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India and China: Governance Issues and Development

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The world's two most populous countries each made international headlines in 2008, thanks to the Sichuan earthquake and Beijing Olympics, the Mumbai terror attacks, and reports of how the global financial crisis affected the Chinese and Indian economies. However, China and India were also seen in 2008 as making up, together, one of the ongoing development stories of the twenty-first century—and there are good reasons to think this trend will continue throughout 2009. Thanks to years of strikingly high growth rates for India and even higher ones for China, comparisons of the two countries have proliferated. This has resulted in a slew of books and articles, often aimed at investors, that worry over or enthuse about the way the "dragon" and the "elephant" have been upending or bringing new energy into the global economic order. Scholars immersed in the study of Asia often find these publications lacking in depth, but there is no question that economic shifts in the two countries and surging interest in their current trajectories are important. With this in mind, we decided this would be a useful time to revisit a familiar governance issue that has long been associated with joint discussions of China and India: the relationship between democracy and development. We invited economist Pranab Bardhan, author of a forthcoming book on the political economy of India and China titled Awakening Giants, Feet of Clay, *to reflect on the subject, concentrating in particular on issues of governance—a topic he has explored in plenary and keynote addresses given everywhere from Montreal to Manchester, Beijing to Bogota, Canberra to Calcutta.*

Any comparative study of contemporary China and India inevitably involves discussion of democracy and development, but most of the standard treatments stay at the level of simplistic clichés and high-minded platitudes. My goal here is to go beyond this, highlighting some of the complexities in the functioning of democracy in India and authoritarianism in China, and asking what this contrast tells us about governance and economic management in the context of development in these two large and still—despite record growth years—poor countries.

One reason such a consideration matters is that the dramatic economic success story of China in the last quarter century has revived a hoary myth: that authoritarianism delivers much more than democracy, particularly early on.

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This myth is reinforced by the memory of the impressive economic performances of other East Asian authoritarian regimes, such as South Korea and Taiwan prior to their democratic turns. The lingering hope of democrats has been that as the Chinese middle class prospers, its members will demand what their counterparts in South Korea and Taiwan got: movement toward political democracy.

The relationship between authoritarianism, democracy, and development, however, is not so simple. Authoritarianism is neither necessary nor sufficient for development. That it is not *necessary* is illustrated by today's industrial democracies and by scattered cases of development success: Costa Rica, Botswana, and now India. That it is not *sufficient* is evident from disastrous authoritarian regimes in Africa and elsewhere.

Even if we did not value democracy for its own sake, and looked at it in a purely instrumental way, it is worth reiterating some basic development-related advantages of democracy. First of all, democracies are better able to avoid catastrophic mistakes, such as China's Great Leap Forward (which was accompanied by a famine that killed nearly 30 million people) and the Cultural Revolution (which was linked to massive mayhem). Democracies also have greater healing powers after difficult times. In general, democracy provides a better capacity for managing conflicts, which in the long run enables a more stable political environment for development.

India's democratic pluralism has provided the means of containing many (though not all) social conflicts, a capacity that China's homogenizing, monolithic state does not yet seem to have acquired. Faced with a public crisis or political shock, the Chinese leadership, which is otherwise so pragmatic, tends to overreact, suppress information, and act heavy-handedly. (One example of this heavy-handedness is that, according to some accounts by human rights organizations, although both countries have capital punishment, China executes more people in one week than India has put to death in the sixty-plus years since independence.)

Some degree of tolerance for diversity and dissent has historically been the safety valve for India's extremely heterogeneous society. For many centuries, on the contrary, Chinese authorities have typically given much less scope to pluralism and diversity; a centralizing, authoritarian Communist Party has carried on this tradition. Nurtured in this centralizing tradition of control, there is a certain preoccupation in China (not just in the party) with order and stability and the importance of avoiding *da luan* (great turmoil), as well as a quickness to brand dissenting movements and local autonomy efforts as seditious. This often leads to unnecessarily harsh repression.

