The Year of the Tiger might seem an impertinent moment to question the sustainability of the power trajectories that China and India are now riding. After all, both emerged as the star performers of the international economy over the last decade and seemingly came through the global recession all the stronger. According to the International Monetary Fund’s latest projections, China’s economy will expand around 10 percent per year in the next two years, while India will grow around 8 percent in the same period—both far more rapid rates than more advanced economies can expect. Moreover, the growing economic clout of Beijing and New Delhi is reshaping long-established global governance structures, as illustrated by recent decisions to supplant the Group of Seven (G-7) nations with the Group of 20 (G-20) and to increase their voting power at the World Bank and the IMF.

For grand strategists, policy pundits and business analysts, China and India are now firmly conjoined as the twin titans of the dawning Asian Century. The dominant narrative is how their spectacular, nearly simultaneous, economic rise is propelling an epochal and inexorable realignment of world power. Global Trends 2025, a recent study issued by the US National Intelligence Council, concludes that growing prosperity in the two countries has catalyzed a “global shift in relative wealth and economic power … [that] is without precedent in modern history.” A Financial Times columnist argues that “the march of power from west to east has become the central, unnerving fact of geopolitical life.” The head of a multinational bank says that the global recession “has accelerated the shift of economic power from the West to [the] East. This is irreversible.” Both countries are the prime drivers in Fareed Zakaria’s “Rise of the Rest” saga that posits a “post-American” world, as well as the main protagonists in the ubiquitously cited “BRICs” epic propagated by Goldman Sachs—the idea that Brazil, Russia, India and China are set to reshape the global economic balance. Even President Barack Obama has joined the chorus, regularly pointing to China and India’s swift climb as a way to push domestic reform in the US.

The sense that the geo-economic landscape is being altered has also led to a rash of high-level corporate redeployments. In 2006, IBM shifted its global procurement headquarters from the state of New York to the Chinese city of Shenzhen. More recently, the head of HSBC relocated from London to Hong Kong and the chief technology officer of Applied Materials, one of Silicon Valley’s premier companies, took up new residence in Beijing. Cisco Systems, another Silicon Valley powerhouse, has established its eastern hemisphere headquarters in Bangalore, where a fifth of the company’s senior executives, including the chief globalization officer, are now based.

A sprawling cottage industry has sprung up to discuss the rise of China and India, with hundreds of books and thousands of articles proffering advice on how business leaders can capitalize on this development and how national policymakers should adjust to the attendant geopolitical implications. A debate has also emerged over wheth-
Bardhan takes aim at the hype and oversimplifications that he believes afflict media accounts of the two economies. He argues that China’s rise owes more to internal dynamism than to its ballyhooed integration with the global economy.

Of the three books, Pranab Bardhan’s *Awakening Giants, Feet of Clay* and Wendy Dobson’s *Gravity Shift* are the most similar in structure and outlook. Each provides an incisive, data-rich survey of the two economies, largely organized based on a sector-by-sector comparison. Bardhan, a professor of economics at the University of California at Berkeley, has written a slim volume with a no-frills narrative that is accessible to the general reader. His bite-sized chapters are chock full of illuminating statistics that he quickly deploys to make his point. In contrast to this sparse style, Dobson, a prominent Canadian economist, has a more expressive approach. Besides facts and figures, her longer chapters are filled with historical sketches and illustrative anecdotes; she also takes the time to spell out policy recommendations that flow from her analysis. Together, both books offer a more calibrated, and even contrarian, assessment of China and India’s growth potential.

Although both countries are usually lumped together as the poster children of global economic change — the portmanteau of “Chindia” is now part of the Asian Century’s lexicon — they are actually on different power trajectories. Bardhan and Dobson usefully throw light on the key differences between them. Whereas economic reforms have generally been deeper and more consequential in China, elites in India have pursued a more ambivalent and less momentous course. Overall, China’s performance has been more impressive than India’s, especially regarding growth rates, alleviation of poverty and inequality, industrialization, development of physical infrastructure and general progress on a range of socio-economic indicators. India’s fiscal condition is also poorer, though it possesses a stronger financial system and a more dynamic, internationally competitive private sector. And while China garners a much greater level of foreign direct investment, India is more efficient in putting overseas resources to productive use.

