

# Their fates matter

A study on the role of democracy for growth and welfare in  
India and China



# Abstract

In this thesis, I compare the economic development between one democracy, India, and one autocracy, China. The idea is to see whether democracy has anything to do with economic development in terms of growth and welfare. To my disappointment, I have found that democracy does not have a big impact on economic development. Instead, it seems that the economical development depends on the economical policies carried out by the respective governments. In the thesis, I am also discussing in the thesis the reasons behind China's success when it comes to economic development, and the similar, but somewhat slower, success of India.

*Key words:* democracy, autocracy, growth, welfare, economic development.

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# 1 Introduction

## 1.1 Introduction

I have chosen to compare two nations, China and India. They will represent an autocracy, and a democracy. What will be compared and discussed is their respective economical development, crucial for these two countries which are both going through a process of developing from very poor, to possibly very rich. Since they are the two most populous nations in the world, their fate matter. I will use the theories of some well-established scholars in this field, statistics from the UNDP and other sources, and also some comments from the media.

## 1.2 Purpose

The purpose of this thesis is to clarify the reasons behind the differences between the development outcomes of two different regimes, one authoritarian, China, and one democratic, India.

Those are the two largest countries in the world today in terms of population. They are quite similar in many respects: vast natural resources, densely populated, large countries held together for a long time. Also, they have experienced regime change at about the same time, in the middle of the 1940s when India became independent from Britain and China experienced the revolution.

The discussion will focus on why China has been quite successful in terms of economic development, and India not quite as successful. Has democracy hindered economic development in India? Or are there other factors; cultural, religious, traditional, but also of course economical and political behind the different pace of development in the two countries? I will concentrate on development, separated in two parts as; growth and welfare.

I will use a comparative case study to investigate this, and I will try to look at the problem with two kinds of theoretical glasses: positive and negative towards democracy as a force to achieve economic development.

**The hypothesis to be used is: democracy is not the determinating factor for domestic economic development in India and China.**

## 2. Theory

### 2.1 Democracy as a crucial factor to economic development

Browsing through the current discussion among researchers regarding the issue whether democracy is good for economic development, it seems to me that most researchers are of the opinion that democracy really has a value for economic development. Two researchers, Matthew A Baum and David A Lake, draw in their article “The political economy of growth: democracy and human capital” the conclusion that “democracy has no statistically significant effect on growth. Rather, we discover that the effect of democracy is **largely indirect** through increased life expectancy in poor countries and increased secondary education in nonpoor countries”. The article refers to their empirical study in which they used a data set of a 30-year panel of 128 countries. B & L argue that in democratic states higher levels of public health is provided, which can be measured by different indicators like infant mortality, life expectancy and immunizations, plus higher levels of education, measured by a variety of indicators such as primary, secondary and tertiary enrolment ratios and adult literacy. B& L find that: “neither population nor per capita GDP is a statistically significant predictor of life expectancy” (Baum and Lake, art. page 342). Moreover, “democracy does appear to positively and significantly affect life expectancy at least in the roughly 62% of the countries in our data set whose annual GDP per capita is less than 2500 USD.” In turn, life expectancy in itself has a positive effect on economic growth. B& L suspect that the relationship between democracy and growth is not genuine, but is masking “an alternative relationship between growth and institutions correlated with democracy. Democracy may be associated with stronger rule of law, more clearly defined property rights, greater autonomy of central banks, broader labour union organization, deeper federalism and other institutional features of strong market economies that are more important drivers of growth”. (B&L art. page 345). Democracy may also influence trade, market development, corporate governance which all can be drivers of growth. Democracy is also an efficient driving force behind peace-keeping efforts. The final result of B&L’s study is that greater democracy always improves growth. This becomes clear when the indirect effects of democracy are included in the study. The effect of democracy is subtle, indirect and contingent of levels of development, but it is nevertheless important.

I would hereunder also like to present the theories of Amartya Sen and Jean Drèze, as I understand them; from the book *Hunger and Public Action* by these two authors, 1989, and from the article *Democracy as a universal value*, in *Journal of democracy* (1999) by Amartya Sen.

These two authors are very positive towards democracy as a real force for the bettering of peoples’ lives. Sen’s thesis is (among others) that there has never been a substantial famine in any independent and democratic country with a relatively free press. “Even the poorest democratic countries that have faced terrible droughts or floods or other natural disasters have

been able to feed their people without experiencing a famine.” (page 4 in art mentioned above). Famines are easy to prevent if the government wants to, and a democratic government is more eager to help, since it is facing opponents in politics and independent newspapers. “Not surprisingly, while India continued to have famines under British rule right up to independence, they disappeared suddenly with the establishment of a multiparty democracy and a free press.” (page 4 in art. mentioned above). Sen is of the opinion that that economic technocrats argue that economic incentives are more valuable than political incentives, easier achieved with a democratic regime. This means that you are opting for an “unbalanced set of ground rules.” Sen identifies three different ways in which democracy can enrich the lives of the citizens.

- a) political and social participation has intrinsic value for human life and well-being.
- b) democracy has an instrumental value in enhancing the hearing that people get in expressing and supporting their claims to political attention.
- c) the practice of democracy gives citizens an opportunity to learn from each other and helps society to form its values and priorities.

