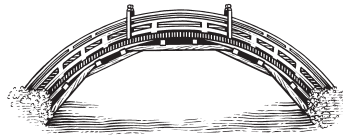


REVIEW ESSAY

When Sleeping Giants Awaken: China and India in the New World Order

Sourabh Gupta



Pranab Bardhan

*Awakening Giants, Feet of Clay:
Assessing the Economic Rise of China and India*
Princeton: Princeton University Press, 2010 ≈ 192 pp.

Wendy Dobson

*Gravity Shift: How Asia's New Economic Powerhouses
Will Shape the 21st Century*
Toronto: UTP Publishing, 2010 ≈ 254 pp.

Prem Shankar Jha

*Crouching Dragon, Hidden Tiger:
Can China and India Dominate the West?*
New York: Soft Skull Press, 2009 ≈ 256 pp.

Shalendra D. Sharma

China and India in the Age of Globalization
Cambridge: Cambridge University Press, 2009 ≈ 336 pp.

When Sleeping Giants Awaken: China and India in the New World Order

Sourabh Gupta

Did Asia, with China and India in the lead, account for more than half of world output for most of the past two millennia, as conjectured by the economic historian Angus Maddison? Looking forward, will the GDPs of the BRIC economies (Brazil, Russia, India, and China) exceed the combined GDPs of the United States, Japan, Britain, France, and Germany before mid-century? As the two great Asian civilizational epicenters harness the irresistible impulses of contemporary globalization, will they translate their socio-economic, political, and cultural prowess into instruments of durable “hard” power? Above all, can China and India wrest the West’s hegemony in the Asian region and beyond and close a chapter in world history that Maddison had deemed to be but a brief interregnum?

Wading into this provocative debate are three stimulating books that aim to chronicle the recent rise of these hitherto sleeping Asian giants and the world-historical consequences thereof: *Gravity Shift: How Asia’s New Economic Powerhouses Will Shape the 21st Century*, written by Wendy Dobson; *China and India in the Age of Globalization*, by Shalendra D. Sharma; and *Crouching Dragon, Hidden Tiger: Can China and India Dominate the West?* by Prem Shankar Jha. Considering this avowed aim, it is disappointing that none of the books manage to map out or grapple in a systematic fashion with the medium-term geoeconomic and geopolitical consequences of China’s and India’s rise. Yet each of the books in its own variegated narrative provides a skillful—and at times counterintuitive—account of the two countries’ immense ongoing socio-economic transitions: from village to city, from plan to market, from doctrine to pragmatism, from autarchy to interdependence, and from isolation to global engagement. Along the way, common themes abound, as do stark differences. Perhaps no difference is more compelling than the Chinese state’s trust in bottom-up, economic enfranchisement of its otherwise politically neutered subjects, even as the Indian state has limited that trust in citizenry mostly to the realm of elective politics.

Considering then the importance of China and India to the region and beyond, this review essay covers a fourth volume, *Awakening Giants*,

SOURABH GUPTA is a Senior Research Associate at Samuels International Associates, Inc., an international trade and political risk assessment firm. He can be reached at <sgupta@samuelsinternational.com>.

Feet of Clay: Assessing the Economic Rise of China and India, written by Pranab Bardhan, a development economist at the University of California, Berkeley. Bardhan explicitly eschews the grander themes; instead, he focuses more narrowly on a comparative analysis of the strengths and weaknesses of China and India. His is also the book that most revels in its zest for the counterintuitive.

Assailing the received wisdom that globally integrative pro-market and pro-business policies were the linchpin of the Chinese and Indian success stories, *Awakening Giants* provides a sophisticated exposition of the importance of state-endowed “initial conditions”: egalitarian land distribution; a solid base of minimum social infrastructure, including primary education; accelerated rural electrification; investment in basic heavy industries; and a national system of basic scientific research. Together, these investments in physical and human capital provided ballast for growth much before either country’s tryst with globalization. China’s and India’s unsuccessful experiments with socialism and bureaucratic statism were anything but failures. Indeed, the fact that China’s growth has raced ahead of India’s in present times can be chalked up, in part, to the Chinese state’s enlightened commitment to taking advantage of a deeper set of initial conditions.

However, in conflating, as an argumentative tool, the socialist—and early reform—period with the duration of initial conditions, Bardhan leaves himself exposed to the charge that endowing initial conditions was not an exclusively socialist-era handiwork. In fact, China’s remarkable regional experiments in industrial-sector privatization in the mid-to-late 1990s attest to the creation of a whole new set of initial conditions as a consequence of structural reform. Indeed, owing to such privatization, today Beijing’s primary policy dilemma across vast swathes of industry is fragmentation of the production structure, not market concentration and state capitalism, as is voguishly held by outsiders.

