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A China-India Comparative Perspective

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Introduction

The Chinese developmental model has attracted widespread attention. It has seven distinctive features. First, is an essentially capitalist development under decisive authoritarian leadership and purposive governance. Second, it is a vertical production structure where basic capital goods are produced in monopoly state-owned enterprises and the much-larger rest of the economy is under private ownership often connected with local party officials dispensing local monopoly rights. Third, at least in the post-Mao decades China is politically stable in relative terms. Fourth, the model is characterized by stateguided nationalist industrial policy and finance, subsidized access to land and credit for business, repression of labor rights and of yield on household financial savings. Fifth, there are massive investments in infrastructure funded by a very high national savings rate (particularly because of large undistributed profits of companies). Notably, per capita stock of government investment in fixed assets in 2017 was larger than that in Germany or UK, and five times that in India. Sixth, one notes rural industrialization in a decentralized framework with acute competition over jurisdiction, particularly in the early decades after reform. Seventh, there is openness to foreign trade and acquisitions and learning from foreign technology.

This model has produced a rapid pace of economic growth over the last three decades and lifted hundreds of millions of people above the poverty line – undoubtedly a spectacular historic feat for any developing country. The recent slowing of the growth rate does not tarnish the long-term shining performance. I believe that the Chinese governance system is a crucial part of the China development model. In this paper, I shall concentrate on its special features, both positive and negative, which tend to be overlooked in the simplistic discussion on authoritarianism vs. democracy that tends to dominate the usual observations on the system. Authoritarianism is neither necessary nor sufficient for some of those special features. In many ways these features undergirding the Chinese polity and economy are quite distinctive, and their roots go long back in history. Similarly, I believe that some of the dysfunctionality of Indian governance is not inherent in its democratic process.

I shall focus here on the aspects of Chinese governance that affect economic development and less on clearly repressive surveillance state aspects and gross abuse of basic human rights. In the following, I will elaborate on three aspects in greater detail: 1) the internal organization of government, 2) the abuse of governance and corruption and 3) the decentralized structures and practices.

I Internal Organization of Government

Political Meritocracy

It is often pointed out that unlike in most authoritarian countries, China has a political meritocracy: recruitment of officials on the basis of examinations, and performance incentives through career promotion – local economic growth being a major criterion. China's dramatic success has now convinced even some western scholars¹ as well as the members of the Chinese elite that the political meritocracy in China can achieve and perform as good as (or even better than) a multi-party democracy. This is an issue of special urgency at a time when there is widespread lack of confidence in democracy. Not merely are officials in China selected on the basis of an examination system that goes way back in imperial history, their career promotion depends on how well the local economy performs. This works better than in, for example, democratic India's top administrative system, where promotion is based more on seniority than on performance, even though recruitment is on the basis of civil service examinations.

An immediate question that arises is: Who defines what is 'meritorious' and what is not in the political system? It is possible that what may look like meritorious performance to the Chinese Party elite and its Central Organization Department, *Zhongzubu*, may not be considered so by many others in the general population, particularly in a large country with inevitable diversities and conflicts of objectives. Not to speak of the outlying regions where performance by centrally appointed provincial leaders considered meritorious by the Party may not be judged so by ethnic groups like Tibetans or Uighurs. In general, how do we know what people consider as meritorious without institutions of downward accountability? One of the distinctive features of democracy is that the criteria of meritorious performance arise out of open public discussion. Thus, how much of a political leadership's performance is meritorious may include considerations of pluralism and

¹ See for example- Bell, Daniel. A. (2016). *The China model: Political meritocracy and the limits of democracy*. Princeton, New Jersey: Princeton University Press.

inclusiveness in the decision process itself. Democratic performance emphasizes the process as much as the outcome. In this process, citizens in a democracy are not treated as children: what is good for them is not decided by a patrimonial leadership, as is the case much too often in China (or Singapore). This is valid even when the latter leadership is very wise and benevolent. Also in a democracy, the performance criteria are much more multi-faceted reflecting the pluralist agenda – it is uncommon to reward an official mainly on the basis of the growth rate of the local economy – and thus the incentives get diluted and are less effective. The same thing is happening in China now when other criteria (like environmental goals) enter performance evaluation.

