Part One

Comparably Incomparable Giants

Two Countries, Diverse Systems: A Shared Future?

An Essay on the Global Significance of India and China's Increasing Engagement[1]

Aromar Revi

LONG CONTACT AND THE SHOCK OF SUDDEN ENGAGEMENT

In a long and expansive view, India and China are two adjacent civilizations, separated by the largely impassable Himalaya and the forbidding Tibetan plateau, the Indian Ocean and five millennia of autonomous development of state systems, culture, faith and identity. Over the last two millennia, largely land and limited maritime contact between them has been almost continuous. This has involved an exchange of goods, ideas, culture and religion mediated by the elite and the courageous individuals who made the arduous and often dangerous journey (Frank 1998; Hsu 1995). Yet, at a popular level, each was constructed as a distant 'other'— close enough to be alluring, but far enough not to stir up serious conflict.

The late 1940s saw the liberation of both countries. India achieved its Independence in 1947 from 150-year old British colonial regime, through a majorly non-violent struggle led by Mahatma Gandhi and the Congress party. In 1949, after years of fighting to defeat the Japanese, the CCP trounced the Guomintang in a vicious post-World War II civil war. The Mao-led consolidation of the revolution led to the integration of an autonomous Tibet into China, in 1956.

This led to a sharp discontinuity in the historical low-level interstate engagement between China and India. They were suddenly thrown together as neighbors along an 1,800 km border between Tibet, an arc of five north Indian states, and the former kingdom of Nepal sandwiched in the center. The shock of this relatively recent contact persists, in the longest unsettled terrestrial border, in spite of decades of tortuous negotiations (Maxwell 2006).

A conflict along two zones of this border in 1962, led to a near freeze in bilateral relations between these Asian giants that began to thaw mildly a quarter of a century later. As a result, soon after the establishment of a long common border, trade as well as economic, cultural and people-to-people contact dwindled to less than a trickle (Ranganathan and Khanna 2004). This heightened the historical gap in knowledge and shared experience between the Indian and Chinese elite, further widening the huge gulf between ordinary people in both countries. As a new wave of post-Soviet globalization rolled out across the world in the mid- and late-1980s, changes in domestic politics and economic strategy led both countries down divergent political and economic paths (Deshpande and Acharya 2001).

China was striving hard to regain its position as a 'Great Power' and the 'primary driver' of the global economy, after having made the transition from a poor to a middle income country with a globally competitive manufacturing sector, largely self-sufficient in agriculture and with a modern military system. India started on the path of reforms later, and with greater disabilities, but rapidly caught up in terms of growth, modernization of its economy and building a globally competitive information technology (IT) services sector within the framework of a mixed economy and plural democracy (Amin 2005; Bloom et al., 2006).

POST-1980 DIVERGENCE

Differing domestic initial conditions and priorities; a fundamental divergence in the nature of founding political settlements and hence political systems; a strategic divergence for over a decade in economic- and trade-based engagement with the rest of the world have taken China and India to very different places in the global economy, geopolitics and the space for future development and transformation.

Mao's China went through a roller-coaster of attempts to enforce structural change and consolidate communist power via multiple traumatic passages of the Great Leap Forward and the resulting famine that killed over 30 million people and the decade-long (1966–76) Cultural Revolution that probably destroyed more human and cultural capital than many twentieth century interstate conflicts. In spite of these terrible dislocations, by the late 1970s China had made considerable progress in education, health, agrarian reform, basic industrialization and national security, even though in economic terms, it wasn't dramatically better off in per capita output than its Indian neighbor.

Post-Mao China rapidly opened up to globalization via Organization for Economic Cooperation and Development (OECD) investments, firms and technology; export and investment-led growth, largely on its own terms. The CCP simultaneously pushed pragmatic domestic economic and political reform focused on growth, industrial modernization and price competitive exports, and strengthened the nationalist state system to maintain stability and order and maintained its own centrality to the Chinese state (Barnett et al., 2004). With the exception of hiccups, as in Tiananmen Square in the late 1980s, China has been largely successful in recapturing its historical place at the center of the world economy through sheer growth, though at the significant cost of loss of political, socio-cultural and ecological resilience. Only history will be able to judge the long-term consequences of this trade-off.

After leading a successful and largely non-violent struggle against British colonialism in India, Gandhi, Nehru, Patel and their successors built the foundations of a stable, plural Parliamentary democracy in a highly diverse ethnic, regional, linguistic and religious terrain. This was despite the traumatic partition of India and Pakistan in1947.

Post-independence economic performance of India was better than that under the British colonial yoke in the first half of the twentieth century, but it was still slow. The creation of a modern industrial sector, technological capability and market-based systems, did not succeed in addressing the well-entrenched asymmetries of caste, gender, ethnicity and unequal agrarian relations. A committed, development-oriented state was constructed from an imperial steel-framed bureaucracy; however, it was rapidly captured by special interests and rampant corruption to become the entrenched 'Licence–Permit Raj', that held the Indian economy and polity in a vice-like grip until the mid-1990s (Jalan 2002; Kapur and Mehta 2005).

