50 Book reviews on global economy and geopolitical readings
Inside Out India and China: Local Politics Go Global


“China is not only Beijing and Shanghai; India is not only New Delhi and Mumbai. The United States and Europe need to understand the range of important localities in the world’s two largest nations and they also must actively engage with those local communities and leaders.”

“Western capitals should adopt more realistic expectations about what can be done in bilateral, multilateral, and global negotiations. They must understand that the handshake on a bilateral agreement with China or India is only the beginning of the implementation process.”

Summary

The economic and political rise of China and India will largely define this century – with one in three people on the planet governed from Beijing or New Delhi. It is likely that both of these economies will reach and then overtake the United States and the European Union in the coming decades. Moreover, both countries are flexing their muscles in international relations. William Antholis argues that the direction, shape, and speed of their rise will have huge ramifications, and therefore, every company, investor, or businessman who wishes to compete globally must understand what drives both nations.

Antholis claims that many in the West still see the Asian giants as political monoliths, closely controlled by their national governments, and that a revision of this outdated notion is urgently needed. To convince the reader, William Antholis explores (through research as well as hundreds of discussions with key individuals made during a trip through both countries) the enormous diversity of governments and business models in China and India.

The innovation, dynamism, and local factors that Antholis examines lead to the conclusion that maintaining a presence in just Beijing or New Delhi is insufficient to ensure success in either country. Both are vibrant, diverse, and increasingly decentralised states. Both nations have their own agricultural strongholds, high-tech corridors, resource-rich regions, and manufacturing centres. Each has as many people as the United States, Europe, and Latin America together. However, few Westerners
can identify these regions, much less understand how they are defining the global future. For this reason, and as a conclusion, William Antholis identifies an inside-out strategy that governments, companies, and organisations in the United States and Europe need to adopt for the sake of cooperation and a productive dialogue when addressing key national and international challenges.

The author

William Antholis is non-resident fellow and former managing director of the American think-tank The Brookings Institution. His academic experience has focused primarily on how democracies manage their foreign policy, and he has served in the White House and State Department. He has co-authored Fast Forward: Ethics and Politics in the Age of Global Warming with Strobe Talbott.

Key ideas and opinion

Local power has increased exponentially in recent decades in China and India. Subnational leaders are now responsible for ensuring the economic growth of their regions and they handle key decisions such as energy management and use of natural resources. These leaders, in the opinion of Antholis, are responsible for the inside out change that both China and India are experiencing, and some of them are in fact becoming national leaders, holding key roles in the success or failure of the implementation of international agreements. To show the rise of local leadership, as well as the opportunities and barriers that this presents for cooperation with both countries, Antholis reviews development in key regions in China and India by examining their main innovation, economics, and energy policies. He presents a series of key recommendations for the United States (that are also valid for Europe) in the pursuit of its national priorities – and, not least, international ones.

China: promised lands, heartlands, and badlands

China is not a federal state. Its leaders want, above all, to preserve unity and territorial integrity. Nevertheless, Antholis points out that local autonomy has been critical in China’s economic boom. The author emphasises that to anticipate how China will evolve, it is essential to understand the balance that China makes between local innovation and national unity. This involves, according to the author, understanding that the Chinese landscape is composed of three realities. The first reality is an economically vibrant coast. The second is a booming heartland, where most Chinese people live and where economic growth is led by the state. The third reality is the remote west of the country – unstable but rich in resources. Given this diversity, Chinese leaders are obsessed with preserving unity (or creating unity, according to the author).
The author explains that the promised lands are the twelve coastal provinces that generate two-thirds of China’s GDP. Of these, four stand out and produce 70% of Chinese exports: Guangdong, Shanghai, Jiangsu, and Zhejiang. These provinces share some priorities – such as raising local competitiveness, introducing greater transparency, and compensating for the loss of financial support from the national government – but have distinct and differing needs.