Performance vs. Loyalty

The general understanding is that career concerns of top officials act as a key determinant of economic growth at the local level, particularly the county and prefecture levels. And job rotation of officials at that level provides useful on-the-job training at diverse localities. Of course such performance incentives also generate plenty of side income or rent-earning opportunities (for example, from sales of local government land and mining rights), which while helping local revenue also enables private illicit income for officials.

What about the large numbers of the rank and file of public employees, who mostly remain in one place and for whom career incentives through promotion are not that relevant? The evidence suggests that they help themselves to all kinds of supplemental compensations, perks and benefits making up for low salaries. In other authoritarian countries such systems of supplemental compensation sometimes degenerate into local loot and plunder – the proverbial extreme case is that of Zaire under Mobutu where soldiers and bureaucrats were not paid but left to fend for themselves (this tradition largely continues in the Democratic Republic of Congo even today). It is likely that in China this system for the low-level officials was constrained from being excessive by the career concerns of the top local leaders.

But a less well-known factor about the Chinese promotion system is this: As one climbs up the political ladder, to the provincial levels and beyond, the performance factor seems to diminish in importance in career prospects, and the factor of political connections assumes significance – this is suggested, for example, by Landry, Lu and Duan (2017) from an analysis of a comprehensive dataset of political appointments at the provincial, prefectural

and county levels. They find that the link between economic performance – in terms of GDP and revenue growth – and promotion is the strongest for county officials, significant for municipal officials, and insignificant for provincial officials. Similarly, from a comprehensive biographical database of all provincial leaders from 1978 until 2012 and an analysis of their promotion patterns, Su, He and Tao (2016) find no evidence supporting the claim that competence has played much of a role in the central personnel decisions. Instead links with the Politburo members or family connection with senior Party leaders are more important.

There are also *quid pro quo* transactions. Using data of over a million land transactions during 2004-16, Chen and Kung (2019) have shown that provincial Party secretaries in selling local government land gave firms linked with Politburo members nearly 60% price discounts compared to others (and an even more substantial discount to the firms of members of the top Standing Committee of the Politburo). In return, such discount-givers were estimated to be 23% more likely to be promoted to positions of national leadership (in general, the larger the discount the higher the chance of promotion).

The recent crackdowns have somewhat reduced the chances for such promotions. In any case, such a general system of promotion has at least one important implication compared to other countries: Since performance incentives operate at least at the lower levels, higher-level leaders, even when they are selected on the basis of their loyalty to the current leadership at the top, are likely to have some measure of field-tested competence and experience. This balance of performance and loyalty over an official's career path leads to a major advantage that China enjoys in the quality of its bureaucracy, compared to many other countries (including, say US or India), not to speak of many authoritarian countries where loyalty rules over minimum competence. Of course, this also means that competent officials who are not sufficiently well-connected to the top current leadership in China may reach a 'glass ceiling'. Some of them may then turn to alternative ways of earning rewards (including some corrupt ways). These corrupt ways have now been substantially curbed in the recent anti-corruption campaigns. There is even some evidence that high-performers connected to previous top leaderships were particularly likely to be investigated, although the campaigns have gone much beyond merely penalizing rival power groups.

In India, meritocratically recruited bureaucrats are manipulatively transferred. The threat of transfer to unattractive departments or locations acts to ensure loyalty to their political masters. The lure of post-retirement plum jobs for ex-bureaucrats assigned by political leaders also work to keep the former pliant. This often means that junior officers underinvest in acquiring expertise. One hears about corrupt deals between Indian politicians and bureaucrats in the process of 'transfers and postings'. There are also stories about vertical corrupt transactions in buying and selling of positions in the Chinese bureaucracy, some of which have been revealed in the recent anti-corruption campaigns – from the data one finds vertical correlation between corruption indictments at higher and lower levels across provinces. In India such corruption may be somewhat more subject to public scrutiny by media, social movements, and investigative agencies, which are usually more open and intense than in China. In the UK such manipulative transfers are less common. The system in the USA, on the other hand, is characterized by high turnover of senior civil servants (long before firing by twitter under the current President).