Yet India, with a robust and well-crafted Constitution and slowly deepening democracy managed to deal with multiple economic and political challenges. This included three wars with Pakistan—the 1971 war eventually leading to the creation of Bangladesh; the rapid righting of the ship of state after the imposition of the draconian National Emergency (1975—7); and the slow move towards a 'social revolution' led by resurgent intermediate and lower castes and excluded populations that led to a series of radical responses from both the Left and nationalist Hindu extremes of the political spectrum, starting in the late 1980s. (Frankel 2005)

A significant divergence between India and China began in the early 1980s, with the beginning of rapid Chinese economic growth led by a burst of productivity in rural China as collectivist constraints were released; an opening up to the world economy; and a series of significant reform measures introduced by Deng and his successors. India also embarked on a path of halting economic reforms from the mid-1980 onwards. Progress was patchy till the early 1990s. This provided China an early and significant lead that has been difficult for India to close. A strong human capital base; the ability of the state to deliver services, infrastructure and access to foreign capital and technology and eventually export markets; and the creation of a strong framework for 'command capitalism' are cited as important factors in a 30-year run of strong economic growth in China (Friedman and Gilley 2005; Dollar 2007) .

AN INDIAN CATCH-UP?

Starting in the mid-1990s, there was a steady increase in India's economic growth and efficiency, and savings and investment. Around 2008, development indicators for India were beginning to slowly close in on the long-range Chinese averages (Bussolo et al., 2006). India has:

1. steadily resolved problems related to poverty and deprivation;
2. improved public services delivery in areas such as drinking water, elementary education and rail transport;
3. built a better-regulated national market and strong domestic financial sector; and
4. enabled innovation and market-forces to expand the delivery of telecom, IT, air transport and financial services to domestic and international markets (Dahlman & Utz, 2005, Bound, 2007).

International remittances, foreign institutional investor (FII) portfolios and, more recently, DFI [or FDI] growth, have transformed the flow of financial resources, in what was once a capital-starved economy (Das 2006).

A few commentators speak of India catching up or even being ahead of China in some areas (Khanna and Huang 2003). On many economic counts, however, India is currently at the point where China was a decade or more ago. With a reduction in the growth differential between the two countries, exponentially increasing opportunities of India–China trade and economic engagement, and the rapid consolidation of both domestic markets, a key question is whether some form of convergence around a pan-Asian market structure is possible (and desirable?) If it is, then what are the changes in perception and particular strategic choices that could help to achieve this potential?

Rather than examining the India–China question in relative terms or as the western media construct of a 'neck-and-neck' race between two emerging Asian economies, a more useful approach would be to examine how the wide (late twentieth century) gaps in mutual understanding and knowledge of each others' cultures and persistent stereotypes of the 'other', constrain a deeper engagement between the two countries.

GOING BEYOND CONSTRUCTED NATIONAL STEREOTYPES

The most common Indian stereotype of China, centers around the 'betrayal' of the promise of a collective Asian future enshrined in the 1950s political slogan *Hindi–Chini bhai bhai* (Indo-China brotherhood) following the 1962 border conflict, in which China is perceived by Indians as the unprovoked aggressor (Ranganathan and Khanna 2004). On the Chinese side, this series of historical events is ascribed to a mix of Indian political naiveté; an inability and refusal to read multiple Chinese warning signals; internalization of a British colonial perception of hard borders versus soft perceptions of zones of influence and surprise at the continuing Indian concern about a non-event. This translates into continuing surprise at the Indian sensitivity to what is seen as a non-event of which most Chinese have little or no recollection at all.

Similarly, the portrayal of India in many Chinese school textbooks, and hence in the popular perception, as China's 'failed' Asian neighbor is a difficult stereotype to undo. This strongly governs contemporary Chinese perceptions of India that are ironically almost Orientalist in their construction.

A more recent stereotype in the making is the idea of *Chindia*—the largest market opportunity in the twenty-first century (Ramesh 2005). This is projected to provide space for greater prosperity, equity and hence, peace for the people of both countries. A number of transnational companies are beginning to address this joint business opportunity (Khanna 2008). This approach could also become a fulcrum around which the deconstruction of the post-World War II—conception of development becomes possible. This could be posited as a search for an 'advanced' western-style economy and liberal democracy to an exploration of the nation state with a distinct Asian flavor and strong Chinese (or Indian) characteristics.

This paper attempts to engage the three stereotypes mentioned above as metaphors to examine the dramatically different global context of the twenty-first century and the multiple transitions that contemporary

India and China are making to find their niches. These processes are transforming the economic, political and social relations within and outside their boundaries. They are also creating immense opportunities for mutual engagement. Appropriately directing the sheer size and momentum of these two economies, could potentially alter the nature and trajectory of the world system to a more sustainable, harmonious and humane direction (Krueger 2005; Arrow et al., 2006).

This provides a compelling reason to study the internal dynamics, interaction and engagement of these two ancient Asian cultures and the chrysalis of the two modern nation states in the making that currently encapsulate them.

INDIA AS CHINA'S 'FAILED' ASIAN NEIGHBOR?

An uninformed observer may well agree with the stereotype of India as China's 'failed' Asian neighbor that appears in some school textbooks and has colored the perception of at least two generations of the Chinese population.

Part of the critique is partially justified. India made a late start in addressing its post colonial challenges of human development. It began to effectively universalize primary education only in the 1990s and, reform its failing public health care systems after 2005. It has embarked on a serious reform of its higher education system in the recent past. Deep rural and urban poverty and deprivation, poor transportation and power infrastructure and public service delivery, widespread corruption, and severe regional development imbalances make early twenty-first century India, similar to China in an earlier period (Baru 2006).

India's development has been strategically constrained like that of late twentieth century China by the per capita availability of arable land and water; a lack of domestic oil and gas resource, hence a strong dependence on coal, and a severe shortage of domestic capital. China's early investment in education and health care, better physical and economic infrastructure, a strong focus of the economy on export and secondary sectors since the early 1980 and an emphasis on economic performance catapulted it into center stage of the global economy in the 1990s, placing it way ahead of India in terms of most development indicators.

