

grounded in common law—a feature also common to the legal system in North America and the U.K.. The case law in India goes back decades. China is struggling to develop its legal system. The combination of clear property rights and the rule of law gives foreign investors an important instrument to enjoy returns and ownership of their investment in India.

Messy and slow, but democracy works. India is the largest democracy in the world, in contrast to China, which remains a dictatorship. Chinese reforms can be introduced by the consensus of the leadership in China and carried out by state dictate. Implementing reforms takes longer in India, but once in place reforms are not easy to repeal as under a dictatorship.

In the long-run, if India can reform its statist regime in favour of a market-based economy, India would be a capitalist democracy—much like the Western economies. In contrast, to fully carry out reforms to establish a market-based economy, China would have to give up its ideology of state socialism, and even then, unless it reforms its political structure, China will be market-based dictatorship.

Overall, if reforms have bright future in China, the institutional set-up in India makes their prospects even brighter.

5. The Political Economy of Future Reforms

India has a long history of maintaining a multi-ethnic society. India has had a decentralized form of social control as embodied in the Indian caste system, and relatively regionally fragmented village communities for two millennium. Historically, over the last two thousand years India has been repeatedly subjected to political instability and changes.

Changing architecture. Broadly speaking, post-1947 India's political structure has been characterized by three planks: secularism, democracy and socialism. In the 1990s India is undergoing a fundamental restructuring and transformation of its economy: away from the rotting socialist underpinning and toward free-market economics. Secularism has always had to struggle against religious forces in the past and caste-based vs. Hindu fundamentalism politics in the more recent years. But tampering with democracy, as Mrs. Indira Gandhi