

**INSTITUTION BUILDING, INCLUSIVE GROWTH, AND ACCOUNTABILITY: A  
STUDY OF CHINA AND INDIA**

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**ABSTRACT**

This paper examines issues related to institution building and inclusive growth in governance regimes with demonstrated accountability. For our analysis, we study the experiments of China and India. It is instructive to study China and India because they constitute natural experiments. On parameters (e.g., polity, economy, concept of welfare, emphasis on growth) that are subject of interest in our study, there is substantial variation. But on other parameters (e.g., both began their experiments in late 1940s; both are large, populous and diverse societies) which we would consider to be control experiments there is substantial commonality. Accordingly, we study Chinese and Indian experiments for the last 60 years, and set forth some general observations.<sup>1</sup>

There is consensus on the long term goals of robust institutions, inclusive growth and accountability because societies with these features are more efficient in resolving economic and political conflicts and achieving better quality of life. But the question is simply this: what is the path to get to those goals?

**KEY WORDS:**

Accountability, Good Governance, Growth Models, Developmental and Rules-based Governance, China and India

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<sup>1</sup> This research paper builds on and incorporates several other publications by Dr. Kalyanaram, including his presentations in Madras Management Association Publications in March and October 2011, and his paper in *Journal of Indian Business Research* which is given below.

Kalyanaram, Gurumurthy, “India’s Economic Growth and Market Potential: Benchmarked Against China,” *Journal of Indian Business Research*, Volume 1, No.1, 2009, 57-65.

## **INTRODUCTION**

This paper investigates institution building, inclusive growth and accountability. In this context, we study China and India. It is most instructive to study the experiments of China and India for many obvious reasons. Both China and India are large and populous countries. Large heterogeneity – in terms of income, wages, geography, demography and other variables – is common to both the societies. Both China and India began their current experiments about the same time in late 1940s. While there is commonality on demographic, duration and related parameters, there is substantial variation in parameters of interest. For instance, China and India have adopted different political and economic models. Both the countries have been modifying and altering their indigenous models to place their country on an arc of prosperity and social transformation. Chinese and Indian concepts of welfare have varied. They see enfranchisements of the peoples through completely different lens. Finally, though they have adopted different paths, both China and India have made significant strides in economic growth and social development. While there is little doubt that today China is significantly ahead of India in all the defined economic and market metrics, both the countries have achieved very impressive growths.

This paper is organized as follows. We begin with an analysis of the economic and political institutions. We then discuss the different models of growth adopted by China and India. We follow this discussion with an examination of issues related to quality of life, and accountability. And then we discuss the path to goals of robust Institutions, inclusive growth and accountability. Finally, we set out some observations based on our analysis and study.

## **POLITICAL AND ECONOMIC INSTITUTIONS AND STRUCTURE**

Till mid 1970s, China was a closed political and economic system built on the ideology of communism and collectivism and led by Mao Zedong and Chou Enlai. And then China began introducing incremental pluralism in polity till late 1980s when further political reforms ground to a halt. In the early 1980s, China championed what it called “directional liberalism” under the guidance of Deng Xiaoping, Hu Yaobeng, and Zhao Zhiyang. The leadership supported experiments in rural self-government. There was more latitude and freedom given to civil societies. By 1989, Tiananmen Square protests disrupted this hopeful progress. Even though, after 1990, the political reforms have been very limited and incremental there have been some. For example, for the last 20 plus years, there have been orderly transfers of power

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including the election of a President and members of Central Parliamentary Committee. The transfers of power from Jiang Zemin to Hu Jintao, and now from Hu Jintao to Xi Jinping have been remarkably smooth. Even at the more local levels there is evidence to show that the turnovers of Chinese county leaders has been fairly orderly even though they have been frequent, and that promotions have been driven by economic and revenue growth (Guo 2007).

In the 1990s, China permitted its rural communities to form viable informal networks which pressured the bureaucracy and polity to deliver good and sensible governance. Social scientists have shown that such networks can be highly beneficial at a local/ward-level (Munshi 2011). Based on his analysis, Tsai (2007) argues that to be able to “confer higher moral standing on local officials who act in the interest of the groups”, the existence of encompassing and embedding community solidarity groups is necessary. In his study, Tsai found that “villages with those groups are found to enjoy a higher level of government provision of public goods, regardless of their economic situations, of the effectiveness of bureaucratic control, or of the development of local democracy.”