Political rights, including freedom of expression and discussion, are not only pivotal in inducing social responses to economic needs, they are also central to the conceptualization of economic needs themselves. The positive role of political and civil rights applies to the prevention of economic and social disasters in general. When things go fine and everything is routinely good, this instrumental role of democracy may not be particularly missed. It is when things get fouled up, for one reason or another, that the political incentives provided by democratic governance acquire great practical value. (page 4, art. Sen)

Regarding democracy and the poor, Sen argues that democracy is especially important for the poor since: democracy has a protective role. People in economic need also need a political voice. And there is no evidence that poor people would like to reject democracy.

There is, according to Sen, no evidence that authoritarian governance and the suppression of political and civil rights are really beneficial to economic development. Empirical studies have not been able to prove that that would be the case.

## 2.2 Does democracy really improve the welfare of the poor?

To represent the more negative outlook on democracy as a means for economic development, I have chosen to study Michael Ross, who has recently (October 2006) published an article called: Is democracy good for the poor? In this article, Ross challenges the claim that democracy improves the welfare of the poor. He argues that very often, data from non-democratic states who have behaved well is excluded from cross-national studies. Ross argues that even though there is reason to believe, and also empirical proof, that democracies fund public services at a higher level than non-democracies, it is not obvious that this reaches the poorest groups within the society. “if democracy produces better outcomes for low-income families, then countries that transit from autocratic to democratic rule should see improvements in their infant and child

mortality rates. In general, they do not. “ (Ross, art. page 860). Ross uses infant and child mortality data in his research. His tests suggest that the true infant mortality gap between dictatorships and democracies is close to zero. His theories are supported by other studies such as by Filmer and Pritchett (1999) who find that public spending has no impact on child and infant mortality. According to Bidani and Ravallion (1997), public spending is only welfare improving when the recipients are poor. This implies that public spending will have no impact on infant and child mortality unless it delivers benefits to low-income households. According to Ross, there is no evidence that the political rights that come with democracy really help the people in the bottom layers of the society, the really poor. He also highlights the fact that within countries, there are often big differences in child mortality rates. His study also shows that countries which are autocratic, and therefore not eligible to funding from the IMF, are less likely to report data on key variables, and are therefore omitted from research, even if they have quite good economic records.

In Georg Sørensen’s book *Processes and prospects in a changing world*, I have also found a good conclusion on how some scientists view democratization as not altogether positive. “ Many scholars see an incompatibility between democracy and economic growth for both economic and political reasons. The economic reasons relate to the fact that growth requires an economic surplus available for investment. Such a surplus can be either invested or consumed. Hence the only way to increase the investable surplus is to reduce consumption. The argument is that a democratic regime will not be able to pursue policies of curbing consumption (holding down real wages) because the consumers are also voters, and they will punish the politicians next time they get the chance at the ballot box. Therefore, in a democratic system, political leaders have to cater to the short-term demands of the population. Accordingly, there is an incompatibility in the short and medium run between economic growth (investment) and welfare (consumption): you cannot have your cake and eat it too. Those who have economic reservations about democracy focus on the tendency for democratic leaders to be persuaded by the electorate to promote too much welfare and, consequently too little growth. Their actions jeopardize the whole basis for welfare promotion in the long run. Those with political reservations about democracy take as their starting point the fact that economic development is best promoted when there is a high degree of political stability and order. Democracy is counterproductive in this regard because it opens the already weak institutions of the developing countries to all kinds of pressures from different groups in society. Instability and disorder are the result, especially in countries in which there is a massive potential for conflict stemming from numerous religious, ethnic, regional and class divisions. In other words, the policies for change that have the objective of long-run national development can best be promoted by governments insulated from the crisscrossing political pressures of a democratic polity. In that sense, authoritarianism is best suited for the promotion of change.” (Sørensen, page 65.)

## 2.3 Theoretical conclusions

As seen from the chapters above, some scholars doubt that there is compatibility between democracy and economic growth for both economic and political



reasons. Those who focus on the economic reasons emphasize that there is a need for an economic surplus available for investment. Since investment is a key to success (which China has been able to use), consumption must be tamed, at least in the beginning of an economic development. If you tame consumption, through holding down wages, people will be upset and will not vote for you in the next election. Therefore-it is difficult, in the early stages of a democracy to increase the growth of a nation. Political leaders in a democracy have to constantly think about the short-term needs of its population. If you are a political leader in a democracy, where you have to listen to your voters, the tendency will be that you focus too much on welfare and too little on growth. In order to be able to distribute welfare, you have to have growth first-simply to have something to distribute. In a long-term perspective, your basis for growth is not developed.

Other researchers are looking at the political perspective to this, which is slightly different. They mean that you need law and order to establish a successful growth curve. To have a hustling and bustling democracy, with a lot of different parties and interest groups, you get politics which is inefficient and not productive. You lose time in discussions and with changing goal and focus all the time. These researchers find that an autocracy is the best, stable ground from which to achieve change. Another argument for this is that the world has changed, these days the demands are much higher, deriving from globalization, and you have to rapidly and successfully establish yourself as a world player if you want to have access to the markets in the world for your export/import etc. You have to be able to attract foreign direct investment, you have to have a sustainable growth to control the environment issues etc. This was not the case when the western European countries became developed countries in the 19<sup>th</sup> century. Then, even if some of the political changes were dramatic, the economic development and industrialization grew slowly, and financial and legal institutions had time to adapt. Yet other scientists are sceptical to how much a democracy really supports the poorest in a country, like Michael Ross. His main thesis is that it is the middle-class that gains from a democracy, and not the lower classes.