The political-bureaucratic distinction particularly at higher levels is, of course, blurred in China, as the Party is supreme. But even in Western democracies the political control over senior appointments and promotions in public service has increased over time. Even in the UK, the insulation of career civil service has declined somewhat, and this insulation has always been much weaker in the USA than in the UK (or Denmark or New Zealand). The issue of political control pertains not just to the civil service, but also to the various regulatory bodies that any complex economy requires – like the entities that regulate public utilities (e.g. electricity, civil aviation, telecommunication, etc.) and apex bodies regulating monetary or environmental policy or financial markets. Decisions in such regulatory bodies need special expertise and some insulation from the day-to-day political pressures and some independence from political interference. Such independence is often completely lacking in the Chinese system – commitment to independence even when earnestly announced by the political leadership is not ultimately credible. But even in democracies the balance between autonomous experts and the need for periodic public review of their decisions to ensure accountability has been difficult to achieve. In India there are very few genuinely independent regulatory bodies (even apart from the problem of their capture by generalist IAS officers). Even the semi-independence of the Reserve Bank of India has been under attack. There is also the issue of breadth of representation in the regulatory bodies.

Organizational capacity of the state is usually assumed to be much higher in China than in India: First, the Indian state for all the stories about over-bureaucratization is surprisingly small in terms of the number of public employees per capita, and unfilled vacancies in the Indian staffing of police, judiciary and bureaucracy are numerous – to a large extent these reflect the low tax revenue-raising capacity following from what for a major economy is an unusually large informal sector. Secondly, state capacity also varies between different types of state functions. The Indian state shows extraordinary capacity in some large episodic matters, like organizing the complex logistics of

- the world's largest elections (with an assertive electorate of nearly 900 million)
- the world's second largest Census
- some of the world's largest religious festivals
- preparing the unique biometric identification of more than a billion people in a short span of years (though it is frayed at the edges)

But the state displays poor capacity in, for example, some regular essential activities like cost-effective pricing and distribution of electricity. This is not because of a lack of capable people, but more because local political considerations interfere in matters like underrecovery of costs from a large and politically sensitive customer base. In both China and India, the police and bureaucracy are often deliberately incapacitated and made to serve short-term political goals of leaders.

Organizational capacity to foster technological innovations

In terms of the governance capacity to foster technological innovations, China has advanced much more than India, especially with regard to:

- R&D as percentage of GDP (more than twice that of India; largely government subsidized; public R&D support often neglects small and medium enterprises);
- restructuring and upgrading of elite universities;
- measures of progress in science and technology

China, of course, has been very successful in the 'catching-up' process of development, of learning and imitating off-the-shelf technology. In some day-to-day application and enhancement of existing technology (mobile payment, e-commerce, transport, etc.) China is now more advanced than the US.

A patent problem Foreign-oriented patent families* Quality of innovation Based on three measures, each scored out of a maximum of 100, 2014 100 Patent families filed in Average score of **United States** at least three offices top 3 universities Index of scientific articles and citations 50 100 150 200 250 300 60 United States South 40 Korea Germany Japan China South Korea Brazil China 0 India 12 1970 80 90 2000 *Those with at least one filing office outside the applicant's country of origin Source: WIPO conomist.com

Figure 1: Patent Families and the Quality of Innovation

Source: The Economist, 2016

 $\underline{https://www.economist.com/sites/default/files/imagecache/original-size/images/printedition/20150912_SRC210.png$