China addresses the challenge of capital availability in the medium run, by encouraging massive external investments in manufacturing and markets both from the OECD and partial round tripping from Taiwan and Hong Kong; pursued a conservative foreign exchange and fiscal policy and encouraged high savings and investment rates that in turn led to the economic growth. China now has the largest foreign exchange reserves in any country, ever, and this effectively (along with Japan and Arab oil states) not only props the US budget deficit, but also underwrites the immense trade and macroeconomic deficit that powers US and to a some extent European consumption.

Yet, India's fundamental achievement and divergence from China has been in building the largest stable and plural democracy in recent human history. This is probably why India's polity is of greater interest to Chinese scholars than its economy. The counterfactual is Pakistan's parallel 60-year rocky trajectory that provides a subtle counterpoint to India's stable Constitutional history that both the US and even China are starting to acknowledge (Guha 2007; Austin 1999).

India has maintained steady economic growth, typically over 6 per cent since the mid-1990s, along with a process of economic reform supported across the political spectrum. This has survived the post-1990 era of coalition politics in New Delhi. A recent spurt in growth, savings and investment appears set to spur a relatively steady period of medium-term economic growth (Jadhav et al., 2006). Strong domestic demand, the rapid growth of some of the lowest cost infrastructure services in the world (for example, India has overtaken China as the largest national market for cellular telephones), an aggressive process of financial market deepening, the new found confidence of Indian corporations, consumers and a post-liberalization generation poised to enter the workforce in millions is dramatically changing India's economic landscape (Khanna 2008; Bijapurkar 2007).

THE RESILIENCE OF THE CHINA'S CURRENT DEVELOPMENT TRAJECTORY

China has managed to sustain a long 30-year period of relatively steady economic growth. This is poised to overtake the late nineteenth century and post-World War II economic boom in the US as the longest sequence of growth in recorded economic history, in spite of the hiccups caused by the 2008—9 recession. However, the development has not been without costs. Rapid growth and prosperity in some regions has led to a sharp increase in inequality and regional disparities, leading to a clear expression and apparent tolerance of dissent across China (Virmani 2005).

There have been some political hiccups in China as well, especially the use of force in Tiananmen in 1989. However, the continual chatter of local and ethnic disaffection has never been regime-threatening. Within China, it appears that Deng's gamble of catalyzing a transition from an extreme form of Maoism at the end of the Cultural Revolution to a Chinese form of Party-led 'command capitalism' seems to have paid off, at least in the short run.

The tolerance of Chinese society of command capitalism, in the face of hyper-modernization may, however, be shorter than anticipated. The decline of the family with entry of 'Young Emperors' (a direct outcome of the one-child policy) into the workforce, the burning aspiration to emulate and outdo the West in mass consumption, the linked resurgence of faith traditions to fill the deepening psychological and social void and the insidious impact of new media and global connectedness which is creating new networks of relationships and institutions in China, could challenge the smooth social and political transition into a postmodern future, even one with strong Chinese characteristics.

China is facing at least two fundamental challenges. The first is political transition to a more widely-held form of governance within the frame of 'One China' that returns it to its eighteenth century place as the largest global economic power (Thornton 2008). This will almost certainly require an incipient social transition with interlinked modern and postmodern elements, as older forms of social organization and hegemony—clan, community and Confucian hierarchy— change or breakdown. The second is to enable the first transition within the constraints imposed by an increasingly interdependent global capitalist economy; an economy driven by trade and expanding influence of transnational corporations; underpinned by the availability of cheap fossil fuels; a near-real time global financial system that is open to considerable volatility and yet subject to little global governance; threatened by a fractured global landscape of power dominated by a single superpower sometimes in retreat and often in denial; over three billion people across the world living in poverty, many in failing nation states and cultures that are seeking hard to reconcile multiple regional identities with the increasingly alien (post September 11) standard of western liberal democracy (Deng and Moore 2004). This shifting and increasingly fractal and postmodern *glocal* geopolitical landscape seems to imply the opening up of multiple spaces for the exploration of plural regional institutions and interest groups in a rather different narrative to that of the centralized modern nation state promoted by contemporary Beijing propaganda.

Therefore, a key conceptual challenge for Beijing, Chinese provinces and semi-autonomous metropolitan regions (for example, Shanghai) is to weave an acceptable frame and culture of governance; adapting central command and control systems by providing considerable autonomy at the peripheries; enabling decentralized self-organization from the bottom up—using a mix of community organization, market forces and active political participation. Simultaneously, it is also essential to protect against a backslide to a more rigidly structured incarnation of the current centralized bureaucracy or the endless revolutionary nightmare of a new Cultural Revolution.

When faced with these apparent choices, Guided Democracy seems the safest way forward to a new generation of Chinese reformers (Yang 2007). This is underpinned by a number of critical caveats: as long as the center holds; the peripheries are kept in check with a mix of economic incentives and military force; an extension of a Chinese zone of economic power and soft influence via aid, trade, investment and the Chinese diaspora in search of resources, markets and security in Asia, Africa and Latin America; western economies remaining addicted to consumption at low Chinese export determined prices and other regional powers like Japan, Russia and India being content, do not challenge this trend of events.

