

Democracy or Dictatorship?

Path to Economic Modernity of China and India

Kieran Jeffrey, Oxford Brookes University

Balance of Power



China	India
<ul style="list-style-type: none">Formed: 1949 (PRC)Population: 1.36 BillionGDP (\$): 9.24 TrillionSystem: Authoritarian	<ul style="list-style-type: none">Formed: 1947 (Independence)Population: 1.25 BillionGDP (\$): 1.87 TrillionSystem: Democratic

Variables:

- Leadership** – Dynamic leaders such as China’s Deng Xiaoping helped China to grow at an accelerated rate in comparison to India. Deng (Right) masterfully outmaneuvered his opponents allowing him to operate from a position of strength and stability. India lacked such a leader, suffering from years of bureaucracy and protectionism.
- Foreign Direct Investment (FDI)** – China established itself through its Special Economic Zones (SEZs) and coastal programs as a hotspot of investment, attracting plentiful supplies of FDI throughout the 1990’s. In India a strong sense of nationalism alienated foreign investors until the macroeconomic reforms of 1991.
 - Agriculture** – Both countries were heavily reliant on agriculture for its GDP, however from 1980-2000, the agriculture sector declined in significance. China transferred the additional resources from agriculture directly to manufacturing, an industry which it has come to dominate in recent years. Due to India’s sluggish industrial development, when agriculture declined, it was unable to restructure as efficiently as China causing it stagnate in China’s wake.



Background:

The two most populous countries on earth, China and India, have both begun jockeying for position on the world’s global stage. *Why does it matter?* India is democratic, China is authoritarian. The winner of this race will not only have an immediate impact on the diplomatic balance of power but act as a credible model for any country wishing to further its own development, creating a huge domino effect that could see dozens of countries converting to either democratic or authoritarian governments. To call it high stakes would be an understatement.

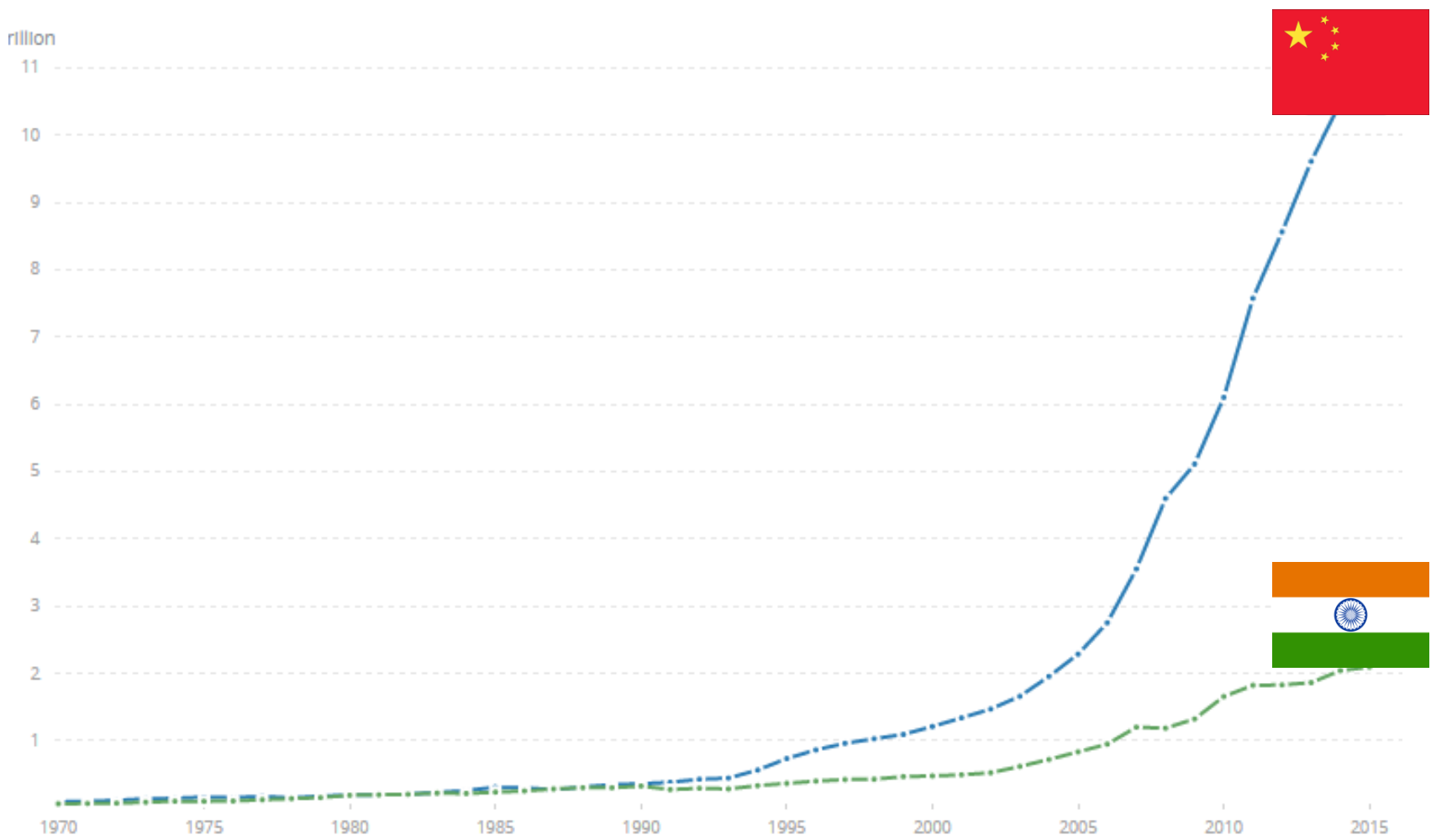


Figure 1.

GDP (Current US\$)
1970 - 2015
Source: World Bank

References

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Conclusions:

China’s authoritarian political system gave a significant head start over India, allowing it quickly transition from an agriculture to manufacturing, allowing it to attract vital economic resources in the form of FDI. This FDI allowed China to significantly advance towards economic modernity before India had even began reforming towards economic liberalization. Leadership is also important since it was Deng and his advisers who had the foresight and experience to execute the reforms that attracted the FDI which kick started its development.

Despite utilizing some impressive economic expertise during the 1991-92 budgets, India for the majority of the period, lacked a leader as effective as Deng and was held back by bureaucracy until crisis cleared the red tape for significant reform. It is a case of India fighting over the power it already had whereas China was more ambitious, driving on towards economic modernity whilst India sat and argued.