The major technological race between China and the West is currently in areas like artificial intelligence, chip-making, and biotechnology. But in any future advances beyond the existing technological frontier China has a major advantage and a major disadvantage: The *advantage* follows from the large size of the population and of the domestic market. Innovations (like those involving artificial intelligence and machine learning) that thrive on economies of scale, network externalities and big data feedback loops will find hospitable ground in China. India also has potentially this size advantage, but at the moment it is far behind, and much of its research administration is much too bureaucratically hamstrung for progress to be rapid. The *disadvantage* for China follows from the lack of an open system that could encourage free spirit, critical thinking, challenging of incumbent organizations and methods, and diversity rather than conformity. These are necessary ingredients of many types of creative innovations. The current system of state promotion and guidance of globally successful large private technological enterprises (Alibaba, Tencent, etc.) is worth examining from this point of view. On the one hand, the state wants them to be 'national champions', on the other hand, it does not want them to be

autonomously powerful enough to be outside the ambit of its control, supervision, and surveillance.

Will the Chinese state allow the full forces of 'creative destruction' that Schumpeterians associate with innovations? Will an autonomously successful firm be considered too 'independent' for the comfort of the Party? Are today's successful incumbent firms (private or public) 'too big to fail', or in the case of clusters, 'too many to fail'? Will the Party consider a major commercial failure or a prolonged stock market slump as a sign of lack of confidence in the all-powerful Party? What will be the role of venture-capital funds? (There are inherent problems of state-run or -controlled venture-capital funds).

It also depends on the nature of future innovations. Some innovations are of the 'disruptive' kind that challenge incumbent firms (which the US private innovators in collaboration with venture capitalists are good at and a politically connected large entrenched organization usually is not). Other innovations are of the steady 'incremental' kind that adds up to significant gains (the Japanese call it kaizen), in which some large organizations in Germany, Japan and South Korea have excelled. It is likely that the Chinese system is more conducive to this incremental kind of innovations.

Upward vs. Downward Accountability

Even though at the top level between the provincial and the central leadership in China, there is some degree of reciprocal accountability as provincial officials constitute about half of the Central Committee of the Party that elects Politburo members, it is probably correct to say that the Chinese system is by and large one of upward accountability. Downward accountability provides more political legitimacy to democratic governments, but such accountability can sometimes degenerate into pandering to short-run interests and pressure groups, particularly at election time. Short-run cyclical official behavior before the Party Congress is not unknown in China, but in general it is much easier for leaders to take long-run decisions under the Chinese governance system. But a severe flaw of the upwardly accountable Chinese system is that mistakes in such top-level decisions or outright abuses of power (in collaboration with crony business interests) take longer to detect and to correct (as the flow of information upward is tortuous or choked and the tendency to cover up is often too strong). The recent abolition of term limits for the President and the decline of the collective leadership that Deng Xiaoping had put in place

will make this problem more acute. In multi-party democracies the open adversarial relation between the government and opposition parties and the free media usually uncovers the mistakes and abuses much sooner, and corrections are prompted by public protests, agitations, and ultimately electoral sanctions.

Systemic Stability

One concern about the Chinese governance system is about the mechanism through which a system that can go off-equilibrium on account of various kinds of political or economic shocks is restored to equilibrium. In the face of a crisis the Chinese state often tends to over-react, suppress information and act heavy-handedly, thereby sometimes magnifying the dimensions of the crisis. This also generates low tolerance for short-run economic volatility and the rush to reckless fiscal policies that exacerbate the staggering problems of capital misallocation that China faces. The institutional mechanisms for structural reform have now become particularly weaker, as the resolution of internal governance conflicts is now more dependent on personalized channels.

There also remains the larger institutional issue that China has faced throughout history: how to institutionally guarantee the rule of a 'good emperor', as opposed to a 'bad emperor', or that of a good emperor not turning bad. The recent disruption in the conventions of collective leadership and the acceleration of the cult of personality in leadership can only worsen this problem. As the economy becomes more complex and social relations become more convoluted and intense, the absence of transparent and accountable processes and the attempts by a 'control-freak' leadership to force lockstep conformity and discipline will generate acute tension, conflicts, and informational inefficiency. In India, despite all the recent ominous signs of a democracy sliding into a form of a majoritarian 'mobocracy', it is probably still correct to say that the system structurally remains somewhat more resilient than in China.