Bardhan’s nuanced treatment of the debate over democracy vs. authoritarianism, captured by way of the two country’s contrasting approaches to federalism, is enlightening. By this account, a key factor in the Chinese state’s superior performance has been its economically inclined “market-preserving federalism,” which emphasizes fiscal, financial, and managerial decentralization. India’s more politicized “holding-together federalism,” conversely, has tended to focus on a center-dictated model of redistributive transfers. What additionally appears to tip the debate in authoritarianism’s favor is the inherent embeddedness of China’s “regionally decentralized authoritarian system” within historical patterns of growth and development—imperial China also

being a regionally segmented economic entity held together by the center's iron control over personnel transfers and promotions. The modern Indian state, by contrast, appears to be the product of a less-organic "constructed centralism." Small irony, then, that Bardhan nevertheless persists in lauding Indian democracy, given the litany of ills that he traces to the system's design flaws that lead in turn to its politicization and capture.

If Bardhan's gifted analysis tends to drift at times into academic minutiae, Wendy Dobson's erudite yet lively narrative provides a refreshing alternative. In *Gravity Shift: How Asia's New Economic Powerhouses Will Shape the 21st Century*, Dobson uses her decades-long familiarity and attachment to China and India to dissect both country's growth models under the lens of institutionalism. She asserts that what drives or inhibits growth is institutions—the set of formal norms and informal conventions that provide a framework for societal interactions and shape society's incentive structures. By this measure, and notwithstanding the considerable socio-economic distance travelled, both Asian giants still must attend to a trail of unfinished business.

Notable, mutually in this instance, is the imperative for the state to cede its vice-like grip over the commanding heights of the economy—utilities, energy, banking, etc.—and revert to a more arm's-length regulatory role that fairly polices competitive markets and leaves small and medium enterprises (SME) as the incubators of entrepreneurship and growth. Neither country remains anywhere close to the point of being able to do so, nor is it by any means assured that either will reach this point down the line. The Chinese Communist Party has veritably morphed, as Dobson recounts, into a "Chinese Bureaucratic Capitalist Party"; India's state-sector enterprises remain hostage to graft, rent-seeking, and a host of non-economic considerations. That said, Dobson supplies an elegant observation on the reason for the differential pace of the Sino-Indian growth trajectories: because Communist China's reform process has been embedded within a deeper political calculus of basic legitimacy of the party's incumbency, consensus has been that much broader, deeper, and more durable. By contrast, the relative shallowness of India's structural reform program can be ascribed to its narrower, crisis-driven character, which has on occasion forced the country's political classes to suspend their scorn for market forces and partiality for direct intervention.

Gravity Shift leaves the reader unsatisfied, however, in two respects. First, despite the insightful window the book opens up into the growth and development models of China and India, the shift in gravity from West to East is documented too briskly. This lends an anti-climactic air to the book. More

pointedly, the book does not develop larger themes of globalization-induced collapse, chaos, or growth-stop scenarios that might stall either country's economic locomotive in its tracks. Owing to her voluminous experience both at the frontlines of international financial diplomacy and in academia, Dobson, more than most of her peers, is ideally placed to analyze the perilous intersection of financial globalization with domestic financial liberalization in emerging markets. She is well-placed to analyze how asset bubbles and mispriced collateral at every level of the economy, public and private, could crash China's financial edifice when growth expectations disappoint, as well as how New Delhi's perennially deficit-heavy structure of public finance could lead to a repeat of mini-1991-style crises—particularly as progressively shorter-term lending borne of financial globalization invites periodic panics and races to the financial exits. Regrettably, *Gravity Shift* passes up the opportunity to delve into these issues.

In *China and India in the Age of Globalization*, Shalendra Sharma provides a concise yet panoramic survey of China's and India's socio-economic paths and processes, not just since the inception of their reform programs but since their liberation as modern nation-states in the late 1940s. Sharma's relatively slim format manages, quite laudably, to provide a concise yet discerning survey of both countries' long economic journeys over multiple decades, including the varying degrees to which they have embraced globalization. This is also the lone book among the four that ventures beyond the theme of comparative economics and assesses the role of China and India as rising strategic actors. The discussion of the Sino-Indian boundary dispute in this context is remarkably succinct. Sharma, though, tends to lose his admirable bird's-eye view as he gets bogged down in details when recounting nearer-term events.

Sharma's contribution to the larger economic debate is his insight that the key ingredient to both countries' recent successes has been their deliberate eschewal of the "big bang" approach to structural reform. Indeed, limited reform—of incentives, competition, price-flexibility, mobility, and openness—is what created constituencies for reform that were capable of overcoming a host of lesser inefficiencies associated with imperfect markets, price distortions, and institutional deficiencies. The finer points of reform and pro-business opening were not determined *ex ante*; rather, they evolved over a process of experimentation and adjustment as incentive problems were resolved along the way. Given such familiarity with the past, the book's observations of what the future holds in store strike one as rather perfunctory. In fact, on occasion the book reads more like a review of the expert literature


on this topic. This reviewer would have loved to see Sharma lay out his opinions more deliberately.