When it comes to those who are against the autocracy ideal, I would like to describe their theories as follows: There is not necessarily a contradiction between growth and welfare. If you feed, educate, and control the health situation of your population, you get a population which can contribute to the growth of the country in a much more efficient way. This is the discussion of the human capital. If it is true that you can have a situation of growth and welfare at the same time, this is of course very interesting. Those who are critical towards autocracies (like Amartya Sen) often bring up the dangers with autocracies. They emphasize the danger with having no free press, no opposition etc. This makes the country more vulnerable, in the sense that suddenly, there might be a coup d'état, or revolutions, demonstrations, strikes, starvation etc, which can turn the society upside down. Citizens in the country as well as investors from outside will not be actively working for an economic development in a non-transparent state like that. In this way, they argue that a strong state is not automatically an authoritarian state. In their view, the trade-off argument, which means that democracy hinders economic development, is not valid.

As has been stated before, there are of course a lot of researchers who are willing to take a middle path in all this, saying that democracy does not necessarily hinder economic development, but that it can slow such development down, or postpone it.

Having studied the above-mentioned authors, as well as several others, plus the background of India and China in economic terms, my own conclusion of the situation is that **democracy has not been the decisive factor for economic development in India, and had it been present in China, the economic situation there might not have differed from the current one.** It seems that the economic policy of the two countries have been much more important. It was when the decisions were made to change away from much of the Soviet-style economy in India in the 1990's and to develop reforms in China in the 1980's when it all began to change.

This table shows the different views discussed above, it is taken from Georg Sørensen, Processes and prospects in a changing world, page 68. Since I believe this is a good conclusion of the wide diaspora of views regarding for and against democracy, I would like to use it as a starting point for the analysis.

	Democracy impedes economic development	Democracy can promote economic development
Economic reasons	Democracy is unable to reduce consumption in favour of investment. Thus, economic growth suffers.	Democratic investment in basic human needs is good for economic growth.
Political reasons	Democracy increases the pressure on weak institutions. Concerted state action is more difficult. The state is weak.	Democracy provides a stable political environment and the basis for economic pluralism. Democracy means legitimacy: a strong state is often also a democratic state.

## 3. Background

### 3.1 China

#### 3.1.1 Facts on China

The population of China is larger than 1.3 billion, which makes it the most populous nation in the world. China is divided in provinces-large like European countries. France for example, has about the same population as Guangdong, the southernmost province in China. The provinces differ a lot when it comes to growth and welfare, some are a lot richer than others. China has a large “floating” population, perhaps as many as 60 million people are travelling around, fleeing the poorer regions, looking for jobs. China is a country where the population is severely suppressed, where corruption is widely spread and human rights are not respected. In the Freedom House register, China ranks as a not free country, and has a number 7 which is the least free rating when it comes to political rights and a number 6 for civil rights. China carries out about 10 000 executions every year. “Human Rights conditions in China deteriorated significantly in 2006, creating social unrest and violent confrontations between protestors and police. Stricter controls were carried out of the press, internet, academics, lawyers and nongovernmental organizations. Domestic observers believe that these constraints will remain in place at least through the 2008 summer Olympics being hosted by Beijing.” (Human rights watch, homepage). China has problems with Tibet, which has been overtaken by the Chinese, Taiwan, which China does not recognise as a country of its own, Hong Kong which it has gotten back from the UK but which is now a special economic zone. Chinese businessmen have migrated from China the last 200 years at least, and therefore South-East Asia has quite a substantial number of Chinese minorities, quite prosperous. The same thing is now happening in Africa, where Chinese businesses are establishing at a rapid pace.

## 3.1.2 Politics in China

### 3.1.2.1 History

“China has a long tradition of authoritarian rule. The only contact with democracy was taken just before the Chinese revolution in 1949. The heritage of the philosopher Confucius (551-479 BC.) has dominated the political development in over 2000 years. Confucius emphasized the importance of relations between people and how the individual should function within the group. He also emphasized the respect of the emperor, superiors and older people.” (Göran Leijonhufvud p.2) Confucianism is perhaps the most influential philosophy/religion in China today. Early on, China created a strict hierarchical structure for the government, from the emperor down to the counties. “This is now a more than 2000 year’s old bureaucratic tradition which has never been broken. In spite of a very developed bureaucratic system, the legal system never really developed in China. The mandarins (bureaucrats) followed moral and ethical codes rather than legal ones. The rule of law, civil and property rights never became established pillars of the society like in the West” (Leijonhufvud p. 3).

