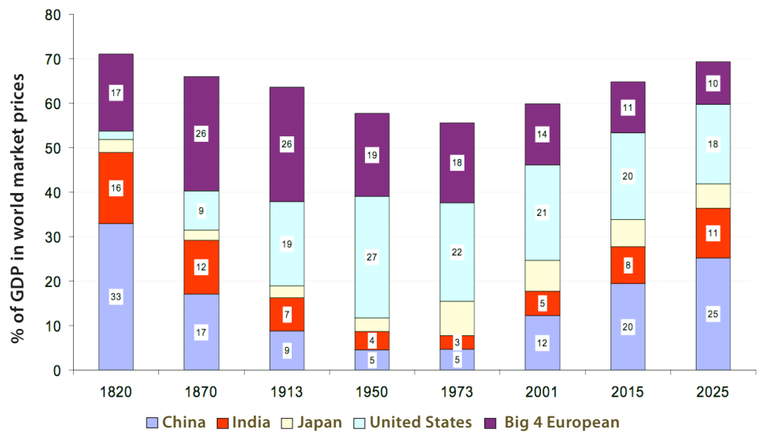
There are, of course, some elements of truth in this story, but through constant repetition it has acquired a certain authoritativeness that, as closer scrutiny shows, it does not deserve. The story is far too oversimplified.

First, two relatively small points about industrial growth in China: While China is possibly the largest single manufacturing production center in the world for many goods in terms of volume, it is not so in terms of value-added; the world share of US or EU in this area is still substantially larger.

It's imperative to demolish myths around the economic achievements of China and India and get a better sense of the real challenges

Similarly, although the industrial growth rate has been phenomenal in China, South Korea and Taiwan grew at a faster pace in value-added terms during the first 25 years of their growth spurt. More important, contrary to popular impression, China's growth over the last three decades has not been primarily export-driven. While China had major strides in foreign trade and investment during the last 15 years, before – during the period between 1978 and 1993 – the nation had a high average annual

Chart 1: Share of World Income over 200 years (*from Virmani, Angus Maddison OECD*)



Pranab Bardhan, (Ph.D. Cambridge University) is Professor of Economics at the University of California at Berkeley. Dr. Bardhan has done theoretical and field studies research on rural institutions in poor countries, on political economy of development policies, and on international trade. A part of his work is in the interdisciplinary area of economics, political science, and social anthropology. He was Chief Editor of the Journal of Development Economics for 1985-2003. He was the co-chair of the MacArthur Foundation-funded Network on the Effects of Inequality on Economic Performance for 1996-2007. He held the Distinguished Fulbright Siena Chair at the University of Siena, Italy in 2008-9. He is the BP Centennial Professor at London School of Economics for 2010 and 2011.

This is Dr. Bardhan's 12th book. He has also edited 12 books and authored more than 150 papers and journal articles.

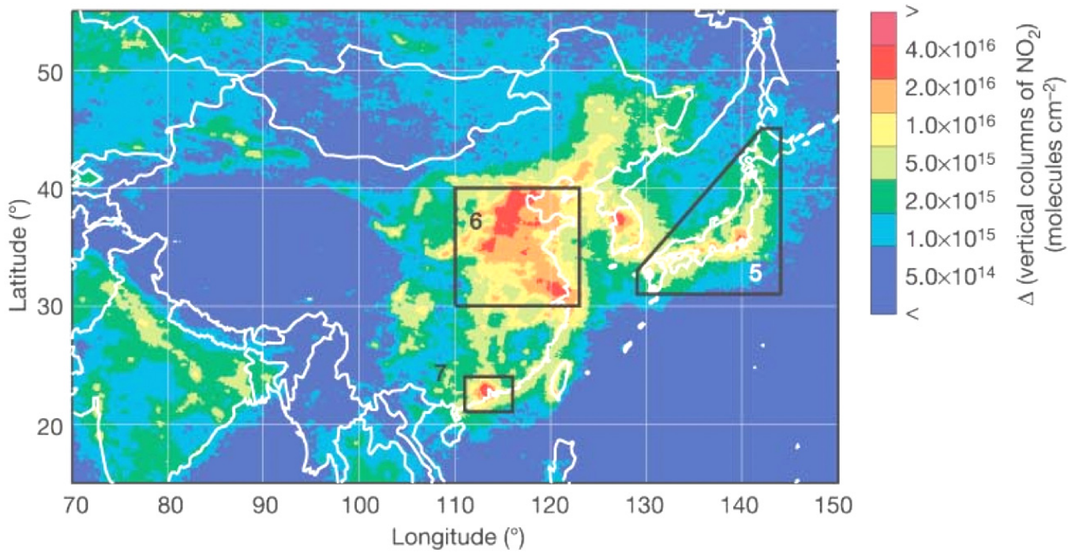


Chart 2. Satellite Image of Tropospheric Nitrogen Dioxide Emission Levels from Fossil Fuel Combustion and Biomass Burning in Asia. SCIAMACHY tropospheric NO2 vertical columns averaged between December 2003 and November 2004 for selected industrial regions. SCIAMACHY measurements are taken close to 10.00 a.m. lt. A nonlinear colour scale has been used because of the large range of NO2 vertical columns. (*from Nature, September 2005*)

growth rate of about 9 percent.