Given this context, a number of strategic questions emerges on India-China relationship:

1. Will the Chinese domestic market-centered push to accelerate growth of its service sector allow it

to become the 'workshop, office and market' of the world by the 2020s (PRC 2006)? What this will mean for the stability of the global economy and the future of western capitalism and transnational corporations (Wilson and Purushothaman 2003)?

2. Will China be willing to cede its dominant position in manufacturing to India and other emerging economies in the 2030s onwards as its economy becomes larger than that of the US matures, and as a consequence there is a slowdown of growth (Srinivasan 2006)? What will that mean for the stability of the Chinese state and the global balance of power?
3. Will India be able to maintain its current lead in services-export, deepen and widen its manufacturing base to cater to the exploding domestic demand and potential exports and simultaneously enable a transition of over 500 million people from agriculture-based livelihoods and rural areas into secondary or tertiary sector urban occupations (de Vries and Revi 2007)?4. Will this process be relatively smooth, with little inter-state competition but intense firm competition across Chindia as both countries jostle for dominance (Singh 2005)? Will this be the largest market opportunity in history, or will it be constrained by the US and European edge in soft, economic and military power (Wallerstein 2006)?

Both China and India are cognizant of these opportunities and the attendant domestic challenges. Some are common to both emerging nations: burgeoning inequality across income cohorts and regions; universal access to quality education and health care services and other public goods; natural resource 'hunger' and crises, especially around water, agriculture and forests; managing the global commons, especially the atmosphere and the impact of climate change and accelerating access to, and deepening of, domestic markets (Winter and Yusuf 2006).

The central questions for India are: whether it will be able to address its ongoing challenges of poverty and deprivation and enabl social transformation in the face of growing inequality, sectarian polarization and globalization. Issues for China include its resilience to internal shocks, potential slowdowns in economic growth, and the inevitable separation of power between the Party and the Chinese state aka a soft political landing, in an environment of slow economic growth (World Economic Forum 2007).

THE INTEREST OF THE ELITE IN INDIA & CHINA IN GLOBALIZATION AND DEVELOPMENT

The political and business elite both in India and China express a high-level of confidence in the future (McKinsey 2007). This is largely ascribed to expectations of steady economic growth and transfer of much of the incremental gains of globalization towards these economies. Upsetting the current globalization applecart is posited being against national interest (as established by the elite) in both countries, even though it causes economic dislocation, negative environmental impacts and politically articulated angst among a fair section of the population.

The elite in both countries claim that the current version of globalization is essential to fuel the growth of their economies and thereby their incomes, wealth, well-being and dominance. Being pragmatic, however, they hope that they can facilitate a number of difficult transitions before global or regional instability; economic slowdown and volatility; declining regime legitimacy and climate change (independently or in conjunction), they can slam the narrow global window of opportunity on their faces. The primary vehicle of elite aspiration, is a mix of the nation state (domestic) and the transnational corporation in the space between nations. This may well prove to be an unstable mix in addressing the increasing global and regional challenges of security, governance and development.

The tolerance of the current unipolar world order by the elite in both countries, in spite of their strong nationalistic tendencies, is due to the pragmatic approach that great risk and responsibility are associated with the aspiration to achieve Great Power status, even if it is thrust upon them by economic and political circumstances. China and India both recognize that the 1943 Yalta global political settlement and the global institutions that uphold—the United Nations and Bretton Woods institutions—are dated and unequal to many emerging regional and global challenges.

The importance of manufacturing exports to China and services to India; the dependence of both on a global supply chain of oil and gas, strategic minerals and the limited ability of either to project conventional strong power beyond their immediate regions, implies that the development of a new global security architecture is of crucial interest to both as US dominance has declined with time (Tellis 2007). Yet, Asian caution may stay the course of political and economic adventurism, given the eighteenth to mid-twentieth century colonial experiences of India, China and much of Asia, and bitter memories of Japan's failed twentieth century imperial experiments in China (Cohen 2002; Lal 2006; Wadhva 2006).

The same cannot be said of hyper-nationalism, the transnational battle for religious and cultural identity; and the slow shift of the global balance of power in favor of transnational corporations, mobile finance capital and high-net-worth individuals, who have overtaken nation states as the largest and most powerful economic entities in the world. This is the space that the elite from both nations are learning to work in.

China as a strong state has developed an entire ecosystem of domestic institutional relationships binding the new elite into the older structures of power and patronage. This ranges from state and PLA-owned enterprises to Party-member run business empires that are dependant on guanxi (guanxi express the relationship of one person to another, or one party to another) and other forms of patronage. India's political and bureaucratic elite, however, has long emigrated to the US and to a lesser extent to Europe, to make their children experience the security of 'good life' that knows no borders.

Both the Chinese and Indian elite diaspora are crucial to a new range of global relationships, enterprises and prosperity, starting to flow into up-market localities in Beijing, New Delhi, Shanghai, Mumbai and Bangalore. They have helped to facilitate the flow of both FDI and FII, the high technology revolution that is starting to sweep many sectors of the economy and have increasing clout in political processes in their home countries, as well as in the US and parts of Europe.

In a quirk of contemporary history, the second generation diaspora elite of both India and China are closely allied in economic, cultural and value terms to those in the US. This makes for interesting contradictions, especially in the articulation of regional identity. The longer range question is the emerging vector between current economic and political power and interests of particular elite and those of subaltern political and regional economic voices, who are less invested in globalist values.