### 3.1.2.2 Current situation

“Today, the bureaucratic structure and the geographical divisions are the same as 200 BC. The politburo is nominated by the central committee, which has about 300 members and meet twice or thrice per year. The central committee is elected by the party congress which meets every five years. The delegates on the party congress are hand-picked by the party-leaders on a national and provincial level. Hu Jintao, the leader of the communist party today, was nominated by Deng Xiaoping many years ago, and so this decision could be discussed and approved of during many years before he was offered the post. China is governed by two different organisations in parallel, the party, and the government. On each level, it is the local party secretary who has the last call. The union between party and government is illustrated by the fact that Hu Jintao is the party leader but also the president. He is also the chairman of the military, which means that he is in fact the general commander of the army. (China has learned that it is necessary for the president to also have the power of the military to avoid civil wars). Formally, it is the National People’s congress which is the highest authority in the country and which has the ultimate legal power. This congress has about 3000 participants, elected in indirect elections by peoples’ congresses on lower levels. The nomination of the candidates is a process which the party controls. The citizens’ only right to participation in the national politics is to elect delegates to the People’s congress on commune level (xiang) on the countryside or on a district level (qu) in the cities. There are no debates during the congress. These are held only in provincial groups. As a rule, the congress has approved of the governments (and the party’s) proposals for new laws and reports with only a few no-votes. Lately, it has happened however that some delegates have voted against proposals. These days it is common that a lot of delegates refuse to accept the yearly proposals from the Supreme Court and from the prosecutor

of the state because they are dissatisfied with the corruption and the increased criminality.” (Leijonhufvud, page 4-5). China has gone through major economical reforms since 1979. We will come back to those in the next chapter. China has also worked a lot on the welfare situation, but has mainly focused on the increase in income during the last years.

### **3.1.2.3 Democracy**

A few years ago, it seemed as though local elections were developing in China and many scientists were hoping that China would develop these elections and let other parties in to politics and thereby start a soft transition to a democracy. This is however not the case. China is taking part in the international agenda through different UN agreements, the WTO etc and is active in negotiations on human rights with the EU, UN and several other organizations. In practice, nothing is done. On the contrary, democracy is not on the agenda at all for Chinese politicians. As has been stated above, the human rights situation was worse in 2006 than in many years. Thanks to the internet, young people have started blogging and communicating in other ways on these themes but not without risks. Democracy in China seems far away. In the magazine “the Economist”’s index of democracy, China has position number 138 out of 168 countries.

## **3.2 India**

### **3.2.1.1. Facts on India**

India has about 1 billion inhabitants. It is the country in the world with the largest population after China. It is sometimes called the largest democracy in the world. “India is a federal republic, the president is Abdul Kalam and the Prime minister is Manmohan Singh. It became independent from the UK in 1947.

In India, 60% of the population is occupied within farming, services; 23%, industry 17%. The unemployment rate is 8,8% (2002). In India, 35% of the population is below the UN poverty line. Around 75% lives outside the cash economy. The modern middle-classes are about 50 million people today. The upper class consists of 5 million people. In Mumbai, the richest city in the country, half of the population live in the slum.” (Wikipedia, homepage). It is also important to note that the regions within India differ a lot when it comes to growth and welfare. Some regions like the Bangalore region and Kerala are more affluent than other regions in India. India has a growth rate of about 7% per year. India is rated as a free country on the Freedom House register, with a number 2 (the next best) for political rights, and a number 3 for civil rights. However, as stated above, a large number of citizens are living in absolute poverty, and the still-present cast system is suppressing a large part of Indias population. “Recently, the problems with the Naxalites, extremist Maoists groups have increased, having frequently attacked civilian targets during 2006, and in some reports they are now said to control as much as 20% of Indian territory. India has also a major problem with HIV/AIDS which is increasing rapidly, and the people infected by HIV/AIDS being

severely discriminated in their daily lives.” (Human Rights Watch homepage). India has severe border conflicts with its neighbour country, Pakistan.

### 3.2.2. Politics in India

#### 3.2.2.1 History

“The first prime minister in India was Jawaharlal Nehru, starting in 1947. Violence between hindues and muslims led to a division of the country, with the hindi India as one part and the muslim Pakistan, divided in West and Eastern Pakistan as the other. India became a secular republic in the Commonwealth. After independence, the Congress party, the party of Mahatma Gandhi and Jawaharlal Nehru ruled India, first with Nehru and then his daughter Indira Gandhi, and finally Indira Gandhis son Rajiv Gandhi as prime minister. The only exception to this was during two short periods during the 70s and the 80s. When Indira Gandhi was killed, her son took over as party leader in the Congress party. During the election campaign before the election in 1991, Rajiv Gandhi was killed by a female self-bomber. During the upcoming election, the result was so good for the congress party that they could start a coalition government. This was now under PV Narasimha Rao. In 1996, after a series of corruption scandals, the Congress party lost to the hindu nationalist Bharatiya Janata party became the largest party in the Lok Sabha. This lasted until 2004, when the Congressparty came back, with Rajiv Gandhis wife Sonja Gandhi in power.” (Wikipedia, homepage).

An important feature of India is the cast system. The word comes from Portuguese casta which means race or family. This was used to describe the situation in India, as the Portuguese found it in the 16<sup>th</sup> century. People are born in to a cast and within this you have to stay all your life, but if you are a woman, you can marry somebody of a higher cast. The cast system embraces social norms and values, and also choice of profession. In India today, there are thousands of casts. In an Indian village today, about 15-20 casts are present. The cast system is an important hindrance to a full-fledged democracy today, for example stopping people in generations to go on to higher education.