Much of the high growth in the 1980s and the associated dramatic decline in poverty happened largely because of internal factors, not globalization. These internal factors include an institutional change in the organization of agriculture, the sector where poverty was largely concentrated, and an egalitarian distribution of land-cultivation rights. The latter provided a safety net amidst the wrenching dislocations brought about by market reforms, something that is missing in India, where nearly half of the rural households are landless or near-landless.

While expansion of exports of labor-intensive manufactures did lift many people out of poverty in China, the same is not true for India, where exports are still mainly skill- and capital-intensive. It is also not completely clear that economic reform is mainly responsible for the recent high growth rate in India. Reform clearly made the Indian corporate sector more vibrant and competitive, but most of the Indian economy is not in the corporate sector, with 94 percent of the labor force working outside this sector, public or private. Consider the fast-growing service sector, where India's information-technology-enabled services have made a reputation the world over. But that sector employs less than half of 1 percent of the total Indian labor force.

It is also not completely clear that economic reform is mainly responsible for the recent high growth rate in India

Contrary to popular impression, the level of economic inequality is actually lower in globally more integrated China than in India

While globalization generates some destabilizing forces, the rise of inequality is not the highest in the globally more exposed coastal regions of China, but rather in less-integrated interior areas. Contrary to popular impression, the level of economic inequality is actually lower in globally more integrated China than in India. In particular, domestic factors like the much higher inequality in land distribution and in education drive greater inequality in India.

For the financial press, China and India have become poster children for market reform and globalization, even though in matters of economic policy toward privatization, property rights, deregulation and lingering bureaucratic rigidities both countries have demonstrably departed from the economic orthodoxy in many ways. If one looks at the figures of the widely-cited Index of Economic Freedom of the Heritage Foundation, the ranks of China and India remain low: out of a total of 157 countries in 2008, China's ranks 126th and India 115th. Both are relegated to the group described as "mostly unfree."

Although there is no doubt that the period of socialist control and regulations in both countries inhibited initiative and enterprise, it would be a travesty to deny the positive legacy of that period. It is arguable, for example, that the earlier socialist period in China provided a strong launching pad particularly in terms of a solid base of education and basic health, rural infrastructure, a rural safety net from equitable distribution of land cultivation rights, regional economic decentralization and high female labor participation.

A major part of the legacy of the earlier period in both countries is the cumulative effect of the active role of the state in technological development and capacity building in industrial diversity.

The relationship between democracy and development is quite complex, and authoritarianism is neither necessary nor sufficient for development. In fact, authoritarianism has distorted Chinese development, particularly as powerful political families distort the allocation of state finance and unaccountable local officials

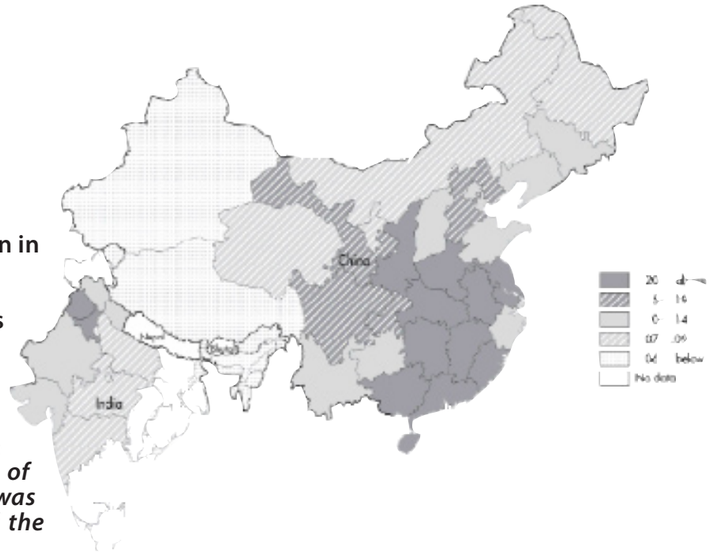


Chart 3: Gender Imbalance in Children in India and China.

Child Sex Ratios (m/fs) in Provinces of China and States of India 2000-01. The child sex ratios are for children aged 0-4 years (China) and 0-6 years (India) reflecting the census conventions followed in these countries. *From Population Censuses of India 2001 and China 2000. This map was produced by the map design unit of the World Bank.*

in cahoots with local business carry out capitalist excesses, both in land acquisition and toxic pollution.