Chinese economic progress continued because of continued incremental political reforms subsequent to the Tiananmen struggle, but China would have been on a much more robust inclusive growth path if it had continued the reforms initiated in the early 1980s. Here is the evidence. The employee share of GDP was 48 percent in 1978, then reached a high of about 53 percent in 1990 but degraded to about 45 percent in 2002. There were less than 85 million Chinese who were considered illiterates in 1990s, but that number grew to over 115 million in 2005. Rate of immunization increased sharply in 1980s, only to drop subsequently (Huang 2008).

Unlike political reforms, China has been bolder and consistent with regard to economic pluralism. To a remarkable degree, China has been able to separate the political institutions of a monolithic state from economic pluralism. The Chinese version of State Capitalism has amounted to private diffuse ownership with single party monopoly of political power. Having delivered on sustained economic growth, China has been able to maintain monopolistic political structure with limited concessions such as separation of powers but no party competition.

However, researchers (Moore 1969, Desai 2003) have contended that such segregation of economy and polity is not eventually possible. Economic freedom will spill over into

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demands for political freedom. Even authoritarian governments- i.e. non communist dictatorships- have been unable to sustain monopoly of political power with developed capitalism. Such experiments in Europe collapsed along with the introduction of market economy.

While China has been successful in segmenting economy and polity, two major factors may limit the success of this experiment on a permanent basis. First, the growth has to slow down. That itself would bring demands for political expression. Second, the granting of property rights will lead to organization of robust dispute resolution mechanisms and judiciary.

With regard to economy, China has been growing at an impressive 10 percent average annual rate over the last 25 years. However, empirically, there is no economy that has grown at sustained annual growth rate of 10 percent for more than 35 years. Hong Kong, Korea, Singapore, and Taiwan are the obvious illustrations. The growth rates of these economies dropped to about 6-7 percent after the blistering growth for 35 years or so. In fact, there is degradation in the growth rate – China is now possibly growing more at 8 percent. Both empirically and technically, it is expected that China's annual growth rate will drop to about 6 percent in the next 4-5 years (Kalyanaram 2009).

With regard to property rights, China has introduced some rights to property since 2007. Granting of property rights imposes on any society – China, in this instance – the need for dispute mechanisms and judiciary, and some framework for accountability. There has to be accountability and auditing, legal sanctions and punishments for non delivery or non performance (Desai 2003). From this requirement follows the need to have law. Accordingly, the rule of law -- although slow and halting it may be – is beginning to take shape. The early steps will hopefully strengthen over time.

The debate whether China's communist dictatorship or India's democratic system will deliver and sustain rapid and equitable economic growth in the long run dates back to the early 1950s, soon after India's independence in 1947 and China's communist victory in 1949. India adopted pluralism in political structure from day one – since the constitution came into effect in 1950. Democracy began with the first general elections in 1952. While democracy was stress-tested during internal emergency time-period in 1975-1977, it has been a very robust experiment in India. The success of democratic way of life has stunned political scientists and scholars. Adam Przeworski (2008) computes that since World War II, 70 democratic

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experiments in poorer countries have died. In contrast, all the 37 experiments in richer countries have succeeded. Przeworski determines that “no democracy ever fell in a country with a per capita income higher than that of Argentina in 1975, \$6055”. In 1947, India’s per capita income was certainly less than \$200, and even today the per capita income is no more than \$2000. In light of these statistics, India’s success as a democracy is an “exception.”

But pluralism in polity did not lead to rapid economic growth or necessarily in social transformation (reduction in poverty) or greater inclusiveness.

The growth was tepid till early 1980s – annual growth rates of 3 or 4 percent were normal and expected. India had adopted a mix of socialism and market capitalism, and this did not generate growth. Further, most of the growth was eaten up by the population growth (which was growing at over 2 percent annually). Accordingly, there was not much disposable resource for inclusive social transformation and development. It was not only until 1991 with the introduction of economic liberalization that the growth accelerated to about 6-7 percent annually and even reached an impressive level of over 9 percent annual growth during 2004-2008.

India has (somewhat) tamed inflation since 1996-1997 – the current average annual rate is about 7-8 percent, where as inflation was raging at 10-12 percent annual rate prior to 1996-1997. India’s central bank, Reserve Bank of India, has been focused on managing inflation and the current target level is 4-5 percent annual rate.