#### 3.2.2.2 Current situation

The Indian constitution says that the country is an independent, socialistic, secular and democratic republic, where basic civil rights are guaranteed. The federal people’s representation is dual, with the Rajya Sabha as the federal states organ and the Lok Sabha as the People’s direct organ. The prime minister has the executive power. The president has ceremonial tasks rather than pure power tasks. The elections for parliament take place every fifth year. The Rayja Sabha is renewed with 1/3 every other year. The central power in India is stronger than in most of the western federal states, but the federal states strengthened continuously their positions during the decades after 1947. (Wikipedia, homepage). Regarding welfare, it is important to note that over the last decades, the strategy of India has been to change the sectors of health and social welfare, India is not so much focusing on income growth to trickle down to social welfare like China. State planning is still a strong feature for India, both when it comes

to growth and to welfare. As we will see in the next chapter, India started out a massive reform-work in 1991, changing from a plan-economy to a more open and growth-oriented economy.

The magazine the Economist issued an index of democracy: a sort of rating of democratic states, in Nov. 2006. In this, India was ranked as a flawed democracy, on number 35 of 167 countries listed. Measured was: electoral process and pluralism, functioning of government, political participation. A study by the Economist is perhaps not a scientific study but it indicates something. In this case that India perhaps is not a perfect democracy but that it has other features as well

# 4. Analysis

## 4.1 Method

I will first compare China and India in terms of a) growth and b) welfare. Then, I will try to analyze, using democracy as an independent variable, the effects of democracy on economic development in both countries. I will try to use the “theoretical glasses” of both those who are for authoritarianism and those who are for democracy respectively.

## 4.2 Comparing India and China

In this thesis, economic development means development of growth and of welfare. In this chapter, India and China will be compared according to growth and welfare. India will represent a democracy and China an autocracy. Let us start with the perspective of growth.

## 4.3 Growth

Hereunder are some statistics to be found, taken from UNDP, related to growth. We can easily see, that China has a larger and faster growth rate than India. In 2004, Chinas GDP was about three times that of India’s. The growth rate is about three times as high as well. This seems to give truth to the hypothesis of a trade-off effect- namely that democratization impedes economic development.

HDI Rank	GDP US billions	GDP per capita US
Medium Human Development	2004	billions 2004
81 China	1,931.7	1,490
126 India	691.2	640

HDI Rank Medium Human Develop- ment	GDP per capita annual growth rate 1975-2004	GDP per capita year of highest value
81 China	8,4	2004
126 India	3,4	2004

HDI Rank Medium Human Develop- ment	Net foreign direct investment flows % of GDP
81 China	1.0 in 1990, 2.8 in 2004
126 India	0.1 in 1990, 0.8 in 2004

What are the reasons for Chinas success then? It seems that China has been able to slow down on consumption, and to stimulate investment. China has also been able to attract much more foreign investment than India has. The regime has also been able to keep the country in order and has pushed a strategy for fast change. If we look at China starting from the 50s when the republic was new, there has of course been some major economical reforms, some have been successful but others have been disasters, for example the Great Leap Forward, which was intended to push industrialization but turned out to be a massive disaster which caused starvation and the death of millions of people. “The Great Leap Forward aimed at modernising the countryside and the agriculture. The plans were ambitious, but the margins were too small and the resources not sufficient. The economical system was disturbed by bad harvests and by the fact that the Soviet Union discontinued the technical-industrial collaboration.” (Sigurdson, page 16). The Cultural Revolution, in 1966-78, proved to become another economical disaster as well as a disaster in many other ways. I would nevertheless like to note here, that, even if those two situations: the Great Leap Forward and the Cultural Revolution really were economical and human disasters, it is important to note that the reform work before and after them in the 50s-60s was not altogether hopeless. In fact, China’s economy grew during all those years. When Mao died and was succeeded by Deng Xiaoping in the late seventies, the economical reforms started to take capitalistic form. This has proven to be a success for China, and the current way of running the country as a socialistic country with a capitalist economy has so far proven to be very successful. The reforms were not a comprehensive strategy however, but started out as a series of urgent measures to be taken, to solve the problems which had risen during the Cultural Revolution. “One of the first reforms was to open up trade with the surrounding world. The foreign trade, which has risen from 4% of the GDP from the 70s to about 70% in 2006, represents today 7% of the total global trade. Another important reform was to



give the households in the countryside their own responsibility for production within agriculture. Through this, the farmers were able to sell their surplus on open markets and at the same time everybody could start companies within the sphere of agriculture. This was a continuation of what the Chinese leaders tried to achieve during the Great Leap Forward and the continuation of this after 1978. The early reforms were directed towards changing the price system and to diminish the direct control of the resources. Then, reforms followed to close companies without profit, and to gradually improve the banking system. Today the state controls only 30 % of the GDP and the state-owned part of the industry, which has diminished, consists mainly of about 200 large public companies. “ Sigurdson, page 26. “Chinas economical reform and the subsequent take-off began from the countryside. From the late 1970s to the mid-1980s it was not the cities but the rural areas that prospered. It was the redistribution of land that unleashed so much energy in 70% of the Chinese population at the time and formed the basis of the later urban reform. The again, from the mid-1990s, Chinese peasants lagged behind and were left behind, and the income gap between the cities and the countryside widened.” (Wenran Jiang, Expert Roundtable art. page 5). “An interesting fact is, that in 2003 and 2004 China was investing close to 50% of its GDP in domestic plant and equipment-roughly equivalent to India’s entire GDP. The evidence is as clear as ever: China’s growth stems from massive accumulation of resources, while India’s growth comes from increasing efficiency. “ (Steve Hamm, art. page 1)