In recent years, China has diffused and contained many conflicts by localizing them. More positively, the policy of decentralized development and regional autonomy has encouraged local initiatives and incentives. But in order to keep these local initiatives under some moderate bounds and to make them serve

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national goals through tournament-like competition in regional economic performance, centralized control has been maintained through the channels of a promotion and reward system that encourages local officials to depend on those above them in the party bureaucracy. But centralized control is not always benign, even though the party leadership has in recent years curbed some of its arbitrary practices and shown some sensitivity to popular grievances. As long as checks and balances on the top leadership are not fully institutionalized, the danger of going off the rails in response to unexpected events and exaggeration of dissent always remains.

Democracies in general experience more intense pressure to share the benefits of development among the people, thus making it more sustainable. They also provide more scope for popular movements against capitalist excesses and environmental degradation. In addition, there are more political opportunities to mitigate social inequalities (especially acute in India) that act as barriers to socioeconomic mobility and to the full development of individual potential.

Finally, democratic societies provide better environments for nurturing the development of information technologies, a matter of importance in the current knowledge-driven global economy. Intensive cybercensorship in China may seriously limit future innovation. Censorship (and anticipatory self-censorship) inhibits imaginativeness and inventiveness. State control of information also sometimes makes for delay in official recognition, and thus handling, of an incipient crisis. From the SARS outbreak to last year's tainted milk scandal, there are many examples of this. Weeks before the latter scandal broke, journalists were encouraged to suppress bad news because of the Olympics, which was being stage-managed as China's moment of international glory. Journalists who were fully aware of the tainted milk case avoided writing about this "in order to be harmonious," as one editor said later (*New York Times*, September 27, 2008). Meanwhile, hundreds of thousands of children fell sick (a few even died), and the reputation of Chinese products was seriously damaged.

All that said, India's experience suggests that democracy can also hinder development in ways not usually considered by democracy enthusiasts. Competitive populism—short-run pandering and handouts to win elections—may hurt long-run investment, particularly in physical infrastructure, a key development-related bottleneck in India. Such political arrangements make it difficult, for example, to charge user fees for roads, electricity, and irrigation, discouraging investment in these areas. Conversely, in China, infrastructure companies can charge more commercial rates. Competitive populism also makes it difficult to carry out policy experimentation of the kind that China's leaders have excelled in throughout the reform era ("crossing the river, groping for the stones," as Deng Xiaoping famously put it). It is harder to cut losses and retreat from a failed project in India, which, with its inevitable job losses and

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bailout pressures, has electoral consequences that discourage leaders from policy experimentation in the first place.

In Indian democracy, the legislative process is often relegated to a second order of importance, giving short shrift to the deliberative process of democracy that John Stuart Mill and other classical liberal theorists valued so much. Overall, India's particular form of democracy relies less on deliberation than on popular mobilization. This means that issues that could be resolved through the deliberative give-and-take get trapped in rhetorical intransigence and strident divisiveness of street theater. Decision deadlocks are frequent, which has immense political and economic costs. This is over and above the general case that democracy's slow decision-making processes can be costly in a world of fast-changing markets and technology.

Besides, when democracy relies on popular mobilization in a country where the general education level is low, civic associations relatively weak, and public debates relatively uninformed, the opposition can get away with being irresponsible (e.g., opposing the government for policies they themselves supported when in power). It also gives political opportunists leeway in segmenting the electorate along ethnic, regional, or religious lines; fomenting sectarian fear and anxiety is often a successful political mobilization device.

The hopes of democrats relying on the middle classes in authoritarian regimes have not always borne fruit. Latin American and South European history has been replete with episodes of middle classes hailing a supreme caudillo. The police state in China shows no signs of loosening its grip, despite the spectacular progress in the opening of the economy. While there has been some relaxation in controls over individual expression and lifestyle, and more open middle-class grumbling over pollution and forcible acquisition of property, the state still never fails to clamp down on political activities that have even a remote chance of challenging the party's monopoly on power. Many middle-class Chinese seem likely to remain complicit in this in the name of preserving social stability or "harmony," as long as opportunities for money making and wallowing in nationalist pride keep on thriving. A kind of preening nationalism has replaced socialism as the social glue in China, with the state leadership occasionally trying to stoke and then modulate collective passions about what the West or Japan had done in the past to China in the "century of humiliation" (sometimes fomented by frenzy on the Internet among the young) and to turn any external criticism into a slur on national self-respect.

