Chapter 1

Introduction: The Myths Floating around the Giants

. . . and I know too much now
To really feel at home in any one place
—from the Malaya-born poet Goh Poh Seng's
As Though the Gods Love Us

Over the past few years the media, particularly the financial press, have been all agog over the rise of China and India in the international economy (and how they have done relatively well even in the current global downturn). After a long period of relative stagnation, these two countries, containing nearly two-fifths of the world population, have had their incomes growing at remarkably high rates over the past quarter century or so. In 1820 these two countries contributed nearly half of world income; in 1950 their share was less than one-tenth; currently it is about one-fifth, and the projection is that in 2025 it will be about one-third.[1]

India was slightly ahead of China in 1870 as well as in the 1970s in terms of the level of per capita income at international prices, but since then, particularly since 1990, China has surged well ahead of India. India's per capita income growth rate in the past two decades has been nearly 4 percent. China's has been at least double

[1] These share estimates are by Maddison (2007). His income estimates are all at 1990 international prices. These estimates may be somewhat revised once the new World Bank purchasing power parity numbers are used.

that rate, and even discounting for some overstatement in the Chinese official rates of growth, China has clearly grown significantly faster than India. In the world trade of manufacturing, China, and in that of services, India, have made big strides, much to the (as yet largely unfounded) consternation of workers and professionals in rich countries. Apart from attracting substantial foreign investment to their own large domestic markets, global companies originating from these two countries have started flexing their muscles in acquiring companies in Western markets. Journalists have referred to the economic reforms and integration of these large countries into the world economy in all kinds of colorful metaphors: giants shaking off their "socialist slumber," "caged tigers" unshackled, and so on. Newspaper columnists and media pundits have sent breathless reports from Beijing and Bangalore about the imminent and inexorable competition from these two new whiz kids in a hitherto complacent neighborhood in a "flattened," globalized playing field. Others have warned about the momentous implications of "three billion new capitalists," largely from China and India, redefining the next phase of globalization.[2]

Although I believe there is some exaggeration in this buildup and in the supposed difficulty of the rich countries in coping, this book is *not* a reexamination of the challenges that China and India pose for the rest of the world either in economic or geopolitical terms. It is more an attempt to look inside these two countries and carry out a comparative assessment of their economic achievements and their still massive problems, with the focus on structural and institutional issues in the domestic political-economy context. My purpose is also less to draw policy lessons than to understand what has happened and under what structural constraints. In the subsequent pages there will be less emphasis on short-run macroeconomic issues (such as those relating to the immediate global financial crisis, or to monetary or exchange rate matters, or to business cycles or panicky withdrawals of international portfolio investment or the trade credit crunch or stimulus packages

[2] See, for example, Friedman (2005), Prestowitz (2005).

or adjustments to sudden shocks, internal or external, which are the staples of daily business news), and more on long-term trends and problems. For these two countries with a long history, however, I'll concentrate largely on what happened in the past quarter century.

In this short book we cannot go into much depth on any question, obviously, but we'll try to be on guard against the hype and oversimplifications that afflict many recent accounts of the two economies. One such oversimplification relates to the issue of democracy or authoritarianism either facilitating or hindering development. We shall discuss some of the complexities of this issue in relation to China and India in our concluding chapter. Another relates to the preoccupation with income growth rates; apart from noting some problems with the growth rate estimates, we'll try to go beyond national average income growth and delve a bit deeper into the anatomy of the political-economic forces, particularly those relating to distributive conflicts. In both countries such conflicts are often rankling and simmering just below the surface. When in recent years I read many of the glowing accounts of the two economies, laid out in rather simplistic and aggregative terms, I was reminded of what Henry James wrote in a different context (in his 1909 preface to *The Princess Casamassima*) about "our not knowing . . . and trying to ignore what 'goes on' irreconcilably, subversively, beneath the vast smug surface."