Turning to India, we see a country with a too big bureaucracy, with an infrastructure which is not developed by far, and with an industry without dynamics. What has happened in form of IT development in India, has been a lucky draw. But still this is just an oasis in the economical landscape of India, and the FDI (foreign direct investment) which is one tenth of what goes to China every year. Nevertheless, something has definitely happened in India. Since the last two years, growth has taken off, and is not stuck at 2-3 % like before, but has risen to 6-7 % per year. The figures which Sigurdson uses in his book (from CIA The world factbook (2006), China-India chartbook, Deutsche Bank research 2005). are somewhat more recent than what I have found on UNDP so I would like to present them hereunder:

	China	India
Independence	October 1 <sup>st</sup> , 1949	August 15, 1947
Area	9 596 960 square km	3 287 590 square km
-cultivated land	14,86%	48,83%
-irrigated land	535 960 square km (37%)	558 080 square km (34%)
Population	1 313 973 000	1 095 351 000
-average age	32, 7	24,9
-population growth	0.59%	1,38%
-expected length of life	72,58	64,71
-largest etnical group	Han Chinese 91,9%	Hindi 72%
-Population in cities	39% (2003)	28%
-religion	Taoism, Konfuciansim and Buddhism dominate, but there are millions of Christians and muslims as well	Hinduism 80,5%, Islam 13,4%
-Knowledge of reading and writing	90,9%	59,5%

“India got, during the colonial government a legal system with independent and competent institutions, modelled on the British ones. The colonial powers gave India a stable currency and integrated the country in the international trade system, and in addition, built ports and railroads to support trade. The British also introduced a system that encouraged private companies. This led to that India developed an important basis of private companies. These were colonial companies to start with, but India had also, by the point of independence a lot of independent companies. By 1945, India was the 7<sup>th</sup> largest company in the world in terms of industrial production. A new era started when the country grew independent in 1947, but there was a great discussion on what economic policy to follow.” (Sigurdson, page 30) To analyse India, I think we have to remember something which seems a bit forgotten sometimes in the quite fiery debate upon which country to bet for in the future-India or China, that India, has had a long tradition of Soviet-style based economy. India never became a communist country politically, as China did, but for sure, it had quite a similar style of economy as Soviet, with, for example, five-year plans. In fact, India still has the 5-year plans in use. The thesis was that by planning, and seizing the control of the economy, the state could make the country’s economy to grow. “The first prime minister, Jawaharlal Nehru, introduced this socialistic model. The most important idea was to develop gradually and to prioritize the agriculture. Since there were no real reforms for agriculture the first big new steps were taken to economic reforms within industry, with companies governed by ministeries. Enormous resources went to building up the industrial infrastructure. An important part of the resources were five new technical institutes, established in different parts of the country plus a number of new colleges for civil engineering. “(Sigurdson page 31). During many years, India had virtually a very limited trade with

foreign countries, mainly the Soviet Union, and a barter trade, excluding payments, IE based on an exchange of goods. During the government of Indira Gandhi, which started in 1966, things started to change. A “green revolution” was carried out which increased the output of the agricultural sector and no more famines threatened. But Indira Gandhi was deeply sceptical towards anything un-Indian and many foreign companies left the Indian market. It was during Indira Gandhis days that India turned to Soviet for collaboration. This led to a flow of technological innovations in India but isolated India from the rest of the world. All this started to change in the early 1990s, which means that India, compared to China, has had only about 15 years to develop its economy and its growth, whereas China, starting in the early 80s, is about 10 years ahead. The result is that China has half of the poverty than India has today, (16%, compared to the 35% of India.) During the government of Rajiv Gandhi, the importance of technology was focused on and the telecom sector developed almost freely. But taxes were risen, and investments stopped .

### 4.4 Welfare

If we look at the China Human development report from 2005, (UN), we can see that the poverty rate for China fell from 31% in 1978 to 2.8% in 2004. For India, the change went from 60% in the 1950s to 19.7% in 2007. (expected). These are amazing results from both countries, and they seem to follow the growth situation; China is developing faster, but India is picking up.

HDI Rank Medium Human Develop- ment	Life expectancy at birth (years) 1970- 1975	Life expectancy at birth (years) 2000-2005
81 China	63,2	71,5
126 India	50,3	63,1

I have chosen to again look at some figures from the UNDP, statistics that is often used to measure welfare: life expectancy, mortality rates etc. Looking at life expectancy, we find that it has increased with 13 years in India over a period of thirty years. In China, it has grown with 8 years over the same period. (Starting out at a higher level). Still, life expectancy is about 8 years higher in China.

