

THE cover story on the August 21-27 edition of The Economist was entitled "Contest of the century: China versus India".

For most pundits, the smart money is on Beijing. After all, compare the flawless spectacle of the Beijing Olympic Games with the chaotic and even embarrassing build-up to next month's Commonwealth Games in New Delhi.

China's ruthless efficiency is menacing but impressive. In contrast, even locals doubt India can put on a half-respectable event. But drilling deeper reveals that China's authoritarian state-led model is worryingly fragile while India's democratic approach is surprisingly resilient and a better bet for the long haul.

Such an argument appears improbable. In 1980, the sizes of the Chinese and Indian economies were roughly similar. Three decades later, China's GDP is 2.5 times larger. When Chinese reforms began in 1979, three-quarters of the population in both countries lived in absolute poverty. In China today, the figure is about 12 per cent compared with 22 per cent in India. As admirers of the Chinese state-led model readily admit, China's authoritarian model is harsh. But, they say, it is far superior to India's democratic and gradualist model of development when it comes to providing order, governance, poverty reduction and development.

The common assumption is that China adopted an East Asian model of authoritarian capitalism when reforms began in 1979, with the state-controlled sector taking the lead in stimulating economic activity. In fact this occurred only after the 1989 protests when the Chinese Communist Party retook control over the most important economic levers in the country.

From 1979 to 1989, the main driver of growth was land reform. Beijing allowed peasants to use their allotted land in any way they wanted, and to sell their produce at market prices. This household-responsibility system gave rise to millions of so-called Township and Village Enterprises, small-scale industries that began the industrialisation and urbanisation process.

TVEs were technically owned by the local collective but were in practice run like private companies. In Deng Xiaoping's words, this "was a completely unplanned, spontaneous revolution that took us by surprise".

But it worked: 80 per cent of the poverty reduction in China occurred from 1979 to 1989.

It was actually about the CCP relinquishing economic and social control over the country. It was only after the Tiananmen protests that the CCP deliberately reasserted itself in the economy: favouring state-owned enterprises over private industry in the most important and lucrative economic sectors in order to prevent the emergence of an independent middle class.

Beijing encouraged direct foreign investment and foreign companies into China from the early 1990s onwards to make up for the lack of local innovation and creativity resulting from the suppression of the domestic private sector. It was not Goldman Sachs or Walmart but the sweat and enterprise of the country's peasants that did the heavy lifting of poverty alleviation.

Since 1992, the proportion of the population in poverty is declining by about 10 per cent each year (the same rate as in India,) while the number of people in absolute poverty has risen since 2000. In contrast, India's bottom-up approach to development, which is led by the domestic private sector, means that working towards a better life is largely done independently of the state sector. Because capital in India does not discriminate against the private sector, mean household incomes have been rising at about the same rate as GDP growth at 7 to 9 per cent each year.

China's ruthlessly efficient state-led development approach has a human price: unaccountable local officials often in cahoots with developers have forced between 40 million and 80 million households off their land with inadequate or non-existent compensation - no wonder China reportedly spends more on the People's Armed Police looking after domestic security than it does on the People's Liberation Army.

These economic and social dislocations mean that authoritarian China's reputation for order and resilience, and New Delhi's for disorder and fragility, is undeserved.

According to Beijing's own figures, there were 124,000 instances of mass unrest in 2008, compared with about 5000 in India.

For the Olympic Games in 2008, a reported 350,000 people were forcibly "resettled" to make way for the Bird's Nest Stadium alone.

Only an authoritarian country with the state in firm control could have pulled off an event such as the Beijing Olympics. Democratic India, with a messy system of rights and regulations, cannot hope to do the same.

But behind the image of competence and harmony lies a brittle China. By Beijing's calculations, China's authoritarian political economy is in danger of imploding without at least 8 per cent growth each year.

In contrast, democratic India - even if it is muddling through - has no such fear.

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