Many years ago when I was teaching at the Delhi School of Economics, I was once asked by my friend and colleague the late Dharma Kumar, if I had freedom of choice to live in India or China, which would I choose, ignoring the obvious cultural constraints (such as my not knowing the Chinese language). I think I disappointed her when I said that if I were poor, I'd probably choose living in China. Today I am less sure of my answer, even though the Chinese poor are materially even better off now compared to the Indian poor than when I was asked that question. Today I sometimes feel that my (somewhat evasive) answer may be on the lines of the quotation from the Goh Poh Seng poem cited in the epigraph to this chapter.

II

For about one hundred years before Liberation in 1949 in China, and for about two hundred years before Independence in 1947 in India, the encounter of these two countries with the international powers has not been altogether pleasant. There are disputes among historians about how much of the economic stagnation and relative decline in this period is due to that encounter. But there is no dispute today that the rise of China and India, and the (partial) restoration of their earlier important place in the world economy within a rather short span of time (a little more than a quarter century) has been one of the most striking phenomena in recent history in the international economy. To explain this phenomenon, it has been common to use a set of simple generalizations that seem to have now become part of the conventional wisdom. The familiar story runs along the lines of the following two paragraphs.

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. Their 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. The two countries are now full of billions of "new capitalists" striving to find their place in the sun. Although India's performance in this respect has been substantial, it has been overshadowed by the really dramatic performance of China both in economic growth and poverty reduction. China has now become the manufacturing "workshop of the world." China's explosive industrial growth in the past quarter century is hailed as historically unique, even better than the earlier East Asian "miracles." Like those "miracles," China's is often regarded as another successful story of a "developmental state," with an active industrial policy and a state-financed and -guided program of industrialization.

China's better performance than India's suggests that authoritarianism may be more conducive to development at early stages, as we have seen earlier in South Korea, Taiwan, and Singapore. In the Chinese case, however, regional economic decentralization provided some dispersal of power and more autonomy and incentives to local people, and even with-

out democracy it led to broad-based local development (unlike in Russia, where regional decentralization led to collusion between local governments and oligarchs, only recently curbed by a semiauthoritarian and centralized Putin administration). Global capitalism, however, has inevitably brought rising inequalities, more in China than in India, and this may portend some problems for the future political stability in China, as it does not have the capability of democratic India to let off the steam of inequality-induced discontent. 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, elements of truth in this story, but through constant repetition it has acquired a certain authoritativeness that, closer scrutiny shows, it does not deserve. Much of this book will challenge different parts of this oversimplified story.

First, two relatively small points about industrial growth in China. While China is possibly the largest single manufacturing production center in the world in many goods in terms of volume, it is not so in terms of value added. Contrary to the popular impression, the world share of manufacturing value added in Japan or the United States is still substantially higher (more than double) than in China. Similarly, although the industrial growth rate has been phenomenal in China, it is not historically unique. Figure 1 in our next chapter shows the growth in value added in the secondary sector (manufacturing, mining, utilities, and construction) during the *first quarter century* of accelerated growth, in China (from 1978), along with comparable figures for three other East Asian countries during their growth spurts: Japan (from 1955), Taiwan (from 1960), and South Korea (from 1965). China outpaces Japan in this period, but not the other two countries. Of course, China's scale makes the growth event huge and incomparable to the growth of the other three countries.

More important, consider the oft-repeated point that it was global integration that brought about high income growth, which then brought down the extreme poverty that had afflicted China and India over many decades or even centuries. First, contrary to popular impression, China's growth has not been primarily export-driven.

As we'll suggest in the next chapter, in terms of growth accounting, the impact of net exports on China's growth in the period 1990–2005 has been relatively modest compared to the impact of domestic investment or consumption. Second, China had major strides in foreign trade and investment mainly in the 1990s and particularly in the subsequent decade; yet already between 1978 and 1993, before those strides, China had a very high average annual growth rate of about 9 percent. As we'll show in chapters 2 and 7, much of the high growth in the first half of 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, which provided a floor on rural income-earning opportunities, and hence helped to alleviate poverty. Even in the period since the mid-1980s there is a great deal of evidence that domestic public investment in education, agricultural research and development, and rural infrastructure has been a dominant factor in rural poverty-reduction in China.