HDI Rank Medium Human Develop- ment	Infant mortality rate (per 1000 live births) 1970	Infant mortality rate (per 1000 live births) 2004
81 China	85	26
126 India	127	62

Looking at the infant mortality rate, we find that mortality rates are much lower in China than in India. IMR was in 2004 36 infants per 1000 live births more in India than in China. But in the 1970s, the discrepancy was more evident, consisting of 42 infants. This pattern repeats itself in the following tables: under five mortality rate, probability at birth of surviving to 65, and the Gini index. China is in the lead- but India is picking up, and the discrepancy was larger in the 1970s than it is now.

HDI Rank Medium Human Develop- ment	Under five mortality rate (per 1000 live births) 1970	Under five mortality rate (per 1000 live births) 2004
81 China	120	31
126 India	202	85

HDI Rank Medium Human Develop- ment	Probability at birth of surviving to age 65- female % of cohort 2000-2005	Probability at birth of surviving to age 65 -male % of cohort 2000-2005
81 China	81.3	74.2
126 India	67.4	59.2

HDI Rank	Public expenditure on health % of GDP 2003-2004	Public expenditure on education% of GDP
Medium Human Develop- ment	Data refer to the most recent year available during the period specified	Data refer to the most recent year available during the period specified. Data may not be comparable across countries because of differences in methods of data collection
81 China	2.0	2.2 in 1991,
126 India	1.2	3.7 in 1991 3.3 in 2002-04

HDI Rank	Inequality measures- Gini index 2004
Medium Human Develop- ment	A value of 0 represents equality and a value of 100 perfect inequality
81 China	32,5
126 India	44,7

China is performing better when it comes to social matters, health and infrastructure. India is recovering rapidly, since they started the work on the economic reforms in 1991, but China has higher values from the beginning regarding all factors I have looked at regarding welfare. It is also important to remember, that to sustain growth, human capital indicators are important. If we go back to the earlier chapter on growth, we see the same curves there-China is in the lead. This means that welfare is connected to economical growth, and that in its turn means that economical growth is more important to welfare than democracy, since India is a democracy and China is not. Something that perhaps must be mentioned is that in both countries, there are huge differences between regions. If you break down the measurements on welfare (as well as growth) in regions and provinces, you will see that the poorest regions in China are comparable with the richest regions in India. Of course, it would be better if this was not the case, for both countries, but it is not abnormal as I see it, most countries are divided in richer and poorer regions. And with time, spill-over effects are achieved. After WW2, Hong Kong was the major industrial zone in the south of China (although it belonged to the UK at the time), in the 1980s this changed and production moved to Guangdong. Now, production has moved from Guangdong to Guangxi and even further west in China.

Regarding welfare, it is important to note that over the last decades, the strategy of China has been to increase growth instead of public strategies on spending on health-care. The income growth is important, and the aim is for the taxes deriving from income growth to trickle its way down to social indicators. In India, the aim has been to change the sectors of health and social welfare. Both have been successful. Perhaps it is time for both countries to learn from each other- India working more on the raise of incomes and China on state planning for social policies? In fact, there are already signs that in China, welfare is now being charged for quite heavily, with operations costing thousands of yuan in some hospitals. "The authoritarian nature of Chinese politics has permitted an abrupt reduction in the social security provisions that had contributed so much to China's earlier successes". (Amartya Sen, Jean Drèze, page 220.)

## 4.5 Analysis

After all these facts on China and India, on growth and welfare, it is now easy to draw the conclusion that China is far ahead of India, both in terms of growth and welfare. The reasons for this have also been discussed above. The question is then, what role does democracy play? How would India have developed if it had been an autocracy, and how would China have developed as a democracy?

If we look at this through a pair of glasses sceptical towards democracy, the answer would probably be as follows: India, had it been able to start out its independence with firm, strong institutions, and a one party system, or without a party at all, would probably have been able to concentrate on economic development to a much larger

extent than today. “To look further at Indias background, which says a lot about its present and probably about the future; it is important to note, that, while in most other countries, democracy has followed capitalism, this is not the case in India, where voting rights came long before the development of capitalist institutions. (Gurcharan Das, Democracy and capitalism in India, art page 1). “Because of the unique historical reversal in India, populist pressures for redistributing the pie essentially built up before it was baked. Yes-we set up intricate regulatory networks-but we did so before the private economy had transformed a rural into an industrial society. We began to think in terms of “welfare” before there were welfare-generating jobs. “ (Gurcharan Das, art, page 1)

In terms of growth, India could have done much better, being able to focus on building-up industries, infrastructure etc, increasing its exports as well as its FDI. Welfare would probably have followed, with more people employed, taxes coming in to be directed to health care, education needed also for people in the lower classes. The problems facing India in terms of AIDS/HIV, unemployment, hunger, could have been dealt with in more efficient ways. Also, terrorism, the Naxalits etc could have been dealt with a little more firmly.

If we look at India and are positive towards democracy; India has developed well, considering all the obstacles it had: the colonial background with all the former leaders being British, the old cast system which people are so reluctant to do away with, and perhaps the most of all: the bad rule with disastrous ideas for economic development.