The Indian urban middle classes also have a prickly nationalism, but more than harking back to two centuries of direct colonial subordination, it occasionally turns instead to majoritarian atavism to serve as a unifier in the context of unmanageable social and cultural diversity in society and works itself up questioning the national loyalty of domestic minority groups (in a context where the violent partition of the country at independence remains a festering wound). Urban upper and middle classes in many parts of India are impatient about climbing

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the global ranks of big power and often regard as a hindrance and liability the numerically large poor outside their gated communities, with their all too visible squalor and messy democratic politics.

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Democracy has brought about a kind of social revolution in India. It has spread out to the remote reaches of this far-flung country in ever-widening circles of political awareness and self-assertion among socially hitherto subordinate groups. These groups have increased faith in the efficacy of the political system, and they vigorously participate in larger numbers in the electoral process.

But the great puzzle of Indian democracy is why the poor, so assertive when election time comes, often do not punish politicians who are ineffective at resolving the endemic problems of poverty, disease, and illiteracy. It is possible that endemic poverty is widely regarded among the common people as a complex phenomenon with multiple causes, and they ascribe only limited responsibility to the government. The measures of government performance are in any case rather noisy, particularly so in a world of illiteracy and low levels of civic organization and formal communication on public issues. A perceived slight in the speech of a political leader felt by a particular ethnic group will usually cause much more of an uproar than the same leader's failure to change policies that help keep thousands of children severely malnourished in the same ethnic group. The same issue of group dignity comes up in the case of reservation of public-sector jobs for backward groups, which fervently catches their public imagination, even though objectively the overwhelming majority of the people in these groups have no chance of ever landing those jobs, as they and their children largely drop out of school by the fifth grade. Even when these public job quotas mainly help the tiny elite in backward groups, as a symbol and a possible object of aspiration for their children, they ostensibly serve a valuable function in attempts at group upliftment.

While the electorate does not seem to penalize politicians for their endemic poverty, they are less forgiving when there is a sharp and concentrated deterioration in their economic condition. Amartya Sen has commented on the political sensitivity of democracies to the threat of famine, but to me, the more commonplace example for this in India is the electorate's high degree of inflation sensitivity. It is a common presumption that an annual inflation rate at the double-digit level, if it continues for some time, will be politically intolerable in India, and politicians universally support a conservative monetary and sometimes even fiscal policy to avoid this danger. The poor tend to make the government directly responsible for inflation and expect it to stop it in its tracks, even at the expense of cutting budgetary programs for infrastructure that would help the poor in the long run.

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The Indian electorate is often regarded as reflexively anti-incumbent, particularly in contrast with the electorate in the United States. This may have something to do with widespread dissatisfaction with the delivery of social services and public goods. Because the poor usually get mobilized along caste and ethnic lines, the modalities of such mobilization are often multidimensional, and poverty alleviation is only one of many issues that get articulated in the public domain. Also, the process of ethnic mobilization is often easily hijacked by the elite of these groups, who channel the lion's share of the benefits toward themselves. The intended poor beneficiaries are often unorganized and uninformed about their entitlements, and they also lack the ability to evaluate the quality of the particular education or health service provided.

Besides, at any given moment in India, an election somewhere is not far off (national, state, municipal, and village elections are staggered), and, as in election times everywhere, short-term calculations dominate. Populist quick-fix policies rather than sustainable improvements in structural conditions become the order of the day, and because it is usually the case in India's extremely fractious society that no disadvantaged group by itself is numerically predominant, the exigencies of electoral alliances with other groups (some of them not so disadvantaged) dilute the need to attend to the poorest. Because the better-off people (including better-off sections of disadvantaged groups) increasingly turn to private sources of public services (primary and secondary education, health care, irrigation, drinking water, child nutrition), the political support structure for public access to these services or improvement in their quality is rather weak or eroded in many parts of the country. There are also differential degrees of public vigilance over (or effectiveness of) different types of antipoverty programs. Political clientelism prevails, under which the delivery of private and short-run benefits (in the form of temporary employment projects, subsidies, loan waivers, etc.) get priority over public services and long-term investment in infrastructural facilities (roads, public health and sanitation, watershed development, etc.).