While expansion of exports of labor-intensive manufactures may have lifted many people out of poverty in China in the past decade or so, 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 has 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 while employing less than one-half of 1 percent of the total Indian labor force. Service subsectors such as finance, business services (including those IT-enabled services), and telecommunications, where reform may have made a significant difference, constitute only about a quarter of the total service-sector output. Two-thirds of this service output is in traditional or "unorganized" activities, in tiny enterprises often below the policy radar, unlikely to have been directly affected, to any substantial extent, by the regulatory or foreign trade policy reforms. It is yet to be empirically and convincingly demonstrated how the small corporate sector benefiting from reforms pulled up the vast informal sector.

As for poverty in India, the national household survey data suggest that the rate of decline in poverty has not accelerated in 1993–2005, the period of intensive opening of the economy, compared to the 1970s and 1980s, and that some nonincome indicators of poverty such as those relating to child health, already rather dismal, have hardly improved in recent years. The growth rate in the agricultural sector, where most of the poor are, has declined somewhat in the past decade, largely on account of the decline of public investment in rural infrastructure, which has little to do with globalization. Also, those who envisage "billions of new capitalists" in China and India do not realize that hundreds of millions of poor people in both countries are currently scrounging a living from tiny family enterprises of extremely low productivity, and they don't have the kind of access to credit, marketing, and infrastructure or the basic skills and education and risk-bearing capacity that can make a capitalist enterprise possible. They are there because the capitalist parts of the economy (under state or private auspices) cannot absorb them.

All this is not to suggest that economic reform and global integration have not been important in China or India or that there has not been some unleashing of entrepreneurial energies in recent years; my plea is only to suggest looking more into the complex interaction of markets with the structural forces, positive and negative, that affect the lives of the poor.

China and India have now become poster children for market reform and globalization in parts of the financial press, even though in matters of economic policy toward privatization, property rights, and deregulation and lingering bureaucratic rigidities both countries have demonstrably departed from the economic orthodoxy in many ways. This has not escaped the attention of the Heritage Foundation, however. If one looks at the figures of the widely cited Index of Economic Freedom 2008 released by the Heritage Foundation, the ranks of China and India are quite low; out of a total of 157 countries, China's rank is 126th and India's 115th, and both are relegated to the group described as "mostly unfree," in a position much worse than many "moderately free" countries in Central and South America. Of course, not many have pointed out that the economic (particularly growth) performance of these two "mostly unfree" countries in terms of economic freedom seems to have been much better than that of most others.

Although there is no doubt that the period of socialist[3] control and regulations in both countries inhibited initiative and enterprise, it would be a travesty to deny the positive legacy of that period,[4] particularly in the pattern of state-controlled capitalist growth in China in recent years.

It is arguable that the earlier socialist period in China provided a good launching pad particularly in terms of

- a solid base of minimum social infrastructure (broad-based education and health care) for workers;
- a fast pace of rural electrification that facilitated growth of agroprocessing and rural industrialization;
- a highly egalitarian land redistribution, which provided a minimum rural safety net that in the early years eased the process of market reform, with all its wrenching disruptions and dislocations;
- a system of regional economic decentralization (and career paths of Communist Party officials firmly linked to local area performance)—for example, county governments were in charge of production enterprises long before economic reforms set in (creating a pool of manufacturing experience, skills, and networks) and, drawing on this pool, the production brigades of the earlier commune system evolved into the highly successful township and village enterprises that led the phenomenal rural industrialization;

[3] It is arguable that India in the prereform period was not really socialist, except largely in political rhetoric. We'll ignore here the common confusion between socialism and bureaucratic statism (Franco's Spain had a lot of the latter, very little of the former).

