

# The Rise of the Developmental State in China and Its Absence in India

Written by Haoyu Zhai

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HAOYU ZHAI, MAY 12 2017

An intriguing puzzle in development politics is the fact that, despite their comparable physical and economic scales and a shared commitment to state-led approaches to economic development, modern China seems to have achieved much better results of economic growth and transformation than India. While in 1960 China's economy (GDP in current US dollars) is only slightly over 1.5 times that of India's, after decades of higher rates of growth, by 2015 it has become more than 5 times that of the latter's (World Bank 2016a). Over the same period, China's GDP per capita has also grown from roughly equal to around 5 times higher than India's, and her net outputs in all three major sectors of the economy (agriculture, industry and services) have consistently outperformed India's as well (World Bank 2016b, 2016c). Today China has entered the league of upper-middle-income countries whilst India remains in the lower-middle group (World Bank 2016d), a sharp reminder of the different progress in national development they have each achieved.

Given that both countries have adopted more or less state-directed approaches to development (Brandt and Rawski 2007; Frankel 2005), such outcome differentials would seem to suggest that state intervention has played different roles and delivered different results in the two countries. The question then is why the Chinese state can and has facilitated rapid growth and industrialisation whilst the Indian state has not, or at least not with similar effects. This leads one to seek analytical insight from the well-established literature on the 'developmental state' model (henceforth DS), which suggests that a competent state largely free from particularistic social pressures can facilitate economic development through purposeful intervention in the national economy (Woo-Cumings 1999). From this perspective, the different developmental outcomes achieved by the two countries have been the result of a successful developmental state in China and its absence or dysfunction in India. The analytical focus should hence be placed on establishing the conditions that give or obstruct the rise of a DS in both countries within a comparative framework.

This paper would make such an attempt. The central argument it will make is that the rise of the developmental state in China and its absence in India can be accounted for by three key factors related to the state: its relative autonomy from social interests, its capacity in economic intervention, and the developmental strategy it adopts. In comparative terms, the relatively high levels of state autonomy and capacity and a clear strategy prioritising growth have given rise to a DS in China, and insufficient state autonomy and capacity with a mixed strategy that blended conflicting policy objectives have led to a failed or non-DS in India.

The plan for the rest of the paper is as follows. First, it will examine the literature and establish the key political and structural prerequisites for constructing a DS, and qualify the assumption that China is a DS but India is not. Next it will place the argument in empirical context and comparatively assess the countries' political-societal conditions against the identified criteria. Finally, it will conclude with some brief remarks on the present and future state of their developmental models.

### The Developmental State: Models and Prerequisites

For late industrialising countries like China and India, who until relatively recent times have not experienced the kind

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of rapid economic expansion and industrialisation already seen in Europe and North America over the previous two centuries, a major task facing them is how to achieve levels of development comparable to those of the industrialised economies within a much shorter time span. As Gerschenkron (1962) has noted, a natural response on the part of the state (understood as the combined political-administrative system within a country, including its various levels of central and local governments and their attached bureaucratic apparatuses) in the face of such challenges has been a deliberate attempt to ease and accelerate the process of industrial development, which most often includes but is not limited to rapid growth in output and productivity and a sectoral shift towards an industry-oriented economic structure. The state may thus try to achieve these goals through its targeted intervention in the national economy, often in the form of prioritising the growth needs of domestic firms and industries over those with foreign roots or linkages (Minns 2001: 1026-9).

To the extent that such a state attempts to and succeeds in bringing about the aforementioned economic changes, it may be termed as a 'developmental state' and analysed as such. However, given the prevalence among most late-developing countries of state-led developmental approaches against the relative scarcity of their success, most of which limited to the newly industrialising economies (NIEs) in East and parts of Southeast Asia (Doner, Ritchie and Slater 2005), the rise of such a DS appears to be dependent on certain structural and political factors that differ amongst these countries.

Chalmers Johnson (1982), in his hugely influential study on the Japanese developmental state, for instance, attributes its success to a specific set of structural relations between the Japanese state and society. For him, the Japanese DS was able to help facilitate the post-war economic miracle because of its favourable structural-relational conditions (18-20): the Japanese state enjoyed simultaneous autonomy and connection vis-à-vis the society, as enabled by its power and prestige on the one hand and on the other the extensive bureaucrat-business networks it built; it had a competent economic bureaucracy staffed with elite administrators selected from highly-competitive examinations, as exemplified by the pilot agency of the Ministry of Trade and Industry (MITI); and it enjoyed nationwide backing from elite and public spheres for its growth-focused programmes. The combination of insulation-connection, competence and policy consensus are thus key to the rise of the DS in this case.