Bardhan and Dobson are also good at slaying shibboleths, with the former taking deliberate aim at the hype and oversimplifications that he believes afflict media accounts of the two economies. Bardhan argues that, contrary to popular impressions, China’s rise owes more to internal dynamism — unleashed by key reforms in the areas of public education, rural infrastructure and agricultural development — than to its ballyhooed integration with the global economy. The country’s vaunted reputation as the world’s...
workshop also deserves qualification given how much of the factory output has to do with assembling and processing materials and components. Indeed, China’s share of global value-added is substantially lower than that of the US, Europe or Japan.

Nor it is entirely clear, according to Bardhan, that the economic reforms that India launched two decades ago are chiefly responsible for the country’s recent high growth rate, since the proportion of the workforce employed in firms that most directly benefited from these measures has actually declined during the reform era. Moreover, much of the growth in India’s celebrated services sector has been generated by tiny enterprises rather than the well-known technology titans that attract the lion’s share of policy and media attention.

Dobson fires her own ripostes at the conventional wisdom, particularly regarding the “demographic dividend” that supposedly will power India to the top of the international order. For many observers, India’s rapid ascent to great power status is all but certain due to its strikingly favorable demographic trajectory. Prime Minister Manmohan Singh, who speaks of the dawning of the “Indian Century,” argues that “it is in India’s superb human capital that our advantage lies.” Likewise emphasizing the relative youthfulness of the population, Mukesh Ambani, one of the country’s most prominent corporate chieftains, believes that the present century is destined to be India’s. And Obama views India’s demographic strengths — including the prodigious output of brainpower — as a competitive threat to the US.

In the abstract, India’s demographic advantages are eye-popping. With its high fertility rate, the country will overtake China as the world’s most populous nation in the coming decade or so. Roughly a fifth of the world’s children reside in India, and about a third of its population is under 14 years of age, one of the highest ratios in the world. Astoundingly, over the next two decades, India will add about a quarter of a billion workers to its labor force — a figure that nearly approximates the entire current US population. As a result, by 2020 India will provide 25 percent of the global workforce. India’s edge is even more apparent when compared to long-term demographic trends under way in today’s roster of major global powers, most of which will experience significant declines in their working-age populations. Unlike China, the working-age population in India is currently growing faster than the total population. In contrast, China’s working-age population will begin to contract starting around 2015 and will experience negative growth rates beginning around 2020. By 2030, the size of India’s working-age population will overtake China’s, and by mid-century will be a staggering 50 percent larger.

Yet, as Dobson makes clear, India’s “demographic dividend” is still more hypothetical than real, since the vast bulk of the youthful workforce is neither well educated nor engaged in particularly productive employment. Unlike China, India cannot exploit its comparative advantage as a labor-abundant economy due to highly restrictive laws that shackle the capacity of large-scale manufacturing companies to absorb surplus rural labor. As a result, the country’s manufacturing sector remains largely skill- and capital-intensive — a disconcerting anomaly given India’s raw demographic bounty. As Dobson puts it, “India’s underuse of its growing labor force is the country’s Achilles’ heel.”

The vast inadequacies of India’s educational system are another large factor in explaining the problems of capitalizing on the country’s demographic resources. India not only exhibits the lowest educational indicators in the G-20, but its public education system scores poorly relative to the other BRIC countries and to other emerging market countries. India possesses the world’s largest pool of illiterates. Half of the country’s children drop out of primary school; half of the rest fail to complete high school. A much smaller proportion of the college-age population is enrolled in some form of tertiary education than is common in other emerging countries; the share is twice as high in China than in India. Even as Prime Minister Singh talks about the “Indian Century,” he also acknowledges that the country’s institutions of higher education are “in a state of disrepair.” Kapil Sibal, the minister in charge of developing human capital, speaks of a “recipe for disaster. You have a huge national pool of unskilled youngsters who have no avenues for gainful employment.” Bardhan’s judgment is similarly stark: “India’s human capital supply chain is seriously broken.”