[4] This legacy is often denied, and not just by Western commentators. The "new left" intellectuals of China (such as Wang Hui), in bemoaning the decline of ideological debates in China, have commented that in the minds of many Chinese people the twentieth century has been essentially reduced to its last two decades.

- the foundation of a national system of basic scientific research and innovation (even in 1980, spending on research and development as a percentage of GDP was higher than in most poor countries);
- high female labor force participation and education, which enhanced women's contribution to economic growth.

With respect to many of these, China's legacy of the earlier period has been much more distinctive than that in India. When I grew up in India, I used to hear leftists say that the Chinese were better socialists than we were; now I am used to hearing that the Chinese are better capitalists than we are. I tell people, only half-flippantly, that the fact that the Chinese are better capitalists now may be because they were better socialists then!

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. It is often overlooked that Chinese success in the international markets is not just in labor-intensive products like garments, toys, shoes, and wigs. Both China and India (but China much more than India) have succeeded in the export of products more sophisticated than is usually expected from countries in their respective per capita income range. This is remarkable and is primarily due to a sizable skill and technological base in both countries, enriched over the "slumbering" years by indigenous learning by doing, and nurtured by government policies of building domestic capabilities,[5] sometimes at the expense of static efficiency of resource allocation emphasized in traditional theories of comparative advantage. Take auto parts, for example. Protection of "local content" (of components) in automobiles, which is contrary to the orthodox trade policy prescription, was practiced in both countries, enabling their workers to learn the skills and reach international best practice now. There are, of course, many other cases where protection from foreign competition sheltered massive inefficiency. There are also

[5] In India, often those who are vocal about the adverse effects of Nehruvian Fabian socialism on the economy at the same time are proud of the contribution of the high-standard public-sector institutes of technology and management that Nehru promoted as part of state industrial and technological policy and whose students have now become technological and business leaders.

many cases of lingering government failures, for example in financial intermediation in China or social-service delivery in India.

Although there are recognizable elements of industrial policy and the "developmental state" in the case of China, we point out in chapter 6 crucial qualitative differences from the other East Asian cases: in contrast to the coordinated capitalism of Japan and South Korea (where the state presided over the coordination among private business conglomerates), the Chinese case can be, and has been, more aptly described as one of state-led capitalism from above and network (*guanxi*) capitalism from below to fit in the conditions of much weaker development of large private business in China; industrial policy has also been more diverse and diffuse in the context of regional variations and decentralized development in a continent-size economy; and foreign investment has played a much more important role in technological and organizational upgrading and international marketing than in the other East Asian countries.

The much more dramatic growth success of China compared to India (and of other East Asian countries earlier, under authoritarian regimes) does not in any way prove the superiority of authoritarianism over democracy in development, as we discuss in detail in chapter 10. We shall try to establish our claim that authoritarianism is neither necessary nor sufficient for development, and that the relationship between democracy and development is actually much more complex than is allowed in the standard discussion. 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 coopting 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.

China is widely, and rightly, acclaimed as a case of decentralized development, where in the 1980s and 1990s local industries under the control of local governments and collectives flourished. This is an aspect of industrialization that has largely bypassed India so far, even though important constitutional changes favoring devolution of power to local governments were carried out in the 1990s. But it is not widely known that with fast economic growth, and with local Party officials prospering in a reward system that emphasized their local economic performance (with access to profits of local collective enterprises and the power to privatize them), the central government in China is now finding it difficult to rein in these local officials, particularly in matters of land acquisition (often in cahoots with local commercial developers), environmental degradation, and violation of safety regulations relating to consumer products or work conditions in mines (often in collusion with local business). The chanting of the mantra of "harmonious society" by the central leadership has not yet been successful in curbing the capitalist excesses of local business and officialdom. The centralization of tax reform since 1994 has reduced the incentives (and capacity) of the local bureaucracy to serve social needs, particularly in interior provinces, and central transfers so far have not been adequate to compensate for this. The autonomy given to local public service units such as schools and hospitals has commercialized them to such an extent that the poor are often priced out of their services, as we show in chapter 8. Thus the lack of democratic accountability mechanisms is and will be particularly felt by the local people both in the type of economic growth pursued and the delivery of social services. China's vaunted regional decentralization, without democratic devolution, may now be a source of much discontent and may undermine the future sustainability of the economic growth it had earlier fostered.