Inter-state relations between China and India, since the 1950s, have been the monopoly of the political and bureaucratic elite (Frankel and Harding 2004). This is changing rather quickly with the rapid expansion of trade, tourism and, more recently, educational and cultural exchange between the two countries. As the penetration of markets deepens into rural and peripheral urban Chindia; the local resistance to globalization crystallizes in the peripheral areas of both countries; new forms of engagement may become possible between mass and subaltern groups in these billion-plus populations that may fundamentally change the relationships between the two cultures and their mediation by various elite groups. These processes are embedded in a range of global and regional transitions that provide structural constraints and opportunities.

CHINDIA: EMBEDDED IN SIX SIMULTANEOUS GLOBAL TRANSITIONS

The economic and geopolitical resurgence of China and India and the opportunity for the creation of the largest market of the twenty-first century are captured in Chindia (Ramesh 2005). Chindia, however, masks the considerable divergence in the socio-cultural and political systems of the two Asian giants, starting with their almost simultaneous post-colonial journey in the late 1940s.

There are, however, a number of structural similarities that are often missed in a comparative analysis of both countries, whose elite stand to be among the most significant beneficiaries of the current wave of globalization. Among these, six global and regional transitions stand out:

1. A **demographic transition** from a rapid population growth to stabilization combined with significant aging. China will experience aging first

and more strongly than India, ironically because of the 'success' of its population policies including its draconian 'one-child policy' (Cheng 2003). This could change not only future demography and consumer behavior in China but also its engagement with modernity, individualism and consumption, similar to the age of the baby boomers in the US.

China's aging population will not only present a challenge of becoming ' grey before becoming rich' but force it to construct a twenty-first century Chinese version of the western European social safety net. Unlike the European experience that was part of the social compact forged in western democracies during the post-World War II economic boom, the Chinese initiative may well be another test of performance-based legitimacy demanded of the State.

India, on the other hand, can make the best of its projected demographic dividend by rapidly scaling-up the provision of public services in health and education and improving both quality and innovation in these sectors to enable a rapid build-up of human capital and its productive engagement across the economy (Dyson, Cassen & Visaria, 2004). The development of a social safety net for India will demand significant innovations both in terms of per capita incomes and public expenditure, which may be much lower than those possible in China for a while.

2. China is close to achieving an **education transition** from the universalization of elementary education, to the near universal provision of secondary education. India, however, continues to lag behind China by almost a decade and a half, with universal elementary education expected post-2015. Even though the transition into a tertiary-education dominated knowledge economy is unclear in either country, it may well become a reality for small parts of both populations, if their globally connected elite can wield their influence in diverting resources and setting up special institutions.

The scale of this education transition in China and India dwarfs the creation of human capital (in both size and quality) in any other period of human history (Hughes and Hillibrand 2006). It is greater in scale than the dramatic schooling and adult education revolutions that swept Europe and North America in the late nineteenth century and the former Soviet Union in the early and mid-twentieth century, providing the basis for the 'modernization' of these societies. The momentum of this early twenty-first century transition in India and China is set to transform both global economic history and the nature of social systems and politics. Yet, the battle for the hearts, minds, identities and pocketbooks of close to three billion people remains among the least researched areas of contemporary social science.

3. An **urban transition** from rural to 'urban' areas will only be complete (in spite of the official UN projections) when both China and India have become predominantly urban. China is undergoing the most dramatic urban transformation in human history, with over 15 million people being added to cities and urban areas every year. It is only in contemporary China that the construction of more than a dozen million-plus cities a year can be contemplated.

This scale of urbanization—while providing new opportunities for dramatically higher productivity, income and wealth generation; engagement with new occupations and lifestyles that were unimaginable even in the early 1990s—has a number of inherent contradictions.

There has been a history of discrimination in China between the peasantry in the countryside and urban elite, led by intellectuals and officials. Historical periods of chaos and disaffection have often been linked to the dissonance between these two classes as surplus extraction became unsustainable or a mix of inadequate governance and insufficient coercion led to peasant revolts and uprisings against regional or imperial authorities. Mao's hukou edict of 1956 crystallized this into a rigid system that provided significant entitlements to urban residents while severely constraining and effectively disentitling those in rural areas. This has led to the creation of a huge underclass of urban migrants, who are important participants in China's global manufacturing competitiveness.

The transition into a primarily urban culture implies that China will have to rapidly re-engineer its hukou system, apart from developing a more participative form of urban governance for over 800 million people. This is a class of problems that no state in history, even with a strong central control has encountered or responded to effectiveness. It is also closely linked to China's future political transition. Hence, multiple experiments in urban governance and democratic innovation is the need of the hour.

A linked challenge to the rapid urbanization of China is its long-term food security as agrarian populations diminish; water and fossil fuels become increasingly scarce and expensive; and the mirage of competing with unsustainable capital and energy intensive North American and European agriculture recedes. It is possible that in time Chinese public policy will reverse its current urbanization drive to address the essential question of food security, in a world where trade and fluctuating prices may well become a constraint. A linked question is the labor intensity and sustainability of the agricultural systems that are strengthened as an outcome of it.

An alternative trajectory for China could be to build upon the remaining agrarian populations and decentralized settlement structures to create a sustainable hierarchy of settlements. The ability to make this switch-over in the future will be strongly compromised by the aspiration to outperform and out-compete the US—based on its more ephemeral and unsustainable exports: the energy guzzling city driven strongly by the automobile sector.

India, like much of other South Asian countries, lags behind the rest of the world in its rate of urbanization, given its current lower middle income country status. Over two-thirds of its population still resides in villages. The deceleration of India's urban growth over the period 1981–2001 is an indicator of the current inelasticity and structural constraints to urban growth. This is partially endogenous and linked to the mixed up frame of urban Indian governance; illiquid and vitiated land and housing market functioning and poor infrastructure development.