So, what lies over the horizon? How will the different economic courses that China and India
As Dobson makes clear, India’s ‘demographic dividend’ is still more hypothetical than real, since the vast bulk of the youthful workforce is neither well educated nor engaged in particularly productive employment. Unlike China, India can’t exploit its comparative advantage as a labor-abundant economy due to highly restrictive laws that shackle the capacity of large-scale manufacturing companies to absorb surplus rural labor. As Dobson puts it, ‘India’s underuse of its growing labor force is the country’s Achilles’ heel.’

are pursuing play out? And which one of them in the coming decades will be able to claim regional predominance? In the abstract, India’s future might appear brighter. Despite its spectacular current growth, China is on the verge of a significant demographic decline, apparently destined to become a rather curious type of great power — gargantuan but filled with a rapidly ageing and relatively poor populace. Moreover, it’s an open question whether its authoritarian political structures can adapt to the demands of economic globalization. India, on the other hand, has obvious potential for gains simply from making better use of its existing labor and knowledge resources. The pivotal question is whether India can get its institutional act together.

Bardhan and Dobson refrain from bold prognostications, though each cautions that the two countries have severe structural and institutional problems that will hobble their development for many years to come. But their discussion of the differential reform process in both countries suggests that China’s star will continue to burn brighter than India’s. Both question whether India’s fractious political institutions will ever allow for more than the current halting and hesitant reform process. Dobson concludes that it is likely “that continued incrementalism will triumph over bold change and that the Indian economy will grow, as in the recent past, despite bad institutions. But it will not be at the hoped-for 10 percent rate; neither will it generate the numbers of good jobs India needs.” For his part, Bardhan warns that India’s “breakdowns in democratic governance and economic management structures are not easy to repair and there are irreversibilities in institutional decay.”

To this, Bardhan adds an intriguing discussion about how the highly decentralized character of the Chinese state is better suited for facilitating economic development since it empowers provincial and local officials to carry out regional experimentation. This ad-hoc, incremental approach — encapsulated in Deng Xiaoping’s dictum about “crossing the river by feeling the stones” — has helped to foster rural industrialization and build political coalitions in favor of reforms. And with career advancement predicated upon local entrepreneurial success, Chinese bureaucrats have strong incentives to promote innovation. The Indian case, Bardhan contends, is the reverse. Although political devolution was enacted in India at the same time as economic reforms, the effort has largely been ineffective. The country’s top-down fiscal system still provides scant resources for local initiative, and civil servants — whose career advancement is largely based on seniority rather than performance, and who are frequently rotated throughout the country anyway — have no stake in local success.

Of course, as Bardhan acknowledges, decentralization in China has also engendered substantial excess capacity. This phenomenon is the point of departure for Prem Shankar Jha’s Crouching Dragon, Hidden Tiger. A leading Indian journal-


As Jha sees it, the reform process in both countries has been a double-edged sword, resulting in prodigious growth but also the creation of highly predatory, rent-seeking states. Beijing and New Delhi are aware of the pressing need to address rising discontent. But Jha is skeptical that their efforts will succeed. Both countries, he warns, are running out of time. Authoritarian China lacks the political institutions to manage social conflict, while democratic India has allowed its institutions to atrophy to the point where they have all but ceased to function.

Where China and India end up in the years ahead has obvious ramifications beyond each country. If they fulfill their economic potential and become well-rounded great powers, the international order will truly be irrevocably altered. A number of signal questions regarding global governance will then be in play. Will the Asian Century be Sino-centric? Or will the rest of Asia be forced to take sides as Beijing and New Delhi continue their parallel rises? The Year of the Tiger is heralding a decade in which the answers to such questions should become clearer. As the three works reviewed in this essay remind us, no outcome is preordained. Indeed, the contours of the future might just surprise us all.

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