On discontent, a part of the conventional wisdom in the media as well as in academia is that (a) globalization has led to rising inequality, and (b) the inequality-induced grievances, particularly in the left-behind rural areas of China, cloud the horizon for the future of Chinese polity and hence of economic stability. Since the effect of globalization on inequality is difficult to disentangle from that of other ongoing changes (for example, those of skill-biased technical progress due to new information and communications technology), the causal link between globalization and inequality is not always firmly established. Moreover, in China, provinces with more global exposure and higher growth did not have a greater increase in inequality than the provinces in the interior. The decline in agricultural growth in recent years in both China and India may also have something to do with the rise in aggregate inequality, independent of globalization. It should also be noted that the widely accepted statement in the media that inequality is greater in China than in India needs to be qualified. First, the usually cited data for China refer to income inequality, whereas most of the Indian figures relate to inequality of consumption expenditure (which in most countries is lower than inequality of income). From a recently available estimate of income inequality in India, it appears, as we show in chapter 7, to be much greater in India than in China. Second, inequality of income or consumption refers to inequality of outcome; socially (and morally) the more salient issue is that of inequality of opportunity, which in these poor agrarian economies is more often reflected in inequality of land and education. We'll show in chapters 3 and 7 that inequality of land and education is substantially greater in India than in China. Third, the usual income inequality figures do not correct for price differences across rural and urban areas and across regions; once corrected, the Chinese inequality of income is somewhat lower than the usually cited figure (in chapter 7 we'll cite evidence that if one takes into account cost of living differences between rural and urban areas and across provinces, the national Gini coefficient of income inequality in China increased from 0.29 in 1990 to 0.39 in 2004).

The relationship between inequality and social discontent is also rather complex. In chapter 10 we cite some evidence from China that the presumed disadvantaged rural people are not particularly upset by rising inequality. Rural people are often inflamed more by land seizures and toxic pollution than by inequality as such. Paradoxically, the potential for unrest may be greater in the hitherto booming urban areas.

In the subsequent chapters we discuss these and other aspects of the political economy of China and India in more detail and suggest that the story of their rise is more complicated and nuanced than it is made out to be in the standard accounts endlessly repeated in the media. Below is a short synopsis of some of the main issues discussed in the following chapters.

In chapter 2, we start with a brief description of the process of economic reform in the two countries and the associated remarkable increase in economic growth and total factor productivity in some sectors. (The association is easier to show than causation because of many other ongoing factors, and the other qualification, as we suggest in the appendix to the chapter, is that there are some reasons to doubt the accuracy of the growth statistics in both countries.) In general, reforms and growth in China have been deeper and have brought about an economic transformation particularly through labor-intensive rural industrialization, which is still largely missing in India. We explore some of the factors inhibiting labor-intensive industrialization in India and operating behind some particular features of the size structure of Indian industries (for example, bipolar distribution or the "missing middle"). We end with an analysis of the special institutional features of Chinese reform in terms of decentralized experiments and career incentives for local officials, which facilitated economic development and rural industrialization in a way that is rather unique, whereas the Indian system is more top-down and leaves few incentives for local officials to perform.