The problem of poor delivery of social services involves more than just a lack of public vigilance or demand. It is a serious governance problem from the supply side as well (such as inadequate school buildings or health clinics with appropriate facilities and within manageable distance, rampant absenteeism by teachers, doctors, nurses, etc.).

Decentralization of governance in the sense of devolution of power to elected local governments was constitutionally adopted in India in the early 1990s. It was supposed to increase the accountability of the service bureaucracy as well as generate resources to address felt needs at the local level. But this particular governance reform remains largely on paper, except in three or four states, and in this sense local democracy is still rather weak in India. In most cases, local government officials are primarily involved in selecting the beneficiaries of programs that are designed and funded from above. A large number of local

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governments simply do not have adequate funds, or the appropriate delegated functions or competent functionaries, to carry out locally initiated autonomous projects that could make a significant difference in the lives of the poor; there is considerable misappropriation of funds and delivery of services to nontarget groups, sometimes giving decentralization a bad name. Yet there have been some localized success stories.

In China, decentralization has been successful in providing incentives (and discipline) for rural industrialization. But decentralization has increased regional inequalities. In spite of the fiscal recentralization of the mid-1990s and a great deal of central transfers to local areas, there is a widespread rural budget crisis in China. The system is still sufficiently fiscally decentralized, with large numbers of unfunded mandates for local governments, that while the better-off regions can afford superior public services, the lagging regions have to live with large cuts in community services. These tensions of fiscal federalism are increasing in India, too. The better-performing state governments are now openly protesting large redistributive transfers to laggard states ordained by the Finance Commission. In the Indian democratic system, however, some of these laggard populous states (such as Uttar Pradesh or Bihar) send a very large number of members to Parliament, and the (shaky) coalition governments at the center can ill afford to alienate them.

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There are interesting contrasts in the style and content of governance in China and India. In China, there is more decisive policy initiative and execution than in India. This is not all attributable to an authoritarian setup. In general, collective action problems in goal formulation and policy enforcement are less severe in China than in the conflict-ridden, extremely heterogeneous society of India, where any major controversial decision is preceded by endless discussion, loud agitation, breast-beating street antics, and sometimes even fistfights and property damage; ultimately, what gets carried out after considerable delay is a much fought over, imperfect compromise. But for the same reason, executive authority in India, while weak, is more legitimate. The same disorderly processes of fractious pluralistic democracy that make decisiveness on the part of the leadership difficult also make executive authority more legitimate in the eyes of the people. The Chinese leadership, conversely, has to derive popular legitimacy from ensuring rapid economic growth and job expansion (which are under stress in the current recession), and also somewhat from advancing toward "harmonious" goals (i.e., environmentally friendly growth with some rudimentary social protection and effective political order). Ethnicity-based dignity politics, group upliftment, and other sectarian issues that crowd the political agenda in India are less of an encumbrance.

Recently, the Chinese political leadership has been more technocratic and professional than that in India, which helps in informed, purposive decision

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making. (Even the party membership composition in China has changed substantially lately: In 1978, two-thirds of the members were workers and peasants, but by 2005, their share had fallen to 29 percent, and by then, 23 percent of members were professionals, 30 percent college students).

Promotions in the administrative services are more performance based (instead of being seniority based) in China than in India. "Transfers and postings" of officials are major preoccupations of (and sometimes a source of illicit income for) Indian politicians, particularly at the state level. Rotation and temporary sojourns of Indian bureaucrats in a given job inhibit on-the-job learning of increasingly complex tasks. Regulatory effectiveness in commercial transactions is also better in China than in India, even though *guanxi* and corruption continue to contaminate the process. Nepotism in state appointments, however, may have gone further in China than in India: It is reported that many of the senior positions in some of the state-dominated sectors in China are filled by the children and other relatives of high-ranking party officials. Some Chinese economists have warned about the dangers of crony capitalism.