Peter Evans (1995) makes one step further from Johnson's insulation-connection analysis. Using the country-cases of Korea, India and Brazil, he develops the concept of 'embedded autonomy', which refers to a structural-relational condition where the state is both enmeshed in deep social networks with private interests and strong enough to stay immune from the latter's rent-seeking behaviour. This condition enables a DS to both collect information and distribute resources through public-private channels with great efficiency, and keep social regulatory-capture from retarding its policy effectiveness (24-5). Leftwich (1995) gives a more fine-grained six-component account for a DS's rise, which apart from the overlapping aspects of embedded autonomy, bureaucratic capacity and pro-growth consensus also highlights the importance of economic performance to state legitimacy that compelled an existentially vulnerable state to become a determined DS (418-20). Ha-Joon Chang (2010) summarises these into a succinct three-dimensional framework, listing relative state autonomy, special organisational provisions and administrative personnel as key prerequisites for constructing a DS.

A more comprehensive account of broader literature would be beyond the scope of this paper; suffice to point out that across the major studies on this subject, three key political-structural factors seem to prevail. First, the state has to be relatively autonomous from social interests, otherwise its policy making and implementation would inevitably suffer from the negative externalities of the latter's partisan demands. This autonomy also needs to include an international dimension, where the state's policy freedom is not severely curtailed by its asymmetrical dependence on external powers or interests. Second, it has to possess adequate capacity for effective intervention into the economy, which implies the need for power and authority, expertise and a functional integration into the society through state-society and state-business networks. Third, a relatively clear and coherent developmental strategy needs to be adopted, whereby a consensual vision for the means and ends of development is shared amongst state officials but also the general public. It is according to these three determinants that the contrasting fates of China and India's DS (or non-DS) are to be explored in the next section.

One final point needs to be raised here. It should be acknowledged that apart from the most classical cases of the DS

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in practice, namely those of the early Asian NIEs, other countries like China have at best a debatable claim to such models, given the various internal and external constraints they face, not least their less coherent-compact state structures or the constraining effects of economic globalisation (Baek 2005; Wade 2003). However this paper's position is that, for the purpose of closed-universe comparison between India and China, the single fact that a shared statist approach to economic development led to contrasting outcomes gives ample evidence for the comparative presence of a DS in the positive-outcome case (China) and its absence in the negative-outcome case (India). Hence, following Knight's (2014) conceptualisation, China is treated here as a DS by virtue of its superior performance (1341-2) and India is not.

## **Constructing a Developmental State: Autonomy, Capacity and Strategy**

Based on the three-factor framework thus established, in this section will be assessed the comparative conditions in China and India since their early years of contemporary statehood (1949 and 1947 respectively). As briefly mentioned above, both countries have engaged in state-led paths of development, where both the one-party state in China and the federal-parliamentary state in India experienced a two-phase developmental process. In the first stage, which lasted until the late 1970s in China and much later (early 1990s) in India, the states exercised extensive control over economic activities, using active fiscal and industrial policies to promote domestic industrial growth and transformation, which delivered mixed results with heavy urban and industrial biases; in the second, which is now well underway in India but already folding in China, the states partially liberalised and opened up their economies, promoting export-led growth and attracting large inflows of foreign capital and technology, though still retaining state control over key areas of economic management (Corbridge 2010: 306-14; Knight 2014: 1336-8). Yet despite this common long-term trajectory, because of the relatively greater constraints, especially in the institutional, socio-political and ideological spheres, the Indian state has failed to deliver the type of vigorous and comprehensive growth more obviously seen in China.

In the first place, the Indian state enjoyed much less autonomy than its Chinese counterpart. This is to a large extent the result of the systemic differences between their institutional and social environments. In China, the combination of a one-party authoritarian state under the monopolistic rule of the Communist Party (CCP), a largely subservient society whose actors are more concerned with cooperating with not contesting against the party-state, a unitary-provincial system that reserves to the centre overall policy control and oversight, and a relatively homogenous ethno-cultural composition with a single dominant ethnicity (the Han) (O'Neil, Fields and Share 2013: 378-406), has allowed the state a more independent role in making and enforcing nationally-oriented development policies with much less partisan pressure or influence, be it from an ethno-cultural, regional or class background.

By contrast the Indian state, being a federal-parliamentary democracy, is much more susceptible to influence by particularistic interests: major factors include a multiparty system where parties with diverse sizes and bases all needed to compete for votes from a multitude of social interests, a highly fragmented society where socio-economic interests centred around complex and interwoven class, caste and ethno-religious cleavages, and an asymmetrical federal system which devolved disproportionate powers to the states and required frequent centre-state policy negotiations (Frankel 2005; O'Neil, Fields and Share 2013: 437-61).

Nowhere is this seen more evidently than in the two countries' contrasting records on land reform, where the Chinese DS with greater autonomy has succeeded in reforming the structures of ownership and production in the rural economy, which greatly incentivised agricultural production and provided sustained impetus for multi-sectoral transformation; in contrary, the Indian state's political dependence on traditional elites and entrenched rural hierarchies for electoral and administrative supports have largely prevented similar development in India (Bremar 2010; Huang, Otsuka and Rozelle 2007). Furthermore, the different degrees of external dependence also contributed to the divergent fates of the DS in both countries: a comparative review of their regulatory and diplomatic policies suggests that post-independence India has been both more dependent on international aids and foreign-affiliated capital (especially to the UK), and more asymmetrically allied to an external power (the USSR) than post-revolution China (Yahuda 2011). From an external perspective, then, the Chinese conditions have also been more conducive to the rise of a DS given its greater international autonomy.