“ Is India ’s slower growth then a price of democracy? Not so. Democracy neither causes nor depends on economic growth. Indias economic sluggishness for four decades was due to bad policies, not weaknesses inherent in democracy,. Policies of economic autarky, import substitution and industrial licensing; fear of foreign investment; and rejection of market principles were conscious choices made by the ruling elite that had nothing to do with liberal democracy per se. (Ramesh Takur, Democracy vs. GDP growth art. in UNU update page 1).

An interesting thing is that the economic performance of both countries, India and China, changed dramatically without any change in their basic political systems, once they abandoned their old socialist dogmas, deregulated their economies by adopting market principles and engaged with the international economy. China did this earlier, and so its growth has been longer and its share of the world trade is the more substantial. (Ramesh Takur, page 1.) “ The question is, why then, is India gaining strength? Economists and analysts have habitually derided India’s ability to attract FDI...An economic litmus test is not whether a country can attract a lot of FDI but whether it has a business environment that nurtures entrepreneurship, supports healthy competition and is relatively free of heavy-handed political intervention. In this regard, India has done a better job than China. (Steve Hamm art. page 2).

Through the ability of the people to vote away governments which are not to their liking, India has, though not as extraordinarily as China, been able to achieve a sustainable growth, a good welfare system. Famines have been avoided, a free press has been kept and India is a safe country to invest in, unlike China where an upheaval from the people is always imminent. Disasters have and can be avoided through this.

If we try to look on China with the negative glasses on to democracy, we find that the development of growth and welfare of China is astonishing. China is doing remarkably

well on all accounts. “In the last quarter century, it has produced the biggest rise in incomes for the biggest number of people in human history.” (Ramesh Thakur, art. page. 1). Order and stability furthers China, there is no opposition to disturb. The political climate is stable, focused and everyone is aiming for the same goal-economical development. China can concentrate on the financial achievements, which means that welfare follows growth, taxes are being paid and education and health care is provided to the whole population. Had China been a democracy, the focus had been to organize parties, elections etc and the economical focus had been lost. The uncertainty had been difficult to handle, even a civil war could have threatened China. Consumption could not have been curbed, investments would diminish, especially from abroad. The economy would heat up dangerously.

If we are positive on democracy in China, we could state that:

In a democracy, the Chinese people would finally get their freedom back after all these years of suppression. With the confirmation of the economical reforms and the opening up to the surrounding world, China would be a much more stable society, with a population able to participate in the development. An open press, free media, no censorship on the Internet would create a solid ground for a government. Human rights could prosper. A strong state is often a democratic state. More investment in basic human needs is good for economic growth. China has quite a large population today which is not included in what goes on the Eastern coast, people who are still very poor in the countryside. To lift up these areas, democracy would be of big help. Also in the cities today, the situation for a lot of people is precarious. With the embrace of the liberal economy, the access to welfare now rapidly diminishes. Hospitals, schools, kindergartens are becoming privatized. The tax pressure on the individuals is already cumbersome. To avoid the differences between enormously rich and likewise poor, a democracy could be of a lot of value in China today. “China built its infrastructure after rather than before- many years of economic growth and accumulation of financial resources. For sustainable economic development, the quality and quantity of human capital will matter far more than those of physical capital. India seems to have many good policy priorities and if China does not invest in rural education soon, it may lose its true competitive edge over India- a well-educated and skilled workforce that drives the manufacturing success” ( Steve Hamm, art page 3).

## 5. Conclusions

The conclusions of the analysis are the following: China is in the lead when it comes to both growth and welfare. India is picking up. The most important change started for China in 1979 and for India in 1991, the years those countries changed away from a Soviet-style economy. There is no scientific proof that a democracy enhances economical development and no

proof that an autocracy does so either. FDI is much higher in china, so apparently foreign countries sees china as a safer place to invest, although China is not a democracy. Instead, it seems to be the economical planning of the two governments which is crucial to the economical development of the countries. This means that the hypotheses stated in the beginning of the thesis: **Democracy is not the determinating factor for domestic economic development in India and China** is correct.

Evidently, China has a lot to learn from India and India has a lot to learn from China how to establish growth and welfare. They have both succeeded in different ways. China has achieved those two elements quicker and more substantially than India. But perhaps India has the most sustainable development, when it comes to health care and education etc. Perhaps it is not enough to look at the GDP growth and welfare in India and China. The political future is also very important, and to try to analyze those processes will probably be more and more important. Many scientists believe that democracy will have to increase in China with the growing middle-class. They will want to have greater influence over politics, greater civil rights. Hu Jintao is expected to leave office in 2012. Perhaps then, with the new generation, a shift to democracy will be possible. Or perhaps this is going to happen after a couple of generations. Perhaps China will not become a democracy as we in the West see it, but will slowly move to a society like Singapore, an autocracy with democratic elements. It would be better than the repressive regime China has today. But it would not be a fair development for the Chinese people. India seems a more stable nation, with political upheavals from time to time but going in the right direction. If the wealth that accumulates in India now could reach more people, in all the classes and all the regions, this would of course be so much better. Perhaps this is the real challenge for India in the future.

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