Corruption is pervasive in both countries. But corruption in China is, in general, qualitatively different from that in India in at least three ways: (1) The lines of authority are more well defined and streamlined, whereas in India, there is multiple veto power of different authorities (part of the checks-and-balances system) on a given decision—as a result, even after paying bribes, one is never sure whether the job will get done. (2) Because the official rewards and promotions in China are more directly linked to local economic performance, the officials involved do not usually lose sight of the overall performance record, even as they line their own pockets. (3) As elections become more expensive, politicians in India have to be on the lookout for collecting serious money to an extent not necessary in China. But at the same time, there are more institutionalized efforts in India to check the sources of corruption: The Right to Information Act, for example, which recently came into existence as a result of an energetic public activist movement in India, is an important step in that direction.

The social revolution that democracy has brought about has also had some impact on the nature of governance in India. The diminishing hold of elite control and the welcome expansion of democracy to the lower rungs of the social hierarchy have been associated with a loosening of the earlier administrative protocols and a steady erosion of the institutional insulation of the decision-making process in public administration and economic management. This has affected not just the ability to credibly commit to long-term decisions, but the whole fabric of governance itself. It is now common practice, for example, for a low-caste chief minister in a state to proceed, immediately upon assuming office, to transfer away top civil servants belonging to upper castes and to get pliant bureaucrats from his or her own caste. Some of the new social groups coming to power are even nonchalant in suggesting that all these years, upper

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classes and castes have looted the state, and now it is their turn. If, in the process, they trample upon some individual rights or some procedural aspects of democratic administration, the institutions that are supposed to kick in to restrain them are relatively weak. Highly corrupt politicians are regularly reelected by their particular ethnic or local constituencies (which they nurse assiduously even while fleecing the rest of the system). Personal extravagance at state expense by particular ethnic leaders is often a source of community pride for historically disadvantaged groups.

This is part of a fundamental tension between the participatory and procedural aspects of Indian democracy: The unfolding of the logic of populist democracy has itself become a threat to democratic governance. The participatory aspects of democracy and the all-consuming emphasis on electoral mobilization, often of whole groups (described by journalists as "vote banks"), have led the system to look away from politicians' and their followers' rampant procedural violations, generating a "culture of impunity" that the Indian political system will have to grapple with for quite some time to come. Of course, ultimately, the checks and balances of the ramshackle but still vibrant legal system kick in to curb undue excesses, in a way that is rather rare in China. The independent judiciary, the Election Commission, and a few of the regulatory bodies still function with some degree of insulation from political interference and hold up due process against great odds.

This institutional insulation is much weaker in China, and the "culture of impunity" among top party officials is more prevalent. But there has been discernible progress in the legal system: As disputes become more complex, political interference, though still substantial, is declining, particularly in matters of commercial law. There is greater transparency than before in the corporate governance of state companies, particularly those listed on overseas stock exchanges. The media and nongovernmental organizations as watchdogs are more active in India. But corporate ownership of media is a problem for independent investigations in both countries, just in different ways. There is occasional official clamping down on corruption in China (including even summary execution as punishment), but cynical people often describe this as mostly targeted at political enemies or at best small fries, exempting the big fish or cronies of the dominant faction leaders.

The party has also tentatively started to introduce some form of intraparty democracy at the lower levels, with multiple candidates for positions. It is ironic that Indian democracy, which in the beginning decades allowed for a great deal of intraparty democracy, now has largely deviated from this tradition. In most major national parties, the leaders are often nominated from above. Young and ambitious local politicians, finding their path of upward mobility blocked within the larger parties, often are inclined to go out and form their own parties, thereby acquiring leverage in India's coalition politics. This is one source of the country's increasing political fragmentation, which hinders purposive governance.