Many in China look to the ‘Guangdong model’. Nearly half of its economy is privatised, most of its products are exported, and many companies are owned by foreigners. In Guangdong, these foreigners have access to land and labour, but not necessarily to shareholdings and directorships. Politics in this province is surprising: the secretary of the Party for this province was unusually open to NGOs, civil society groups, and independent trade unions until 2012. He also negotiated directly with Honda Motors for higher pay and improved working conditions, and gave priority to intellectual property protection so that foreign investors would pursue high value research and development.

Shanghai is another key province and it has set itself the goal of becoming the world’s financial hub by 2020. However the author believes that local leaders should reduce the role of government in business and make decision-making more transparent. Similar reforms could be implemented in Jiangsu, the fastest-growing export centre growth in China (but the least open in terms of government). Zhejiang, meanwhile, is an incubator for local entrepreneurs, and according to Forbes, provides the most business friendly environment. However, since the economic slowdown in 2012 and the cut in lending by state banks, its small and medium firms are facing a credit squeeze since private banks have not expanded sufficiently to meet credit demand.

As they try to liberalise, these provinces are pioneering a new wave of environmental and social regulations. For the author, if these provinces do poorly in their environmental protection goals, then there is little chance that the central and western provinces will do better.

Development in the central heartlands will be critical to the country’s political stability. According to the author, lost ground is being recovered – but there is still a long way to go. At the moment, fiscal transfers and other preferential policies are the only investments being made, which, according to the author, is an unsustainable business model. Sustainability, says Antholis, requires more transparency than the leaders of these provinces are willing to tolerate. The three main provinces (Chengdu, Xi’an and Chongqing) remain largely rural. Most state investments are aimed at public infrastructure – such as motorways, bridges, and airports – as well as the construction of homes, offices, and recreational facilities.
Chongqing, under the leadership of Bo Xilai, has become the counterbalance to Guangdong. The region achieved a growth rate of over 16% in 2011, attracted investments from Hewlett Packard and Hacer, and exported $7 billion worth of goods per year. But as China develops, Antholis questions if its leaders can economically and politically afford to follow Bo’s model. Development in this model is led by the provincial government, and based on large public debt and major investments in public infrastructure. Low wages ensure competitiveness.

The interior of China will grow only if the provinces of this region can identify stable sources of revenue to fund social services and overcome challenges in transparency, public infrastructure, and competitiveness. Otherwise, the foundation of national stability will begin to crumble. The sustainability of this region is of economic, political, and environmental importance worldwide because of the aggressive growth it pursues. Current progress is difficult to judge, among other reasons, because statistics are unreliable given the lack of transparency by local governments, banks, and businesses. For example, the author highlights that there is widespread doubt that the central authorities would even be able to detect a banking collapse in time.

The plains and mountains of western China attract more government investment than any other region, up to 16 times more than Guangdong, for example. The position of Beijing is clear: without national support, the regional governments could not function. In the same way that American president Eisenhower made the construction of an interstate highway system a national priority, Chinese government leaders have prioritised the construction of roads and airports in the west to facilitate access for the army and to send workers of Han ethnicity to work in construction projects and security tasks. This policy has caused protests in Tibet, Xinjiang, and Inner Mongolia, leading to violent riots in 2008, 2009, and 2011. The government's response in each case was to send yet more resources and manpower.

Antholis notes, however, that while the central government sends resources to this region, it also obtains resources from the area – especially energy resources. But unlike the coastal provinces – where energy extraction stimulated economic growth – in these provinces, and especially in Inner Mongolia, energy extraction has only marginally improved the quality of life for the Mongols.

