



## **Contrasting Capitalist Development in China and India**

**Speaker:** Prof. Pranab Bardhan

**Chair:** M.V. Rappai

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Prof. Pranab Bardhan's view on the development of capitalism in India and China was exceptionally interesting. At the outset, he recognised three types of capitalism that are present in India and China. According to him, there is a coexistence of entrepreneurial capitalism, rentier capitalism and state capitalism in both the countries.

With regards entrepreneurial capital, China and India have different experiences because the formal private sector in India is more vigorous compared to China. In India, the private sector experiences much less constraints when it comes to finance and equity market access, they are also less clientelistic in relation to political authorities compared to China and of late have been highly rejuvenated by recent business entries from the until now disadvantaged, low-caste groups. However, India's private sector is very constrained by the weak infrastructure and lesser transparent corporate governance compared to China. Prof. Bardhan also mentions that the larger informal private sector in India faces severe constraints in credit, marketing and infrastructure. In China, the private enterprises which were in operation much earlier contribute more than two-thirds of manufacturing value. The speaker however remarked that there is certainly the problem of defining the boundaries of private sector and public control rights within a firm like Lenovo, Huawei, Geely and Alibaba. Nevertheless, both historically as well as today, private property rights are in general more insecure in China than in India.

Property rights and party connection is important for private entrepreneurs for general support such as access to land and finance, preferential treatment, and selective relaxation of regulations. In this context the speaker explained how most big private companies have active cells of the party inside them. He concluded the section on entrepreneurial capitalism by

remarking how the Indian financial sector is more developed and less murky or manipulated than the Chinese.

On rentier capitalism, Prof. Bardhan is of the opinion that both India and China thrive on the rising value of politically allocated scarce resources like land, minerals, oil and gas fields, telecommunication spectrum, bank finance, etc. However, he believes that rentier capitalism is more in China compared to India as there is lesser political competition in Chinese politics. The speaker mentioned that according to the Hurun Report, a Shanghai based monitor of China's wealthiest people, about one-third of the wealthiest Chinese are Party members. As a concluding remark for this section on rentier capital, he stated that at present in both countries public banks are overburdened with unrecoverable loans given to politically favoured business, probably more in China than in India.

In the last section of his presentation, Prof. Bardhan explained how state capitalism is stronger in China as large state companies dominate in transport, energy, basic metals, finance and telecom. The total number of public sector employees in China is five times that in India and some of the Chinese SOEs are now important players in the global market competition. Additionally, the SOEs are highly commercialized and do not conform to the usual stereotypes about SOEs. For instance, they recruit professional managers, thus broadening their investor base and freely shed their earlier bloated labour force and traditional social and political obligations. On the other hand, Indian SOEs are often much less commercialized and less free of interference by the relevant ministries, and their corporate restructuring. The speaker is of the opinion that if India tries to lay off as many government employees as China recently did, there will be nationwide protests and no government will survive the electoral repercussions. However, contrary to popular impression, wealth inequality is actually more acute in India than in China.

Aside from these three types of capitalism, the speaker also spoke about 'crony capitalism', which is an outcome of the web of nepotism and political connections involved in rentier and state capitalism.

Apart from the various types of capitalism, the speaker also discussed the mechanisms for checks and balances. While institutional checks and balances are better in India, Xi's recent larg scale anti-corruption drive is worth mentioning.

One of the most important questions answered during the presentation was ‘If Party-state connections in the accumulation process are so important, is China really capitalist?’. According to the speaker, individual entrepreneurs may have a clientelistic relationship with the state, but the state is now sufficiently enmeshed in a profit-oriented system that has been identified with legitimacy-enhancing international economic prowess and nationalist glory.

## **Discussion**

In the ensuing discussion, there were questions about land acquisitions, trade unions, neo-liberalism, innovation, macro accounting and international finance capital. Prof. Bardhan responded to most of these questions and explained in detail how there are informal workers organizations though formal trade unions are illegal. The speaker also remarked that he considers neo-liberalism as pro-capitalism. Regarding innovation, the speaker was of the view that Chinese innovation is disoriented because their innovation is such that it suits only their domestic market and not for the foreign market. He added that Chinese innovation has been successful only in the field of cell phones till now though they have been trying hard for cars and aircrafts. Professor Bardhan also elaborated his point on macro accounting and said that in the Chinese case even the SOEs don’t deal with dividends and keep reinvesting. The speaker also explained the structure of the banking industry in China. The discussion also involved questions on gender, social welfare and the philanthropy sector. The speaker was of the view that though there are some women capitalists in China, the sex ratio in both India and China is very bad when it comes to capitalists. He also clarified that China does not spend as much on social welfare as India does and if a comparison was to be made between Indian and Chinese philanthropy sector, the speaker was of the view that both the countries would fall under the least philanthropic category.

*Report prepared by Preksha Shree Chhetri, Research Assistant, Institute of Chinese Studies.*

## **About the Speaker**

Prof. Pranab Bardhan is Professor of Graduate School at the Department of Economics at the University of California, Berkeley. He was educated at Presidency College, Kolkata and Cambridge University, England. He had been at the faculty of MIT, Indian Statistical Institute and Delhi School of Economics before joining Berkeley. He has been Visiting Professor/Fellow at Trinity College, Cambridge, St. Catherine's College, Oxford, and London School of Economics. He has done theoretical and field studies research on rural institutions

in poor countries, on political economy of development policies, and on international trade. A part of his work is in the interdisciplinary area of economics, political science, and social anthropology. He is the author of 14 books and editor of 12 other books, and author of more than 150 journal articles including in leading Economics journals.

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