The strong roots of India's agrarian population to the land and the slow growth of urban economic and social opportunities have constrained greater rural–urban mobility. The developing agrarian crisis in rural India coupled with the potential impact of climate change, the pull of urban economic growth and livelihood and educational opportunities could possibly accelerate urbanization in the direction of China's growth in the next two decades. Unfortunately, unlike China, India still seems unprepared to address this deluge in terms of institutional capacity, human resources, governance and even building an urban culture.

4. The **energy transition** is among the most diverse contemporary global transformations, encompassing the shift from traditional bio-fuels to conventional fossil fuels such as coal and oil to transition fuels like gas and nuclear energy and renewable source of energy like wind and solar energy. In both India and China, these shifts are taking place simultaneously depending upon location, economic sector, level of modernization and engagement with the global economy. It often reflects the state of the real economy, that is, the mix of traditional, modern and post-industrial sectors and within these, those that are most impacted by globalization.

The most important energy sources for both India and China are coal and oil. Coal underpins much of the industrial production and a large fraction of power generation. Oil and petrochemicals provide critical chemical feed stock and support the bulk of the rapidly growing transport sectors that these economies have developed with the growth of both domestic and export markets, more pertinently in China. In India, a traditional biomass-based subsistence energy economy still persists in many rural areas areas as only half the households have access to electricity.

Hence, a dual challenge needs to be addressed. The first is to provide universal access to basic energy to address domestic and livelihood needs. The other is to simultaneously implement widespread energy-efficiency measures and a renewable energy oriented transformation of its economy (de Vries and Revi 2007).

A key constraint in both countries is that the bulk of their oil and gas are imported. The dramatic rise in fossil fuel prices and the location of new resources in difficult or conflict-ridden locations implies that the strategic imperative to hasten the development of domestically abundant coal-based power and renewable energy is high. The national environmental and social costs of coal extraction and the global impact of carbon emissions could be very significant. Hence, there is considerable strategic and commercial interest in both countries to develop, incentivize and deploy energy efficient, low carbon and renewable energy technology as quickly as possible (Leadbeater and Wilsdon 2007).

This is a clear area of convergence of interest between the US, the European Union, China and India as well as transnational firms and enterprises that can mobilize Research and Development technology and supply chains on a scale that these economies will demand.

5. The **development transition** from primary sector-led economies in the mid-twentieth century to a mix of secondary and tertiary-sector led economies in the early twenty-first century. Here, there is a considerable difference between the two countries, with China having taken a more conventional secondary-sector led development path; while in India it is the service sector that became the largest in terms of output share by the mid-1990s (Hu and Khan 1997). The transition to a secondary- and tertiary-sector led economy has happened in both the countries considerably faster than predicted by their per capita gross domestic product (GDP) levels.

The fundamental strategic challenge is to match a rapidly changing economic output and capital structure with the livelihood structure that is often lagging by a few decades, leading to severe economic, regional and social dislocation as human capital and institutions are unable to keep pace with technological and economic change.

6. The **environmental transition** is the often forgotten transition that has a huge impact on the lives of the poor and vulnerable. Their livelihoods and places of residence are often directly impacted due to their higher risk exposure and vulnerability to a wide range of externalities created by rapidly expanding economy with weak regulation. All three phases of this environmental transition—the brown (for example, wastewater, sanitation and sewage); the grey (for example, indoor and outdoor air pollution) and the green (for example, efficiency, recycling, reuse and climate change resilience)—are taking place in India as well as China. Both countries have a large share of the more polluted locations on the planet. These are becoming important reasons for local social and political mobilization as the living and working conditions of large numbers of people become increasingly untenable.

These six transitions help define the structural confines of the challenges and opportunities that India and China are confronted with. Rarely have such a large number of transitions been confronted simultaneously by such large populations in history.

INDIA AND CHINA'S ENGAGEMENT AND WHAT IT COULD MEAN FOR THE WORLD

Pre-2000, the India and China bilateral trade was less than $3 billion. It has grown by close to twenty times and is expected to cross $60 billion by 2010. China first displaced the European Union (EU), Japan and then the US as India's largest trading partner. As domestic markets continue to integrate and deepen the potential for bilateral trade, commercial services could expand at double-digit rates enabled by the discretionary expenditure of the middle classes growing faster than GDP growth; banking and financial systems could penetrate deeper to reach previously un-served rural and urban residents thereby deepening markets; and open up large numbers of new classes of investors and consumers (Bijapurkar 2007; Khanna 2008).

Trade between China and India, can be expected to have a multiplier impact on South Asian trade, which is very weak because of the historical animosity between potential trading partners. The expansion of bilateral and multilateral trading arrangements between India and other South Asian countries, other trading groups and associations in South-East Asia and West Asia, along with the holy grail of the free trade arrangement between India and China, could alter the landscape of trade in products and services globally. This could also engender a fresh global perspective on contentious issues such as intellectual property rights and mobility of services and service sector workers on which China and India currently share a number of common areas of concern. This could, in turn, be expected to influence global trade negotiations, first for products and later for services in the medium to long term.

This will provide a unique opportunity for domestic firms in both national markets to reach out to the other, using their best strategic advantages. The low cost base and internationally competitive quality of an increasing number of Chinese and Indian firms could make it difficult for Japanese, EU and US multinationals to compete, unless they relocate their manufacturing and service provision centers to either of the two countries. Highly successful transnationals such as GE, have been doing this for more than a decade—leveraging on Chinese manufacturing and Indian IT and marketing skills (Khanna 2008).