According to Antholis, Beijing's leaders must find a way to respect minorities in this region while developing a sustainable economic and environmental strategy. Moreover, he argues that this crisis is not only internal. Many of these minorities have counterparts on the other side of the border, in places such as Mongolia, Turkmenistan, Kazakhstan, Nepal, Bhutan, India, Bangladesh, and Burma. When looking at China, many neighbours of these neighbours do not see the promised land – or even a wasteland. They see a land with hard-line government.
India: forward states, backward states, and swing states

In India, as in China, there is a wide mixture of central and local authorities. And, as in China, India’s history, geography, and governance have determined the level of development that separates forward, backward and swing states. Antholis selects seven states (that account for half of India’s GDP, some $800 billion) to illustrate the diverse economic reality. This group includes the three types of states described by the author, and each type differently influences India’s national and international policies.

Forward states include Maharashtra, Gujarat, and Tamil Nadu, and are the most attractive for foreign investors and the most influential in shaping the global economy through a wide range of products and services, from manufacturing to the provision of high-tech services and pharmaceuticals. These states share high productivity, entrepreneurship, relative wealth, literacy, urbanisation, and general openness: factors that are helping to further increase wealth. This group of states is mostly worried about the national trade balance and fluctuations of the rupee, and pressures New Delhi to facilitate foreign investment. In a federal system where it is still difficult to sell products between states, the forward states are lobbying for an Indian common market.

Of these states, Gujarat has grown the fastest, under the leadership of Modi, former state chief minister and, since May 2014, Prime Minister of India. Antholis explains how Modi launched the ‘Vibrant Gujarat’ programme in 2003, a trade-oriented campaign to attract foreign investors. The campaign offered no incentives nor paid bribes, but offered investors a one-stop service for dealing with government bureaucracy, as well as good quality electricity and water. The campaign worked. Investments jumped from $14 billion in 2003 to nearly $450 billion in 2014. The author emphasises that Gujarat also achieved in 2004 something that no other Indian state has been able to do: it successfully reformed the energy market, establishing a schedule of subsidies based on inspections of the real income of citizens and the energy distribution – enabling tariffs to be effectively set and bills collected.

However, Modi consolidated power with more than just economic and energy achievements. Antholis indicates that his success is linked to his version of Hindu nationalism, which calls on a ‘Hindu civilisation’ in a similar way to those conservative Americans who advocate ‘Western civilisation’ or ‘Judeo-Christian values’. Modi’s power to inspire and polarise is built on the belief that he is willing to back his words with action. According to the author, rising nationalism may impact on the country’s democracy. However, he emphasises that if provincial states continue reforming their economies and maintain respectable limits on political infighting, then India’s future still looks promising.
The **backward states**, however, represent the rural India that is still struggling with the idea of a global outlook. The leaders in this part of India do not usually discuss the global economy; however, they are starting to look outwards to achieve more growth. For Antholis, their success will depend on their achievements in providing basic services such as education, electricity, security, and roads. And improvements are starting to show in these areas. Bihar, a landlocked state that is divided into castes and scarred by crime, is a good example: this state is home to India’s most recent success story. Its chief minister, Nitish Kumar, led the economy to a growth rate of 11% between 2005 and 2009. He used government resources for essential public services such as roads, education (especially of women and girls), and law enforcement. Fundamental challenges still remain: such as the provision of a reliable electricity service. According to the author, the way in which this state manages its journey towards modernity will determine how the rest of the country moves towards a global future.

Finally, the **swing states** are trying to harness their internationally connected cities and use them to lead the development of their mostly rural populations. Two contrasting cases are worth highlighting: Andhra Pradesh and West Bengal. For Antholis, Andhra Pradesh and its capital Hyderabad illustrate how India can progress – while also showing the difficulties in simultaneously mobilising and modernising the poor. Hyderabad sprang onto the international stage in the late 1990s, with the help of its charismatic leader, Chandrababu Naidu, who rose to power with his own agenda for economic development and reform. Naidu is known to have cornered Bill Gates at the home of US ambassador to India and explained (during a 40-minute PowerPoint presentation) why Microsoft must invest in Hyderabad. In turn, Naidu promised to invest in airports, highways, and schools – and today Hyderabad boasts some of most impressive infrastructure in India. Growth was driven by the fact that for every public rupee invested, more than two rupees of private investment were made. The city is now home to many international firms – including Google, Deloitte, and Accenture. Naidu helped Andhra Pradesh advance from being one of the poorest and most agricultural states to becoming one of the middle states.