II Abuse of Governance and Corruption

Business-Politician Nexus in Governance

Over the last quarter century, there has been a tight, often collusive, relationship between business and politicians in China. This is evident from frequent interchanging of positions between executives in public sector companies and the Party's Central Committee. Furthermore, some of China's richest private businessmen are members of the National People's Congress (China's Parliament) and the People's Political Consultative Conference, an important advisory body. The average net worth of the richest 70 members of the National People's Congress in China is several times that for the richest 70 members of the US Congress or the Indian Lok Sabha. There are accounts of large "donations" made before such businessmen are selected for these bodies in China. This is apart from the influence of the top political families ("princelings") who have long been in lucrative business. The ownership of many private companies is so murky and intertwined with the public-sector companies that it is often difficult to keep track of the boundaries of the business-politics nexus.

The business-politician nexus is, of course, quite common in India. Of the current ruling party Members of Parliament in India about half are businessmen, the corresponding percentage for MP's of all parties taken together is about a quarter. (There is also evidence that people from other occupations, once elected, often turn to business, particularly of the kind that thrive on political connections and networks). The businessmen bring their own money for election campaigns and other political expenditure, and company donations to party funds for election are large, and now, under the anonymous election bond system, openly non-transparent.

Both countries have similar patterns of rampant influence-peddling, policy manipulation, politically connected firms getting favors in loans from public banks and access to prize real estate, monopoly mining rights, etc. China being more involved in construction and infrastructure activities, which are usually "rent-thick", there is more scope for corruption.

Even to take an example from a different area, like public health: Drug prices are usually much higher in China than in India, even though the single-payer system in Chinese health care should have given the government more bargaining advantage vis-a-vis the drug companies. People attribute this to the more entrenched kickback system between drug companies and doctors, hospitals, and officials in China.

It is likely that the business-politician collusion in governance is somewhat more subject to public scrutiny in India than China, and the courts are more independent in India (though clogged and corrupt, particularly at the lower levels). The scrutiny of collusive behavior by

Indian media is now under some shadow with the concentration of its business ownership. Also, it should be mentioned that the relation with the all-powerful Party is somewhat precarious for the Chinese business tycoons, as political disloyalty or even suspected 'independence' is punished more harshly than in India. Indian politicians may be a bit more dependent on businessmen particularly in view of election funding.

III Decentralized Structures and Practices

Chinese political centralization (in the imperial authority in the past and in that of the Party in recent decades) has been historically tempered by a unique blending of political centralization with economic and administrative decentralization — another distinctive feature of the Chinese governance system. Xu (2011) has described the system as 'regionally decentralized authoritarianism', in contrast to most authoritarian systems that are highly centralized. India in some sense is the obverse — combining political decentralization (regional power groupings have been quite strong in recent decades) with economic centralization (the vertical fiscal imbalance, for example, is quite severe). China has much better modes of management of infrastructure financing and construction at the local level. For example, urban infrastructure is constructed, operated, and maintained by separate companies set up by the city government, whereas in India the municipal government itself does it through its own departments. The latter are financially strapped, as they do not have much taxation power and are perpetually dependent on the state government for funds.

In general, even after the centralizing reforms in 1994, the fiscal system is much more decentralized in China, where sub-provincial levels of government tend to spend about 60% of total government budgetary expenditure, compared to less than 10 per cent in India (this is not including the large off-budget revenue-raising and expenditure of local governments in China). The much worse performance of sub-provincial local bodies in India in the last-mile delivery of public services and facilities is partly attributable to this (even though Chinese local governments have also much larger responsibility for infrastructure-building and public services). Chinese local government is much more involved in local business development, not just in public services delivery. A few years back when the private automaker, Zhejiang Geely Holding Group, bought up the Swedish car company Volvo in

a widely publicized move, much of the money was actually provided by the local municipal government – something unthinkable in India.