Chapter 3 is on the agricultural sector, which still employs nearly half of the workforce, even though there has been a precipitous decline in agriculture's relative contribution to national income in both countries (suggesting the large gap in productivity between farms and other sectors of the economy). Average farm size is declining in both countries, and while chemical and energy inputs to agriculture get more expensive, there is limited access to credit for small farmers to cover these costs (in China despite all the recent land legislation securing land rights of farmers, they are not yet allowed to mortgage their land rights to raise credit for agricultural investment). Meanwhile, with soil erosion and water depletion, the resource base of agriculture is steadily deteriorating in both countries. Both China and India have reduced their earlier antiagricultural bias in investment and protection policy, but China has reduced the bias much more recently than India, where farmer lobbies have been politically more active and powerful for quite some time. In fact, in India under political pressure of the farm lobby the fiscal burden of water, electricity, and fertilizer subsidies to agriculture has mounted at the expense of public investment in rural infrastructure. As agriculture in both countries becomes intensive in purchased inputs and more involved in outside market links, the labor advantage of farm families is increasingly neutralized by the disadvantage that small farmers face in credit, insurance, and marketing. The need for the latter will grow as agriculture diversifies into cash crops and particularly horticultural and livestock products that require cold storage and refrigerated transportation, insurance against market fluctuations, and organized large-scale marketing.

In chapter 4 we start by noting the obvious, all too visible differences between China and India in the investment, construction, and operation of crucial infrastructural services, particularly in power, ports, roads, and railways. In all these sectors, political exigencies and pressures of electoral populism in India keep user charges low, even blowing the state budget in the process, hampering investment incentives, and delaying the separation of government functions from commercial operations, a matter in which China has advanced much more. In addition, in China the decentralization of public finance even at the subprovincial level and close collaboration between local business and local government officials have enabled much better funding and facilitation of local infrastructure projects than in India. For many years now, infrastructure has been the key bottleneck in Indian economic growth.

In chapter 5 we look at the pattern of saving and investment in the two countries. Saving rates are high in both of them, with household saving being higher in India, which is more than made up for by higher public and enterprise saving in China. Populist pressure on government spending keeps the fiscal deficit much higher in India, which hampers large-scale public investment in infrastructure. In both countries, stringent financial regulations and state control over banking have insulated them somewhat from external financial contagion. In China, the state-controlled large banks dominate the whole financial system, paying their depositors a below-market rate; nonperforming loans remain a significant burden; and allocation of capital remains severely distorted, particularly working against private enterprise. The Indian financial system is somewhat more balanced in terms of banking, equity, and bond markets as sources of formal finance, and it is better regulated and less saddled with bad loans. India's banking sector still leaves a large part of the economy with small enterprises seriously underserved, however, and with massive government borrowing, the cost of capital in the economy remains high. In both countries the informal sector remains the major (though sometimes more expensive or short-term) source of finance for most small producers; India's larger informal sector is reflected in the fact that India's informal lending market is much larger than China's.

In chapter 6 we look into the pattern of capitalism that is developing in these two countries, particularly in China. After many years of working in the shadows and using various subterfuges, private enterprise in China has come out in the open and the market mechanism is the main allocator of resources. The state is still predominant in the producer-goods sector and in transportation and finance. The state still controls the larger and often more profitable (high-margin, more monopolistic) companies in the industrial and service sectors. State-owned enterprises (SOEs) are often highly commercialized: in recruiting professional managers, broadening their investor base, and shedding their traditional social and political obligations, many SOEs do not conform to the usual stereotypes about SOEs. Ownership structures in China are often rather convoluted, but it is probably correct to say that now more than half of the economy is under mainly private ownership, though the private corporate sector is less vigorous and autonomous than in India. But the relationship between private business and the state is often rather clientelistic in China. In any case there is a new political-managerial class, which over the past two decades has converted its position of authority into wealth and power. In the relationship between the state and private business some analysts find an echo of the "developmental state" familiar from recent history in East Asia.

But we point out how in China (as well as India) the classic model of the developmental state does not quite fit.

In chapter 7, after describing the decline in poverty in both countries in recent years (dramatic in China, solid in India), we show that its relationship with market reform or globalization is more ambiguous than is usually claimed. The impact of growth on poverty reduction is weaker in India than in China, probably on account of initial conditions, including larger inequality (of opportunity) in India, owing to inequalities of land, education, and social status. The link between economic reform and inequality is also ambiguous and difficult to disentangle from the effects of other ongoing changes. There is limited evidence of significant intergenerational mobility in China, but not much in India.