The last of the four books—*Crouching Dragon, Hidden Tiger: Can China and India Dominate the West?*—is also the idiosyncratic one of the pack. Prem Shankar Jha, a long-respected journalist and commentator, packs a heavily contrarian punch here. At the heart of *Crouching Dragon, Hidden Tiger*, and its relatively dismal interpretation of what reform has wrought on the poorer masses in both China and India, is a class-based theory of “intermediate regimes.” This stratum of intermediate party or petty bourgeois socio-economic forces—local party cadres in the case of China; petty traders along with rural moneylenders and moderately affluent farmers in the case of India—has abused its effective bureaucratic control or electoral influence, respectively, to transfigure market opening and reform into an exercise of “robber baron” capitalism. In China, local party cadres, operating between the central leadership and the populace, converted their control over property into ownership, in turn becoming investors gambling away the state’s assets. In India, this intermediate petty class, entrenching itself between big business and the vast majority of India’s small farmers and the self-employed, used political influence to sabotage reform, thereby perpetuating a black-market economy that protected its narrow commercial interests. As such, highly predatory or graft-ridden systems of government have emerged along the way, with the poor excluded as stakeholders in the development process. Either country’s hope of catching up with Western standards by mid-century is likely to remain effectively that—just a hope.

The theory may indeed be internally consistent as well as unconventional in accounting for the differential Sino-Indian pace of growth; but does it bear resemblance to reality? National household surveys show a staggering decline in the poverty headcount in China and a somewhat less dramatic decline in India. China’s central government, time and again, has imposed industrial, financial, and revenue prerogatives on subnational branches of government and bureaucracy. Broad consensus for shallow reform, in the meantime, is a result more of the post-colonial character of India’s subcontinent-sized democracy than of imposition by particular social strata. Let the reader be the judge. Unorthodoxy notwithstanding, Jha and his fellow authors are spot-on to detect in both countries an undertow of the same structural hubris that felled and has now permanently grounded Asia’s original economic Icarus, Japan. A Chinese growth model built on excess liquidity, mispriced over-investment, and structurally feeble consumption demand risks economic arrest as aging demographics—and dissavings—catch up with the model’s contradictions.

A dualistic Indian economy where 94% of the labor force works outside the dynamic corporate sector and barely 1% within its information technology segment risks a future fate far worse than Japan's sheltered and stagnant domestic economy, in contrast to the dynamism of the much narrower and hyper-competitive export segment.

Yet as noted in the introductory part of this review, the key shortcoming across the books is their lack of systematic treatment of the consequences of the "gravity shift" eastward. How will the greater competition for scarce resources and the delinkage of the global commodity cycle from the West's business cycle affect the latter's growth prospects? With globalization-induced wage competition negatively affecting the share of income accruing to an increasingly wider swathe of labor in advanced economies, will the existing pro-trade sentiment evaporate to the West's own detriment? As the dollar gradually cedes its preeminent status, will the United States' elevated borrowing costs further erode the country's long-term growth potential? And in the process, will China's and India's international economic, and increasingly financial, strength further blunt that habitual tool of recourse of U.S. statecraft—sanctions policy? As China, India, and rising Asia gradually emerge as drivers of regional consumption-led growth, will Asia and its incipient regionalism decouple economically from the West? Worse, will this decoupling invite thereafter a decoupling of trans-Pacific strategic destinies, calling into question the presence of the U.S. forward-deployed military in Asia's waters?

The consequences of contestation for power and influence—or alternatively cooperation—are numerous and of world-historical magnitude, regardless of the precise trajectories of China's and India's rise. The world is destined, indeed, to live in interesting times. 



中國研究

THE CHINA JOURNAL

Consistently cutting-edge research on issues of vital interest.

Jean Oi, Stanford University

No serious student of contemporary China can do without this journal.

Wang Gungwu, National University of Singapore

The first and irreplaceable journal to consult for innovative scholarship and substantive book reviews.

Deborah Davis, Yale University

This is one of the few journals that I read cover to cover.

James L. Watson, Harvard University

Has now become must reading for any serious student of contemporary China.

Martin K. Whyte, Harvard University

Subscription Rates (two 230-page issues per year—plus a free issue for new subscribers): *Within Australia*: A\$30 per year, students A\$25, institutions A\$60. *Outside Australia*: US\$35 per year, students US\$25, institutions US\$60. New 3-year subscriptions: A\$80/US\$90, institutions A\$150/US\$150—plus 1 complimentary issue.

I would like a: 1-year 3-year subscription

Enclosed is my cheque (payable to **The China Journal**)

Please charge to my Bankcard Mastercard Visa

Card No. _____ Exp. Date _____

Name _____ Signature _____

Contact Name/Address/Email: _____

Payments to: Contemporary China Centre, CAP, The Australian National University, Canberra, ACT 0200.