Democratic governance in India, on the other hand, has been marred by severe accountability failures particularly at the local village and mucipal levels. As a result, delivery of social services (education, health, nutrition) remains dismal. Nor can one depend on the prospering middle classes to be sure-footed harbingers of democracy in China. In many cases the Chinese political leadership has succeeded in co-opting the middle classes, including the intelligentsia, professionals and private entrepreneurs, in its firm control of the monopoly of power, legitimized by economic prosperity and nationalist glory. Indian democracy derives its main life force from the energetic participation of the poor masses more than that of the middle classes.

While both China and India have done much better in the last quarter century than they have during the last 200 years in the matter of economic growth, one should not underestimate their structural weaknesses. Many social and political uncertainties cloud the horizons of these two countries for the foreseeable future.

***Note**: Main text and the two photographs are from Yale Global online.*

Praise for AWAKENING GIANTS, FEET OF CLAY

"Bardhan's book is erudite, informative, and accessible, and his scrutiny of the conventional wisdom about the past quarter century of reform in China and India is always provocative. You do not have to agree with him to be stimulated and rewarded by his insightful scholarship. This book deserves a wide audience."

—Tarun Khanna, Harvard University

"That China and India will reshape the international economy in the coming years has become conventional wisdom in policy, business and journalistic circles. A Chinese and Indian century is apparently in the offing. In a magisterial overview presented in this book, such projections are treated with caution and skepticism. Pranab Bardhan, professor of economics at the University of California, Berkeley, does not deny that China and India have done extremely well in the past quarter century, but 'structural weaknesses' and 'social and political uncertainties…cloud the horizon for these two countries'."

—Ashutosh Varshney, India Today

"There is plenty of conventional wisdom that celebrates these two emerging economies as the stars of the future. Bardhan's book, on the other hand, challenges much of the celebratory literature on the two countries. The book isn't likely to please free-market enthusiasts. One of the 'wisdoms' the Berkeley economist argues against early on is what he believes is disproportionate credit given to liberalisation and globalisation in explaining the success of these economies between 1980 and 2005....That said, the book is no plea for a return to statist economics and will therefore displease ideologues on the left as much as on the right. ...But perhaps the most fascinating parts of the book are the ones where Bardhan moves from economics to his forte of political economy. His is perhaps the most nuanced analysis of the democracy vs authoritarianism debate that is an integral part of any discussion on India and China."

—Dhiraj Nayyar, Indian Express

"Awakening Giants is notable particularly for dispelling common misconceptions and oversimplifications surrounding the recent rise of the globe's two most populous nations....The best parts (of the book) are contained in the more focused sections dealing with poverty, inequality and the social sector bearing the author's distinct imprint."

—Siddharth Singh, Mint

"While many books address Western fears about China either soothing or stoking them one virtue of Awakening Giants, from the standpoint of the Indian reader, is that it offers a fine-grained and nuanced view of Chinese economy and society in terms of its own internal logic, with India as a convenient reference point. Neither is it abstrusely academic, which makes it one of the few good books in the market for those interested in a comparison of the Indian and Chinese experiences over the last few decades. If China is an enigma to most Indians, here's a book that does a succinct and sophisticated job of unravelling it."

—Swagoto Ganguly, Times of India

"Awakening Giants is notable particularly for dispelling common misconceptions and oversimplifications surrounding the recent rise of the globe's two most populous nations....The best parts are contained in the more focused sections dealing with poverty, inequality and the social sector bearing the author's distinct imprint."

— Harish Damodaran, Hindu Business Line

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The Center for South Asia Studies (CSAS) at the University of California, Berkeley is one of the world's foremost centers for research and programs on South Asia. CSAS works with faculty members, graduate students, community members, private institutions, and non-profit organizations to deepen understanding of the region and to create new generations of scholars of South Asia. One key area of focus at CSAS is research about and programmatic activities on contemporary South Asia, examining closely issues like democracy and democratic reform, reduction of inequality, and social development.

Praise for AWAKENING GIANTS, FEET OF CLAY contd.

"[E]xcellent. . . Bardhan writes with remarkable clarity about complex issues, such as the widely varying ways that corruption can affect the economy, and the positive as well as negative legacy of the Maoist era for China in terms of its recent trajectory. . . . He also shows some welcome stylistic flair, quoting poetry to good effect in one section (how often do economists do that?)."

—Jeff Wasserstrom, Forbes.com

"Of the several books making general comparisons of the recent growth experiences of China and India, this one is the best I have read. It is full of useful data, it is a great source of information, and it contains insights that will be interesting to general readers."

—Kaushik Basu, Cornell University

"This book is an important reference for anyone interested in growth and poverty alleviation in China and India. It makes eye-opening comparisons and offers acute insights across such wide-ranging topics as poverty and inequality, labor and anticompetitive regulations, industrial concentration in India compared to other countries, electricity in Indian agriculture, Chinese financing of roads, and Indian and Chinese business-state relations."

—Philip Keefer, World Bank

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