Even though the average growth rate has been robust, inflation has been moderated, the savings and investment rates have been sound, and the balance of payments situation is improved (though all these parameters have degraded over the last two years, but they are still much better than what the situation was about decade back), poverty has been stubborn. By most counts, still almost 33 percent of the population lives in dismal condition. India ranks in the bottom one-third in the human development dimensions. The disparity in incomes has decreased only marginally. Lack of substantial reduction in poverty, unlike in China, has been disappointing and frustrating. While there are many reasons for this, lack of accountable and responsive governance appears to be a significant contributor. And in a democracy, where there are natural redundancies, such responsible governance is even more critical (Jalan 2012).

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In sum, even such conditions as pluralism in polity and economy, reasonable economic parameters and independent judiciary are not adequate for inclusive growth or social transformation. Accordingly, it is clear that India requires substantial reforms in administration and governance.

In addition to the democratization of its polity, and liberalization of its economy, India has carefully crafted and built many institutions. Though these institutions require further reforms, they are credible and robust. China's record in this domain is not encouraging. For example, the Indian judiciary has been well developed. The judiciary has been independent, except for the 1975-1977 periods when the judiciary also was stress-tested and failed in parts. The judiciary recovered immediately after its stumbles in mid 1970s. In fact, lately the Indian Supreme Court has been activist in a variety of governance, political and social issues. Public interest litigation (PIL), received by the Indian Supreme Court, has led to substantial improvements governance and public conduct.

India has also developed respectful financial institutions. The norms and regulations of the financial markets, and the enforcement and supervision by Securities Exchange Board of India of these regulations are credible, if not perfect. They have made the Indian stock and bond markets transparent and investor-friendly. Further, the commercial and retail banking system in India is sound and mature, though its reach in rural communities is still limited. The central bank, Reserve Bank of India, has acted purposefully and transparently. India's stronger (financial) infrastructure in terms of far more efficient and transparent capital markets and banking system is enabling the growth of entrepreneurship and free enterprise.

On the other hand, Chinese banks and financial infrastructure are relatively are opaque. They are forced to make "policy loans" that are allocated on non-market principles. It is estimated that the non-performing loans in Chinese banks may be as high as 50 percent. The equity in China comes largely from the state, not from private individuals (Swamy 2005). The banking sector in China remains excessively focused on lending to state-owned enterprises and does not appear to be an adequate provider of credit to private enterprises and households (Lane and Schmukler 2007). An interest rate ceiling is also distorting the behaviour of banks and limiting the attractiveness of banks to domestic and foreign investors (Bai 2006).

In summary, India has designed and evolved carefully the governance institutions (e.g., dispute resolution bodies such as courts) and standards (e.g., recognition and protection of private and intellectual property rights) over the last 50-60 years. They have acquired healthy

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robustness. These institutions (e.g. parliament, judiciary) were stress-tested during internal emergency period of 1975-1977, but all the institutions including the judiciary bounced back from the aberrations.

Based on other empirical experiments, it can be said that it is likely to take China 30-40 years to develop its own institutions and standards (North and Thomas 1971). Peerenboom laid out in 2002 the potential arc of progress for China, and that recommendation holds good today: "...a transition to democracy is likely to be necessary to overcome the Party's legitimacy deficiencies, to address accountability issues, and to reduce growing social cleavages. It is possible that over time the Party could stave off extinction by transforming itself into a Social democratic party. The Party could well gain support of its citizenry if in the next decade it is able to reduce corruption to a tolerable level and to sustain economic growth while dealing with such pressing problems as SOE reforms, reform of the banking and financial sectors, and the need to establish a social security system and to clean up the environment. It could further broaden its appeal by gradually relaxing its grip on society and allowing citizens greater, albeit still limited, freedom of speech, assembly, and association. In short, it could adopt a more communitarian approach. If it does not, and elections are held, it could very well lose out to the party that does adopt such an approach, all else being equal."

With regard to institutions, empirical research (Khanna, Kogan and Palepu 2006) shows that each successful society develops its own set of governance institutions, standards and practices. While there may be some *de jure* similarity in standards, there is no *de facto* convergence.

We now turn our attention to models of growth adopted by China and India, and their attendant consequences. We also discuss the structure of the economy of the two countries.