However, and especially during his second term, Naidu lost the support of farmers, who felt ignored and complained about the rising cost of electricity. He subsequently lost the election against Reddy, a paediatrician and devout Christian whose main message was about helping the poor. Once elected, Reddy focused on a massive expansion of irrigation, old age pensions, and village employment programmes. Most importantly, perhaps, was the fact that he did not kill the golden goose of Hyderabad, and continued the policy begun by Naidu. The leaders of Andhra Pradesh seem to understand the importance of balancing growth and industrialisation with social fairness.
Very different is the case of West Bengal, whose capital – Calcutta – was once the capital and jewel of British India. The city has now become synonymous with decades of mismanagement. Antholis points to the emphatic opposition of populist leader, Mamata Banerjee, to global corporations – she refuses to meet foreign ambassadors who promote business. To generate revenue, Banerjee has imposed import tariffs on goods from other states.

According to the author, the paths taken by Andhra Pradesh and West Bengal will serve as a benchmarks for the rest of India to see whether increased global integration can lead to greater benefits. Another major challenge is access to electricity. For Antholis, the regional states will continue to provide an inadequate electricity service until they manage to set correct prices. Power cuts, together with a chronic lack of investment, have generated excessive investment in diesel plants (which are expensive but reliable). In the author’s opinion, in a country with more than 200 sunny days a year, solar energy could offer a great future. In fact, solar power is beginning to be used in remote areas to give rural populations easier access to electricity.

**Inside out diplomacy**

For the most part, the cases described by Antholis show the positive impact of the rise of local power in politics. With power increasingly diffuse in China and India, the author of *Inside Out* believes that knowing these local leaders is essential. For that reason, the author concludes with a series of specific recommendations aimed mainly at the United States, but which are also applicable to Europe. Firstly, he argues that America should double the number of consulates in both countries over the coming decade, even if this means diverting resources from Europe and Latin America. In 2013 there were only six consulates in China (that is one for every 200 million people), and five in India (or one for every 240 million people); compared to 55 consulates in Europe (equivalent to one for every 10 million people).

The author believes it is necessary to increase cooperation with Chinese and Indian mayors by implementing a policy of strategic commitment. He argues that there is great potential for synergies between the cities and states of China, India, and the United States, such as the group created between California and Guangdong to work on climate change, renewable energy, and energy efficiency.

On security, Antholis recommends addressing crises using a top-down approach. Some Americans may think that local leaders in China and India should not have a formal role in international diplomacy, and that China and India may resist devolving more power. However, the author observes that many of the communities in both countries, as demonstrated in the cases described, want to increase their global commitment. And when it comes to implementing international agreements, provincial and regional leaders are often more influential than their national counterparts, and have the power to block national agreements on global issues.
When it comes to negotiating global agreements, Antholis emphasises that China and India are practically two worlds in themselves. Therefore, it is necessary to be realistic about what can be achieved, especially in light of the growing diffusion of power in both nations. For this reason, he recommends focusing on success stories at local and regional levels. With this approach there is no need to wait for the US government to act, as state governors and city mayors can act as ambassadors and mentors, showing their Chinese and Indian counterparts how to achieve global objectives.

In line with this proposal, Antholis suggests that provincial and regional leaders play a more visible role in international processes – as in the climate change negotiations. This will educate these leaders on the mechanisms offered by these new agreements, and show a desire to directly include local government in global diplomacy. Ultimately, this strategy would be part of a new approach to China and India, based on an inside out and bottom-up strategy, in which tensions between local, national, and global powers are respected and resolved. That is, for the author, the essence of federalism.