In chapter 8 we examine the nonincome indicators of poverty and inequality, particularly relating to the social sector (health and education). In China, with the decline of the commune (and its basic services) and inadequate central fiscal transfers and charging of high fees for services rendered, access to these social services has declined seriously, particularly for the poor and in the interior areas. Within a rather short span of time China essentially moved from one of the most impressive egalitarian basic social-service systems to an effectively privatized (or user charge–financed) system, particularly in rural areas. India's social-service delivery system has remained dismal and inegalitarian throughout; for most of these services the poor in India often turn to private providers. In both countries, in spite of some major initiatives taken by the government in the past few years, some of the basic problems will linger as long as the system of incentives for the public providers is not restructured and as long as the local accountability mechanisms remain weak.

In chapter 9 we describe the alarming environmental conditions in both countries, focusing our attention primarily on the local environmental resources (such as water, forests, air, etc.). We cite a crude average score of comparative environmental performance in which China's aggregate score is slightly better than India's, but the performance of both countries is worse than the average in their respective per capita income categories of countries. The scores are abysmally low for both countries in sanitation conditions and indoor air pollution; they are also extremely low for pesticide regulation and biodiversity in India. The scores are relatively low for both countries in particulate matters in outdoor air in urban areas, in general air and water pollution (in terms of their effects on human health), and in contribution to climate change. Conditions are much worse in China than in India in industrial CO_2 emissions, air pollution (in terms of effects on ecosystem), and fisheries. The opposite is the case for environmental degradation in agriculture, where China's score is much better than India's. In both countries, economic growth aspirations are being tempered by increased consciousness of their environmental impact. Whether the Chinese central government's energetic countermeasures launched in recent years will succeed in making a big dent in the problems remains to be seen. The Indian countermeasures have yet not reached the scale of the Chinese countermeasures, but the environmental movement is more active as a watchdog in India.

The concluding chapter, chapter 10, brings together the threads of a comparative political-economy approach that have come up in the discussion of the various aspects of the economy in the two countries in the earlier chapters, focusing in particular on the governance issues that affect policy implementation and the pace and pattern of economic and political development. We start with a discussion of how democracy, as in India, unleashes both positive and negative forces for development, how there is some tension between the participatory and procedural aspects of democracy in matters of governance as well as in economic management, and yet authoritarianism is neither necessary nor sufficient for development. In India, the large number of poor in an assertive electorate have not always succeeded in focusing the attention of the politicians on the sustained implementation of programs to alleviate mass poverty or to deliver basic services such as education and health care. A heterogeneous society, riddled with social and economic inequalities and conflicts, makes collective action for lasting change difficult to organize and presents populist obstacles to long-term investment (that could cover, for example, India's serious infrastructural deficit) and reform. In a more homogeneous and less conflict-ridden society, the Chinese leadership can be more decisive and purposeful in pursuit of economic reform and long-term strategy, but in the absence of institutionalized checks and balances and of a rule-based system, there is a certain fragility in governance even in an otherwise strong state, and a danger of heavy-handed overreaction to crisis situations and of going off the rails. The decentralized governance structure, which has been a key to rural industrialization in China, has, in the absence of effective mechanisms of democratic accountability, limited the power of central government in reining in local officials from indulging in capitalist excesses in alliance with local commercial interests (resulting in environmental damage, violations of consumer product safety standards, or acceleration of economic inequality). In India, local democracy or self-government is still inadequately developed: regular elections at the district level and below are not followed up with effective accountability of governance to the local people in most areas (for funding and personnel, local governments are still hopelessly dependent on authorities above, apart from the problems of capture by the local power elite), and the delivery of essential social services and local public goods continues to be dismal. There are thus accountability failures in both countries, though their political contexts are different.