## **MODELS OF GROWTH, EMPLOYMENT, AND STRUCTURE OF ECONOMY**



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China and India have adopted very different growth models and paths. Prior to 1970s, China was a closed economy built on the ideology of communism and collectivism. Since about 1978 when Deng Xiaoping assumed the leadership, China started introducing pluralism in the economy systematically. For its growth, China has relied on infrastructure improvements and capacity building, encouragement and growth of exports and building of sharp logistics related to export-import, manufacturing, and relatively large-scale industries. In the last twenty year plus, China's growth has come from large factories which have manufactured relatively low-skills based products such as apparel, footwear, and light electronics consumer goods.

India, on the other hand, has had a mixed approach. In the first 30-35 years, India has relied on "mixed economy" strategy where India encouraged private investment but reserved major sectors (such as Energy, Infrastructure) largely for state investment. Empirical data shows that 1980 was an important divide, when the growth rate started breaking away from the persistent 3-4 percent annual rate, and started accelerating. In early 1990s, due to acute balance of payments crisis India was forced to liberalize the economy further. For the most part, India has relied more on small business and entrepreneurial ventures for its growth. This is exemplified by the success, among others, in the automobile (e.g., Bajaj, Tata), information technology (e.g., Infosys, Wipro), and pharmaceutical (e.g. Ranbaxy) industries. These companies started as entrepreneurial efforts. In India, private sector and entrepreneurial efforts get almost 80 percent of all financial credits and loans, and in China the comparative figure is about 10 percent.

India's recent growth pattern is unusual, in that the growth has been driven by information and high-technology services, in which exports have been a significant factor. This growth pattern has resulted in services becoming the largest component of the Indian economy — contributing 51 percent of GDP — making India's situation unique in the developing world. Along with information and high-technology services, communication and pharmaceutical industries have also been important contributors to growth and employment. These industries are based on high-skills and high-intellectual. A very productive outcome of the high-level of competence in information and communication technologies has been substantial positive spill over(s). For example, India has developed markets in high-end and more routine software services, design products, and business process outsourcing related space. The spill over has also been to enabling better educational services and in a general "can do" attitude among the policy makers and citizens.

India has absorbed information technology in various sectors including government and businesses. Information technology has increased productivity, and welfare of the society. In a study of Kerala fishermen, Jensen (2007) has shown that adoption of mobile phone services had dramatically reduced “price dispersion” and increased both “consumer and producer welfare.”

With regard to employment, China’s model of large scale industries focused on manufacturing and relatively lower-skills based products and services has been more successful. While the higher-skilled based sectors have absorbed significant numbers from the labour force, it has not been enough for India. Thanks to substantial additional contributions to employment from construction, transportation and trade sectors, India has been able to withstand relatively stagnant agricultural and manufacturing sectors.

With regard to poverty reduction, China has been clearly more successful because of its growth model which has been based on lower-skills industries thus allowing absorption of larger numbers from the labour force. Gainful employment has added to the growth of prosperity and reduction of poverty. For example, the per capita incomes in China and India were comparable in 1980 (in fact, India’s per capita income was slightly higher than China’s). However, over the last thirty years China’s per capita income has grown to a level three times higher than India’s level. Of course, China’s economy is also more than three times larger than India’s economy.

The biggest difference between China and India may be in the productivity of their agricultural sectors. China’s biggest decrease in poverty took place between 1980 and 1986 when there was a sharp increase in its agricultural productivity (Kotwal 2012) due to improvements in infrastructure. Indian agricultural sector has not been dynamic. For example, agricultural sector today contributes only about 15 percent to the country’s GDP (compared to about 30 percent in 1990) but this sector still employs over 50 percent of the labour force. India has its work cut out to increase the agricultural productivity: irrigation cover has to be increased dramatically (currently it is about 48 percent); better seeding programs have to be facilitated; diversification of crops has to be encouraged and supported; the food policy including procurement, storage and distribution of food grains has to be reviewed and revised substantially to make the system more productive and responsive.