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I have already discussed the important role that decentralization of power combined with central control over personnel and promotion plays in Chinese governance. In recent years, the central government has recentralized public finances (as it was facing fiscal erosion by the mid-1990s) and taken on final authority over the personnel and loan decisions of local banks (to check the mounting "nonperforming loans" that local officials indulged in). But even at the county level, local government still has a great deal of power (much more than in India) in privatizing state companies, in making regulatory approvals and distributing patronage, in appointing local oversight committees against financial and other irregularities, in appointing and fixing the salaries of judges and public prosecutors, and so on. It is difficult for the central government to control local officials and to wean them away from the cozy rental havens they have built in collusion with local business and commercial interests. In its pursuit of the goals of reducing inequality, stopping land seizures, containing environmental damages, and preventing the frequent regulatory scandals (relating to food and other consumer product safety), the central government faces at least the covert opposition of local officials. Even when the local official is not venal, in an atmosphere of information control, his usual inclination is to suppress bad news, as it may adversely affect his chances of promotion or his reputation.

Yet over more than a quarter century now, the Chinese central leadership has shown a remarkable adaptability to changing circumstances and a capacity to mobilize new support coalitions to protect its political power. Keeping the main focus on economic growth and national glory as the source of its political legitimacy, it has moved away from its earlier constituent groups among peasants and workers, allowing urban–rural disparity to grow and presiding over massive layoffs of workers; it has accommodated the erstwhile "red-hat capitalists" in symbiotic relation with state officials, and gradually co-opted the new private entrepreneurs and professionals (including much of the intelligentsia); through its control of bank lending and regulatory approval of investment, it has skillfully balanced regional and factional interests. It is now trying to move some state resources away from the government-business groups of coastal China (e.g., those connected with what used to be called the "Shanghai coalition"), and has publicly shown a great deal of empathy for hitherto excluded groups in remote rural areas and urban migrants, while still being supportive of markets and general noninterference with thriving private enterprises. By streamlining the rules of succession and establishing clear procedures for term and age limits for leaders, it has restructured the rules of authoritarian hierarchy to increase career predictability and general elite support.

But China is still far from establishing a comprehensive rule-based system and institutionalizing a credible set of checks and balances. It has installed a far more decisive and purposive governance structure than India, but its weaker institutional checks (such as the lack of independent judiciary or other regulatory authority) and low capacity for conflict management make it more

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brittle in the face of a crisis than the messy-looking system in India, for all its flaws. As the economy becomes more complex and social relations become more convoluted and intense, the absence of transparent and accountable processes and the attempts by a "control-freak" leadership to force conformity and lockstep discipline will generate acute tension and informational inefficiency. Several alternative political scenarios for the future in China have been depicted by political speculators, none more plausible than the others; some (wistfully) predict the eventual outbreak of Taiwan- or Korea-style democracy, but only on a large scale, starting with the big cities; others predict that even if China manages a soft landing into some form of quasi-democracy, it will be of the corrupt oligarchic kind under a predominant party like the one that prevailed in Mexico under the Institutional Revolutionary Party for many decades.

While the Indian system has more institutionalized outlets for letting off steam, it also has more ethnic and religious tensions and centrifugal forces to grapple with. Its appalling governance structure for the delivery of social services, its anomic inability to carry out collective action or to overcome populist hindrances to long-term investment in order to address the infrastructural deficit that is reaching crisis proportions, its overpoliticized administration and decision-making processes, and its clogged courts and corrupt police and patronage politics that make a mockery of the rule of law for the common people—all will continue to hobble the process of economic growth and alleviation of its still massive poverty. Yet the differential state capacity and governance performance among different states (better in some South or West Indian states) may generate over time a bit of healthy competition in investment climate and poverty alleviation performance to set examples for the democratic participants in all states to demand, overshadowing the salience of ethnicity or religion in politics.

Both China and India have done much better in the last quarter century than either did in the last 200 years in terms of economic growth. And each country's polity has shown remarkable resilience in its own way. Still, we should not underestimate the structural weaknesses in their governance mechanisms and the enormousness of the social and political uncertainties that cloud the horizons for these two countries.

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