Why does China receive so much more international attention than India? China is the world’s most populous nation, but the gap is shrinking. For a long time, China’s economy was growing much faster than India’s, but that gap too has closed substantially. In recent years, China has received vastly more foreign direct investment (FDI) than India, but India does almost as well with nonethnic Chinese investors. Indian imports still lag behind China’s, but have begun to increase as China’s did after the first few years of its economic reforms. While China struggles with political liberalization and decentralization, India has long had a resilient democracy, a federal system and—since 1993—a somewhat more decentralized political system. This chapter explains why India was taken less seriously by the outside world and why that situation has begun to change.

Some realists might say that India began to be taken more seriously after it tested nuclear weapons in 1998. But that is only a small part of the story. Goldman Sachs finds that by mid-century, not only will India be a formidable force in world affairs but it will also be one of the world’s three largest economies, behind the United States and China. It has become both an attractive place to invest and a huge future market. Its services industries have taken off. A boom is on in outsourcing and information technology. There are now 20,000 more techies at work in Bangalore alone than in Silicon Valley.
There was also a delay in taking China’s prospects seriously after it started to reform. It took years of sustained changes before the outside world appreciated what was happening in China. Hyperbole turned to horror following the June 1989 Beijing massacre of activists in a democracy movement headquartered in Tiananmen Square and the collapse of European communism in 1989–1991. But foreigners’ enthusiasm soon returned. India’s reforms, more gradual and limited than China’s, have been maintained only since 1991. India’s economy was hardly wounded by the 1997–1998 Asian financial crisis. India had been cautious about opening financially because of the dangers that global forces represent. Since the Asian financial crisis, growth rates to the east of India have again picked up, but India still competes respectably with even the best of Asian tiger economies. Sustained growth rates of around 7 percent now seem achievable.

Cynics held that India’s rambunctious political system would stifle growth. But five general elections since the reforms began have produced little retreat. When these trends persist, the outside world’s still somewhat guarded interest in India and its economy is likely to grow. India already has a working democracy and well-tested federal structures for governing the decentralized system necessary in large market economies. China’s decentralization, discussed here in the chapter by Sinha, is not as institutionalized. Some Indian states have developed impressive experiments with democratic decentralization to lower levels that deepen democracy and foster creative synergy with civil society (Manor 2002). The state governments in India’s federal system have often taken the lead in economic reform, something the World Bank’s strategy for the country has recognized. India has a well-established system of law—not least commercial and contract law—and (albeit slow-moving) judicial institutions. Unlike China, India does not make irredentist claims on its neighbors’ territory and it is far more transparent about military matters. As a result, India has better prospects of moving smoothly toward greater interdependence with the outside world than China. But all of these hopes depend on sustaining economic reform and managing the ensuing political challenges.

II

India’s economic reforms began in mid-1991, at the time of a severe financial crisis. But the crisis did not require the reforms to go as far as they have. Prime Minister P. V. Narasimha Rao and Finance Minister