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Closely related to the problem of autonomy is the issue of state capacity, which is the second main determinant of a DS's rise. Since the DS is in its essence an interventionist state that uses selective policy instruments to shorten the time span and maximise the socio-economic returns of the industrialising process, the actual capacity of the state to formulate and implement such policies would prove crucial for its developmental ambitions. In most cases, such capacity involves both the political ability to make other actors in the political economy to act in ways the state intends them to, and technical expertise, in order to meet the technical demand of planning and management, which often requires specialist knowledge of economic theories and practices (Leftwich 1995: 411-14). Although Chang (2010) has usefully pointed out that generalised knowledge, not specialist knowledge, is the key human capital for a successful DS (10-12), his explicit emphasis on the legal and engineering backgrounds of the Korean and Taiwanese technocrats seems to serve more as a reminder for the need of broad-range, multidisciplinary expertise beyond the exclusively 'economic' domain rather than negating the necessity of specialist knowledge altogether. In sum, power, authority and expertise are key prerequisites for a state to become a DS.

In this sense, the Chinese state has considerably greater capacity than the Indian state, both because of its greater power and its higher competence. As already discussed when assessing the issue of state autonomy, the systemic differentials between the two polities have been a major factor for their varied capacities: the Chinese state is more powerful than the Indian state because it is much more autocratic, more structurally centralised and articulated, and its target agents (business and other social actors) more obedient and manageable. It thus has greater intervention capacity even if this involves the alteration or displacement of established interests. The aforementioned land reform programme is one good illustration of such differences; yet another example could be that on the provision of infrastructure, the development of which often requires nationwide coordination and imposition of policies unfavourable to particular groups. China has been performing much better than India in this area. As Corbridge (2010) points out, India has had a serious undersupply of infrastructure that impeded its growth, from schools and hospitals to roads and railways (316). Indeed the World Bank's (2016e) data on infrastructure have given a consistently higher score for China than India at least since the late 1990s.

On the technical side the Chinese DS has also been enabled by a relatively competent economic bureaucracy. Whilst India's notorious 'license-permit-quota raj' (bureaucracy) has been much criticised for retarding growth through overregulation and pervasive corruption (Herring 1999), the Chinese bureaucracy in comparison was staffed with more competent administrators, selected under stricter recruitment standards and incentivised by the CCP's performance-based promotion system (Knight 2014: 8-9). The party's effective co-optation of business elites (aptly called 'red capitalists') also ensured the state's 'embeddedness' into the society (Dickson 2003), giving it extensive network-based channels for information exchange and effective policy response (Evans 1995: 24-5). At the aggregate level, the Chinese state is therefore both more powerful and competent, and more socially embedded into the economic system, which have given it greater overall capacity and ensured its rise as a DS.

Finally, there is also the issue of development strategy. The different policy programmes adopted by the states, in terms of their ideological commitments, policy paradigms and instruments, also have differential impacts on the modes and outcomes of state intervention, since they serve as the strategic frameworks that guide the latter's policy actions. The crucial issue here, nevertheless, is less about what those components of the strategy are individually. For as the preceding national developmental experiences of countries as diverse as the UK, France, Germany and Russia have shown, various forms of ideologies and policies can all possibly succeed in promoting industrial transformation, as long as they are mutually and contextually compatible (Gerschenkron 1962). Problems arise however if these policy goals and instruments conflict with each other, which is to a large extent what India has experienced but China has avoided or at least managed to escape from.

As Frankel (2005) has demonstrated, India's post-independence economic strategy contained two conflictive goals: rapid economic modernisation versus gradual social transformation (111-2). This entailed a mixed and self-contradictory approach to development: the state was charged to intervene in such a way as to both achieve rapid growth and industrialisation, and at the same time not to abruptly change the very socio-economic structures that that industrialising process was poised to unravel. On the Chinese side, although there has been major policy changes and oscillations, a relatively coherent strategy that clearly prioritised growth was usually present within most post-1950 state initiatives, even if poor policy design and implementation has led to much socio-economic

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externalities; it is worth noting that both the disastrous Great Leap Forward (1958 – early 1960s) and the post-1970s reforms were originally intended to achieve growth in the fastest possible way (Naughton 2007). Later pro-market reforms in both countries have to some extent eliminated this gap in strategic consistency; however, its historical impact on their divergent trajectories should not be overlooked.

## Conclusion: Beyond the Developmental State

This paper has accounted for the rise of the DS in China and its absence in India through a three-factor framework: state autonomy, capacity and strategy. Looking forward, as both countries press ahead with their state-led integration into the global economy, one would expect the DS to become more of a historical phenomenon. But given the active roles their states continue to play, it is unlikely that either country will fully embrace a market-dominated model in the immediate future.

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*Written by: Haoyu Zhai  
Written at: University of Bristol  
Written for: Dr Vernon Hewitt  
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