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With all the challenges and limitations, the structure of India's economy is favourable for mass-prosperity in the long run. Domestic consumption constitutes more than two-thirds of the Indian economy. All the major large successful economies with mass prosperity such as those of United States of America, Japan, Germany, France, and United Kingdom are driven by domestic consumption. Consumer consumption accounts for about 64 percent of India's GDP, compared to 42 percent for China [the comparative numbers are about 70 percent for United States, 58 percent for Europe, and 55 percent for Japan]. In fact, there is no large successful economy which is led by exports (Kalyanaram, 2009). The fact that India has maintained attractive investment and saving at about 35 percent (these numbers have increased from about 25 percent in 2000) in spite of strong consumption pattern is further encouraging. Further, India's consumption patterns are evidence of social transformation. In 1960s and 1970s, the consumption was focused largely on cereals, but now it is more diverse and includes various nutrients (e.g., pulses, dairy).

In sum, the odds appear to be in favour of India's model. China's transformation into a successful economy with mass prosperity is likely to be very challenging unlike India's path to such transformation. The transformation of the economy from export-orientation to consumption-orientation involves very difficult policy and political choices including letting the currency valuation be determined by market forces.

In another little noticed but very significant development, India's rupee has depreciated by about 50% against China's renminbi in the last 7-8 years. As a result of this and other factors, during the same time period India's exports have been growing at a faster rate than China's exports (Mundle 2012). (Of course, China's exports are about 6 times larger than India's exports).

For China to grow to the next level of prosperity, the economy has to transform itself into a higher-skills, capital-investment based service economy driven more by consumer investment than by export-import. But this transformation is not organic or easy. On the other hand, for India to absorb more citizens into productive economy, lower-skills, large-sized economic activities are imperative. Low labour productivity, challenging and uncertain land acquisition policies, and other factor-related issues are serious frictions to achieving this. So, reform in labour laws and land acquisition policy are important. For example, the government should let market forces and prices determine acquisition of land on behalf of private sector instead of acquiring them at low price and subsidizing private sector.

In the next section, we briefly address quality of life and accountability.

## **QUALITY OF LIFE AND ECONOMIC AND POLITICAL ACCOUNTABILITY**

On almost all quality of life metrics, China has done well. India lags behind woefully. The data reported by Sen, compiled from the World Bank and the United Nations sources, shows that “life expectancy at birth in China is 73.5 years; in India it is 64.4 years. The infant mortality rate is fifty per thousand in India, compared with just seventeen in China; the mortality rate for children under five is sixty-six per thousand for Indians and nineteen for the Chinese; and the maternal mortality rate is 230 per 100,000 live births in India and thirty-eight in China. The mean years of schooling in India were estimated to be 4.4 years, compared with 7.5 years in China ((Sen 2011).”

In a similar pattern, China’s overall adult literacy rate is 94 percent, and India’s is about 74 percent. More specifically, the literacy of girls is almost at 100 percent in China and it is at about 80 percent in India. Undernourishment of Indian children may be as high as 50 percent, but it close to zero in China. Immunization rate hovers around 97 percent in China compares with 66 percent in India.

It is obvious that, relative to China, India is lagging behind sharply on human development. But even by absolute measures, India’s achievements in this domain are clearly dismal.

However, this is only part of the story. India has provided its citizens inviolable fundamental rights such as freedom of speech, religion, and political associations. India’s constitution delineates the fundamental rights in Part III. These rights are highly circumscribed in China. The constitution does not provide for these rights and the civil societies are too weak to demand such rights.

India’s constitution not only articulates the fundamental rights but it also enshrines inspirational individual and social rights which are called the Directive Principles of the State in Part IV, articles 36-50. As directed by the constitution, the Directive Principles are guidelines that must inform the statutes and regulations designed by the state. These Directive Principles are broad-ranging covering social justice, economic welfare, foreign policy and legal and administrative matters. For instance, article 43 provides that “the state shall endeavour to secure, by suitable legislation or economic organization or in any other

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way, to all workers, agricultural, industrial or otherwise, work, a living wage, conditions of work ensuring a decent standard of life and full enjoyment of leisure and social and cultural opportunities, and in particular the state shall endeavour to promote cottage industries on an individual or cooperative basis in rural areas.”

Freedom is so fundamental to human life and purpose that it is impossible to place value on it. It can be argued persuasively that the India has enhanced the quality and welfare of its people more fundamentally and positively by respecting the fundamental rights of its citizens.

In addition, substantially higher political and economic accountability and transparency in India enriches the quality of life in significant and important ways. For several evident reasons, economic and political accountability is more robust and real in India.