Jurisdictional competition for mobile resources and business and regional competition in growth rates influencing career promotion of officials have played a very important role in Chinese local development. But in recent years the pace of experimentation and trial-and-error pilot projects in local areas, which characterized the early reform period, has slowed down — according to some provincial-level evidence. The current regime is more centralized and personal loyalty-based leadership has made experimentation even more difficult. This is on top of the policy paralysis of a bureaucracy made nervous by the massive anti-corruption campaigns.

A growing literature in decentralization all over the world has pointed to the problem of capture of local governments by the elite (including officials and intermediaries) and the frequent diversion of benefits and resources to non-target groups. In India, there is plenty of evidence of landed interests undermining decentralized welfare programs for the poor, apart from state political administration and MLA's hampering devolution of power to the panchayats.

China's more egalitarian land use rights distribution after de-collectivization may have prevented the rise of a landed oligarchy that has often captured local governments in parts of rural India. However, in recent decades Chinese decentralization has not been able to avoid the problem of serious local elite capture. Chinese local business in collusion with local officials has been at the root of problems of arbitrary land acquisition, toxic pollution, and violation of safety standards in food and in work for factories and mines. Such collusion is much more rampant in China than, say, in India, primarily because China has fewer checks from below on abuse of power. On safety standards, for example, Chinese coalmine death rates are reported to be 15 times higher than that in India. In general, there is now systematic evidence that politically connected firms in China have higher workplace fatalities. There are also fewer checks on debt-fueled overinvestment and excess capacity in local government-controlled or politically connected firms (currently a source of major macro-economic problems in China). China's central leadership is now trying to control the debt problem of local governments and their dependence on the shadow banking system.

Political centralization in China is embodied in the all-powerful Party at the center. In India for many decades much of the political centralization has been at the state level vis-à-vis the village and municipal levels. While Indian panchayat and municipal elections are more vigorous than before (partly because local governments now get more money flowing from above, particularly on central or state sponsored projects), it is not clear that the forces of devolution of authority to the ground level have become any stronger. This is partly because the 73rd and 74th Constitutional amendments² left much of the discretion on devolution in the hands of the state governments, which, with the possible exception of Kerala, have not shown much of an inclination to share power with the locally elected officials. In many states politically the local Members of the Legislative Assembly (MLA), and administratively the local Block Development Officer (BDO), are more important than the panchayat Pradhan in local development projects. For funds Indian cities largely depend on state and central government grants. Their mayors and councils cannot hire or fire their own management teams; they have very limited freedom to invest or borrow. The other systemic reason is that almost all the political parties in India are internally undemocratic and extremely hierarchical, and you don't expect them to further the cause of genuine local democracy that may possibly compete with the top-down authority structure inside political parties. The contests in local elections even in distant villages and towns are often around state-level issues and personalities. Of course, when party tickets are distributed the higher authorities do take local 'winnability' into account, but that is structurally different from proper institutionalized devolution.

Conclusion

Governance in India and China is hard to compare. First, even though comparing governance in differing political systems is challenging, we can point to the strengths and weaknesses of the two systems. Second, Chinese leadership at the grassroots level may be selected meritocratically but this consideration becomes less significant as officials climb the political hierarchy. India's bureaucracy, on the other hand, though selected based on merit, can be used by politicians for perverse ends by using the instrument of transfers.

² These amendments provided constitutionally mandated power and protection to both rural and urban local bodies.

Third, the Chinese system has upward but not downward accountability in the same way as the Indian system. Fourth, the politician-business nexus poses a challenge in both countries but China is threatened by the lack of a free media that can report these matters. Finally, the Chinese system is much more devolved to the local level, whereas Indian finances are devolved largely to the level of the provinces, not so much to the subprovincial levels. Elite capture at the local level does pose a challenge to advantages of decentralized decision-making in China. This paper points to both to the challenge and possibility of making such comparisons.

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