In practice, the first true Indian and Chinese transnationals will build their fortunes around a mix of OECD and Chindian markets. It is only a matter of time before entrepreneurs from both sides develop and successfully scale firms that are targeted primarily at these two national markets, with their high heterogeneity, regional and cultural sensitivity, high segmentation across a wide band of price points, and strong oral and increasingly new media tradition. This would be difficult for even well-established OECD transnationals to beat, especially, if access to capital is no longer a constraint.

If moderate to strong growth persists in China and India over the medium run, global growth will become increasingly dependent on the functioning and development of these economies. This can be expected to change the relationship between Asian and OECD countries. The massive growth in savings and investment potential of both these economies (close to 40 per cent) is also a significant factor. This implies that along with Japan, Greater China and India will play an increasingly important role in helping to redefine the new global financial architecture and institutional design.

China currently holds over $1 trillion in foreign exchange reserves. When considered along with holdings in Hong Kong, Taiwan and with the Chinese diaspora, China has considerable leverage over the major currencies. In comparison, India's foreign exchange reserves are only approximately $350 million. However, it is today in a relatively strong and stable position to service and protect the independence of its monetary and macroeconomic policies, as is unlikely to face a situation like the near bankruptcy of 1991.

The rapid growth of these national economies has led to a dramatic growth in their demand for oil and gas, strategic mineral resources and electricity, often at rates higher than that of their GDP. The establishment of an Asian power, oil and gas grid as proposed by a number of specialists, if executed and maintained effectively, could alter both regional and geopolitical relationships between the two countries, and west and central Asia. The development of clean coal technology is a strategic imperative for both countries and could be the basis for a massive joint R&D program that brings together domestic and international firms.

Both countries are seriously constrained by environmental and resource challenges, especially related to water access, recycling, reuse and conservation. Apart from potential trans-boundary issues on the sharing of waters from Himalayan rivers; a better understanding of the monsoons and defining a suite of mitigation and adaptation interventions to address climate change are other areas of common interest. Similarly, environmental conservation, sustainability and the harmonious development of ecosystem services and natural resources are important experiences to share and possibly address jointly.

Apart from the continuing efforts towards finding a solution to the border question, China and India are working to address common regional and global security concerns, especially the growth of Islamic fundamentalism and terrorist activity on the periphery of both states. The pragmatic way forward that both governments are working on is to allow economic exchanges to lead cultural exchange and the settlement of sensitive political matters like the Himalayan border issue.

The strongest and most sustainable link between India and China has historically been religion and culture.. Film, music and the internet will play an important part in deepening this relationship once the technical challenges of transliteration between multiple languages are addressed adequately. The growth of tourism is also expected to be a large money-spinner apart from being one of the most effective ways of closing the knowledge gap between India and China.

The most important actors in these emerging sets of relationships include the private sector, the media, faith traditions, civil society organizations, ordinary citizens and governments. Both national governments have recognized that economic relations should take precedence over the border settlement issue. There has also been some discussion about removing cultural barriers and constructed hostility through an expansion of tourism, film, television, cultural exchanges and deeper academic relations.

The transition from a political and bureaucratic elite-led relationship to one that is increasingly defined by economic and cultural interests is the beginning of a deeper and more stable relationship between the two large cultures. If this works its way through, the historical barriers of language, distance and lack of knowledge will become less relevant in the twenty-first century and a stable, productive and more harmonious relationship between India and China will be possible. This could help redefine the contemporary basis for inter-state relations that were constructed in another continent in another age, when the world was neither 'full' of people and their artifacts', nor networked or challenged by global change.

REFERENCES

Amin, S. (2005) 'India, a Great Power?', *Monthly Review*, Vol. 56, No. 9.

Arrow, K J., P. Dasgupta, L.H. Gouldar, K. Mumford, and K. Oleson (2006) *China, the U.S., and Sustainability: Perspectives Based on Comprehensive Wealth*, Stanford University and University of Cambridge, Stanford Working Paper.

Austin, G. (1999) *Working a Democratic Constitution: A history of the Indian experience*, Oxford University Press, New Delhi.

Baru, S. (2006) *Strategic Consequences of India's Economic Performance*, Academic Foundation, New Delhi.

Bijapurkar, R. (2007) *We Are Like That Only – Understanding the Logic of Consumer India*, Penguin, New Delhi.

Bloom, D.E., D. Canning, L. Hu, Y. Liu, A. Mahal, and W. Yip (2006) *Why Has China's Economy Taken Off Faster than India's?*, Tsinghua University, China.

Bound, K. (2007) *India: The Uneven Innovator*, Demos, London.

Bussolo, M., R.E. De Hoyos, ,D. Medvedev, and van der Mensbrughhe (2006) *Global Growth and Distribution: Are China and India Reshaping the World's Development Prospects Group*, The World Bank, Washington DC.

Cheng, K.C. (2003) *Economic Implications of China's Demographics in the 21st Century*,International Monetary Fund, Working Paper, WP/03/29, Asia and Pacific Department.

Cohen, S.P. (2002) *India Emerging Power*, Oxford Univeristy Press, New Delhi.

Dahlman, C. and A. Utz (2005) *India and the Knowledge Economy: Leveraging Strengths and Opportunities*, WBI Development Studies. The World Bank, Washington DC.