Democracy assures at least a minimum level of accountability, transparency and responsiveness. Political leaders are subject to periodic elections, and these elections keep the policy makers close to the pulse of the peoples. Protection of freedom of speech and assembly, and other fundamental rights by constitutional declaration and by the judiciary makes democracy substantial. Active and watchful media, again protected by statutes and judiciary, add to the self-enforcing viability of pluralism.

The Indian statutes have an interesting provision: any citizen can file a civil complaint in a high court (appellate court) or the Supreme Court (the highest judiciary body) requesting the court to review and examine a matter of public interest when the citizen has reason to believe that the public interest is being compromised by the governing agencies and/or by individuals (public interest litigation). Through public interest litigation provision many aberrations have been exposed (including doubts about allocation of second-generation licenses and allocation of coal mines as contemporary examples). One of such early complaints, Vineet Narayan vs. Union of India (1996-1997), generated landmark decisions on public corruption from the Indian Supreme Court. The existence of this provision in the legal system, and its successful application has generated pressure on all stakeholders – government, businesses, and individuals – to be transparent and to make decisions without serious compromise to public interest. Such mechanisms are not even contemplated in China.

Information is the most empowering instrument. When citizens are informed, there is greater accountability, responsiveness and transparency. China and India have taken dramatically

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different routes. China controls and monitors the content and distribution of information. In its enforcement of tight control, China employs serious punitive measures including incarceration.

On the other hand, India has supported diffusion of information so long as national security and public welfare were not compromised. Even if the government were to impede information flow and exchange, the media, civil societies and the Indian judiciary act as corrective instruments. India has now enshrined the right to information through an act of parliament. Under the provisions of the Right to Information Act 2005, any citizen may request information from a "public authority" (a body of Government or "instrumentality of State") which is required to reply expeditiously or within thirty days. The Act also requires every public authority to computerize their records for wide dissemination and to pro-actively publish certain categories of information.

Adoption of information technology in various sectors in India has made governance (by government and businesses) more accessible and accountable, and decision-making more transparent. For example, e-governance has required the governments to computerize all the records, and record all the transactions contemporaneously. Now, over 1.2 million companies file electronic disclosures. These company disclosures create a level-playing field for all stakeholders by providing regular, detailed, and standardized information about the state of an institution. And about 100,000 banks are mandated by the Reserve Bank of India to make electronic filings and maintain electronic records of all transactions. Digitization of records and transactions has made supervision relatively easy.

The Indian Information Technology Act (2000, 2008) has formalized electronic record keeping and electronic transactions. The Act provides “legal recognition for transactions carried out by means of electronic data interchange and other means of electronic communication, commonly referred to as “electronic commerce”, which involve the use of alternatives to paper-based methods of communication and storage of information and also facilitates electronic filing of documents with the Government agencies.”

Since China is intent maintaining the political monopoly of the party and control over the economy, the disclosure requirements for government or businesses are predictably minimalist.

**PATH TO GOALS OF ROBUST INSTITUTIONS, INCLUSIVE GROWTH AND ACCOUNTABILITY**

While there is consensus on these goals and the long-term outcomes of these instruments, there are differences in the path to be adopted to achieve these goals. There are two broadly defined approaches. First and the one widely applauded approach is a “rules-based” approach. In this approach, the society designs and builds institutions that develop and foster pluralism in polity and economy, reduce corruption, increase accountability and transparency, and strengthen the property rights and the rule of law. This approach has been argued by large number of economists including North and Sen. The second approach that is gaining currency among scholars and policy makers is “developmental governance” approach. Here, the focus is on developing processes and capabilities of critical agencies for solving specific problems because the market failures are too widespread for “rules-based” approach to operate effectively. While the first approach focuses on a global set of rules and institutions, the second approach argues for development of capabilities, processes and institutions in more targeted and specific domains. The summary argument is thus: once credible threshold level of development is achieved through project-management approach, the society can implement universal set of rules (Khan 2012).

There is increasing theoretical and empirical evidence, including the arguments and evidence presented in this paper, to support the “developmental governance” approach. For example, empirical analyses of the good governance data from the World Bank show: societies with larger per capita income and higher growth rates also score higher good governance, but the correlation between good governance and growth rates is relatively weak.

The data presented in this paper shows that China has adopted a “developmental governance” approach and succeeded in achieving high rates of growth for the last 25 years. Over the same time-period, India has adopted a “rules-based” approach and its economic growth rates are perceptible less impressive. Evidence from smaller economies and societies such as Hong Kong, Korea and Taiwan also add to the strength of this argument.

However, there is a big caveat. Almost all the societies that adopted “developmental governance” initially, achieved substantial growth, and then transited to broader reforms also invested in substantial number of “rules-based” elements at the early stages of development. These rules-based elements include institutions and norms governing polity, economy,

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property rights and public conduct. But in the case of China, that is not the case. While China has taken small measures to incorporate rules-based features, the level and scope of such features is very limited. The question is: has China done enough to be able to eventually transit to a society of broad reforms and “rules-based” institutions?

### **CONCLUDING OBSERVATIONS**

China’s experiment advises us that a minimum level of political reforms is necessary for the economy to grow even when economy is designed to be pluralistic. The experience also shows that greater political participation, even if it were incremental, facilitates inclusive development.

India’s experiment tell us that even such apparently favourable conditions as pluralism in polity and economy, reasonable economic parameters and independent judiciary are not sufficient conditions for inclusive growth or social transformation. Clearly, effective delivery of products and services is necessary for such inclusive growth.

It is evident, from China’s approach, that low-skills based model of growth will absorb larger numbers from the labour force, thus providing an opportunity for immediate and perceptible reduction in poverty. And the most significant reduction in poverty will come from improvements in agricultural productivity, as demonstrated by China’s success and India’s failure in this regard.

The basic structure of India’s economy (driven by consumer investment) places better odds on India to achieve mass-prosperity. If China manages to achieve mass-prosperity through its current economic structure (when more than one-third of the economy driven by exports-imports), it will be a new model indeed.

As we learn from the experiments of China and India, it is not possible to develop robust instruments to ensure accountability and transparency without credible democracy, i.e., pluralism in polity. Pluralism in economy is not enough. It is pluralism in polity that creates a self-enforcing dynamic for design of accountable governance in all sectors.

Non-democratic forms of governance, when benign and focused, may be able to deliver well in the traditional metrics (e.g., life expectancy, nourishment, infant mortality) of quality of life



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and inclusive development. However, such governance cannot deliver on the fundamental rights of human life: liberty and freedom.

Building and designing a robust democracy requires self-reinforcing mechanisms and institutions. Elections and ability to express preferences in political choices is necessary, but not sufficient. Freedom of speech, unimpeded access to information, credible judiciary all have to be built and fostered together simultaneously. This is clear from India's experiment.

It is also clear that in a democracy accountable and transparent governance is more central to productive delivery of goods and services (for inclusive development) because the pushes and pulls of democracy demand more redundancies. We can infer this from Chinese and Indian experiments.

China is going to transition to some form of pluralism in polity or eventually its progress on all fronts will recede and there may even be regressive steps. Progress to pluralism in polity is not certain or inevitable, but that's the only path to continued growth and progress in society. With pluralism both in polity and economy, greater levels of and sensitivities to inclusiveness and accountability will be organic outcomes.

China has largely adopted the “developmental governance” path to growth and development, and it has been remarkably successful in this approach. In the 1980s, the focus was on improving the infrastructure capabilities, roads, railways, bridges, and plants and machinery. In the last two decades, the focus has been on further improving infrastructure capabilities, but also on enhancing the logistics and manufacturing capabilities substantially. All this has earned huge dividends. Now the focus is a bit blurred and the intent is to move high on value chain and that is proving to be more challenging for China. But China has built and encouraged “rules-based” institutions and reforms in very limited manner.

On the other hand, India has largely adopted larger reforms and “rules-based” path to growth and development. This has been reasonably successful, but the results are in no way comparable to China's accomplishments. Actually, India's most salient successes have been in domains such as automobile and high-tech sectors where India has adopted a more project-management approach. In any case, India's growth has been impressive and all this has been achieved even as the society has enforced democracy and substantial rights to property.

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The fundamental empirical question is: in the next 25 years, which one of the models – China’s or India’s – will prove to be more successful? Nested in the fundamental question is this: can a society which adopts almost completely project-management approach to growth and development with very minimum rules-based features transit to a society of broader reforms and mass-prosperity?

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