Das, G. (2006) 'The India Model', *Foreign Affairs*, July/ August, Vol. 85, No. 4, pp. 2–16.

Dollar, D. (2007) *Asian Century or Multi-polar Century?*, World Bank Policy Research Working Paper 4174, March.

Dunaway, S. and E. Prasad (2006) *Rebalancing Economic Growth in China – A Commentary*, International Monetary Fund, Washington DC.

Deng, Y. and T.G. Moore (2004) 'China Views Globalization: Toward a New Great-Power Politics?' *The Washington Quarterly*, Vol. 27, No.3, pp. 117–136.

De Vries, B and A. Revi (2007) *India 2050,* MNP Bilthoven

Deshpande, G.P. and A. Acharya (eds) (2001) *Crossing a Bridge of Dreams: 50 years of India China*, Tulika, New Delhi.

Dyson, T., R. Cassen,, and L. Visaria (eds) (2004) *Twenty-frst Century India: Population, Economy, Human Development and the Environment*, Oxford University Press, New Delhi.

Eswar Prasad (ed.) (2004) *China's Growth and Integration into the World Economy: Prospects and Challenges*, International Monetary Fund, Washington DC.

Frank, A. G. (1998) *ReOrient: Global Economy in an Asian Age*, University of California Press, Berkeley.

Frankel, F. R. (2005) *India's Political Economy (1947–2004) The Gradual Revolution,* Oxford University Press, New Delhi.

Frankel, F. R and H. Harding (eds) (2004) *The India-China Relationship Rivalry and Engagement*, Oxford University Press, New Delhi.

Friedman, E and B. Gilley (2005) *Asia's Giants Comparing India and China*, Palgrave, New York.

Guha, R. (2007) *India after Gandhi: The history of the World's Largest Democracy*, Picador, New Delhi.

Hsu, C.Y.I. (1995) *The Rise of Modern China*, Oxford University Press, New York.

Hu, Z. and M. Khan (1997) 'Why Is China Growing So Fast?' International Monetary Fund, Working paper no. 96/75, Washington DC.

Hughes, B.B. and E.E. Hillbrand (2006) *Exploring and Shaping International Futures*, Paradigm, Boulder.

Jadhav, N.R. Ranjan, and H. Sujan (2006) *Re-emerging India a Global Perspective*, ICFAI, Hyderabad.

Jalan, B. (2002) *The Future of India: Politics, Economics and Governance*, Penguin, New Delhi.

Kapur, D. and P.B. Mehta (2005) *Public Institutions in India: Performance and Design*, Oxford University Press, New Delhi.

Khanna, T. and Y. Huang (2003) 'Can India Overtake China?', *Foreign Policy*, pp. 74–81.

Khanna, T. (2008) *Billions of Entrepreneurs: How China and India Are Reshaping Their Futures and Yours*, Harvard Business School Press, USA.

Krueger, A.O. (2004) *Letting the Future In: India's Continuing Reform Agenda*, Keynote Speech to Stanford India Conference, International Monetary Fund, Washington DC.

——— (2005) *Still Achieving, Still Pursuing: The Global Consequences of Asian Growth*, Asia Society, Hong Kong, International Monetary Fund, Washington DC.

Lal. R. (2006) *Understanding India and China Security Implications for the United States and the World*, Praeger, Newport Connecticut.

Leadbeater, C. and J. Wisldon (2007) *The Atlas of Ideas: How Asian Innovation Can Benefit Us All*, Demos, London.

Maxwell, N. (2006) 'Settlements and Disputes – China's Approach to Territorial Issues', *Economic and Political Weekly*, pp. 3873–81.

People's Republic of China (2006) *Guidelines of the Eleventh Five-Year Plan for National Economic and Social Development (2006–2010)*.

Ramesh, J. (2005) *Making Sense of Chindia Reflections on China and India*, India Research Press, New Delhi.

Ranganathan, C.V. and V.C. Khanna (2004) *India and China: The Way Ahead*, Har Anand Publications, New Delhi.

Singh, S. (2005) *China-India Economic Engagement Building Mutual Confidence*, CSH, New Delhi.

Srinivasan, T.N. (2006) *China, India and the World Economy*, Stanford Center for International Development, Stanford University.

Tellis, A. (2007) 'American and Indian Interests in India's Extended Neighborhood' in *India and Transition*, Center for the Advanced Study of India, University of Pennsylvania.

Thornton, J.L. (2008) 'Long Time Coming Prospects of Democracy in China', *Foreign Affairs*, Vol. 87, No.1.

Virmani, A. (2005) *China's Socialist Market Economy: Lessons of Success*, Occasional Policy Paper, Indian Council for Research on International Economic Relations, New Delhi.

Wadhva, C.D. (2006) *Management of Rising Power by China and India in the Twentyfirst Century and scope for their Strategic Partnership*, Centre for Policy Research, New Delhi.

Wallerstein, I. (2006) *Whose Century Is It Aanyhow? The 20th was America's, But that's History*, Yale University, New Haven.

Wilson, D. and R. Purushothaman (2003) *Dreaming With BRICs: The Path to 2050*, Global Economics Paper No. 99, Goldman Sachs.

Winter, L.A. and S. Yusuf (2006) *Dancing with Giants – China, India, and the Global Economy*, The World Bank and the Institute of Policy Studies.

World Economic Forum (2007) *China and the World: Scenarios to 2025 – Executive Summary*. Switzerland.

Yang, Y. (2007) *Thoughts on My Indian Visit* (personal communication)