Globalization and Inequality in Emerging Countries: The Cases of India and China

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To analyze the dynamics of inequality induced by the globalization process underway in emerging countries, we will use the concepts devised by Giraud (1996 and 2007), and particularly those of competitive vs. protected individuals on the one hand and nomadic vs. sedentary capitalist actors on the other hand.

Nomadic firms are those that create relations of cooperation and/or competition between individuals in different countries, or "territories" as we will henceforth term them. They can range from firms going global down to the individual entrepreneur. Sedentary firms do the same thing as nomadic firms, but solely within a single territory.

In any territory subject to an opening-up process and put in competition with other territories by nomadic actors, it is possible to distinguish two groups of individuals among the active population: the competitives and the protected. The competitives are those that the nomadic actors place in direct competition with individuals located in other territories. They are thus involved in the production of internationally tradable goods and services. They can only keep their jobs if they are "competitive" on the world market, in the ordinary sense of the term. The protected are put in competition, sometimes an extremely fierce competition, by sedentary firms on the same territory. They are therefore only in competition amongst themselves in the production of goods and services for local consumption.

1 Giraud: 2006.

The first level at which to analyze inequality is thus the respective average income trends—for the competitives on the one hand, who confront and take advantage of globalization, and for the protected, on the other. These depend on three interrelated factors: numerical growth and growth of wealth per capita in the competitive group—which depends on their relative competitiveness on the world market—endogenous growth within the protected group, and the exchange dynamics between the two groups, particularly the share of income the competitives are obliged, or agree, to spend on local goods and services.

The second aspect of the evolution of inequality is the way in which average gains are distributed across each group, according to level of education and competence, as well as the monopoly positions some individuals or groups have managed to achieve. But of course, since many competences, especially unskilled labour, can be used by both groups, job markets cause the distribution of competitive and protected incomes to interpenetrate. Certain protected people, generally the most qualified, are drawn upward by the rapid increase in income of the most qualified competitives. Certain competitive people, in particular the least qualified, are drawn downward by the existence of a large mass of unqualified labour in rural areas and the urban informal sector.

The resulting shape of income distribution, a way of measuring social inequality, thus depends first on the intensity of the driving mechanisms operating on average protected income by competitive income, and second on the functioning, of the goods and labour markets. These are what distribute the growth of wealth among groups and within groups. Market imperfections can have classic economic causes, but social ones as well, for instance language barriers or discrimination of any nature: state, social, religious or cultural. These all hinder the "free" working of markets.

The third facet to take into account to understand the dynamics of inequality is the geographical dimension. Legal obstacles as well as costs related to the mobility of people and goods and services—costs that depend on communications infrastructures—naturally fragment both labour and goods markets and hence play an important role in the spatial diffusion of competitives' wealth within their own group and towards the protected. Thus disparities are not only spatially carved out between provinces, and between cities and rural areas, but also within "global" cities themselves. This for instance explains the steadfast preference of poor urban dwellers for slums in the heart of the city rather than project housing 30 km from the centre. Within the city they are much more likely to capture a share of their competitive neighbours' income by sheer proximity to them.

States and their local institutions act in many ways on these intertwined dynamics that contribute to reducing or aggravating inequality: by regulating the functioning of markets, by favouring national nomadic firms or by stimulating concentration among them in order to improve their competitiveness for instance. They also act by supplying public goods ranging from research, education and health care to communication infrastructures. They can also act by making pure transfers: family allowances, unemployment benefits, etc.

If one is willing to admit that market imperfections are omnipresent and that state intervention also has political motivations that cannot be boiled down to a purely economic rationality, then the conclusion must be drawn that it is illusory to claim to establish "general economic laws" for changing patterns of inequality, or even laws applicable only to a subgroup such as emerging countries rapidly on their way to catching up.

Market imperfections are indeed widespread, but to varying degrees within a territory and between territories, in the processes of concentration of wealth—increasing returns on scale, monopoly rents, economies of agglomeration, etc.—and diffusion of it: mobility and substitutability of production factors as well as goods and services, externalities related to the dissemination of knowledge, etc.

It is moreover obvious that states that intervene in these processes do not do so solely according to a single economic goal, for instance to maximize the speed at which they catch up with rich countries (maximum per capita GDP growth) or reduce the absolute poverty index. States also intervene with more specifically political objectives, which themselves depend on historical and social factors, such as the societal degree of "tolerance" for internal inequalities.

In short, the elementary dynamics behind the creation, concentration and diffusion of wealth engendered by globalization and politically influenced by states are beginning to be well understood. However, no generalization can be made about emerging countries as a whole, given the complex intertwining of these dynamics that are acting on a geographical, social and human substratum shaped by the long history of each country. This remains an empirical question that can only be treated in depth through case studies.

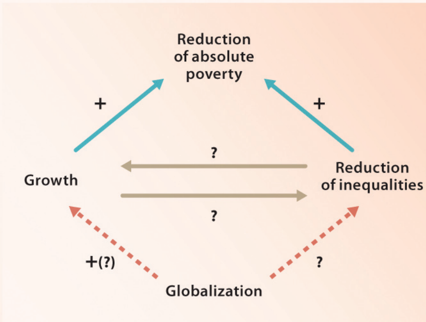
This chapter undertakes two such case studies for India and China. Given their population and the types of catching-up processes the two countries have engaged in, the dynamics of inequality within each of them indeed has, as we shall point out in conclusion, significant economic consequences for the rest of the world, which is not necessarily the case for South Africa or even Brazil.

Before that, we will simply gauge the empirical diversity of poor and emerging countries by presenting and commenting on a few figures taken from the World Bank's report on development indicators published in 2007 (WDI 2007).

Growth, disparities and poverty in emerging countries: an overview

The World Bank's 2007 report on development indicators (WDI 2007) gives an overview of changes in per capita income, inequality and the rate of absolute poverty since the early 1980s for a sample of some 60 poor and emerging countries with available data. It takes as an implicit conceptual framework the figure 99: **Growth / inequality / poverty triangle**

After F. Bourguignon



+ All things being equal, a rise in average income and a reduction in inequality reduce absolute poverty. That can be deduced merely from the definitions.

? On the other hand, depending on the country and the period of time, growth can reduce or increase inequality, and inequality reduction policies can either stimulate growth (by expanding the domestic market or by opening poverty traps), or on the contrary thwart growth (for instance by reducing incentive to competitives).

? As to the effects of globalization (opening up to international trade and foreign investment) on both growth and inequality, globalization is generally admitted to have a positive effect on growth as long as adequate domestic policies are in place ("good governance" and investment incentives). The effects of globalization on inequality are much more complex, as we have shown above.

Compiled by Pierre Noël GIRAUD and Joël RUET.

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"growth-inequality-poverty" triangle made popular by François Bourguignon. This figure provides a simple illustration of the complex links tying globalization to what is henceforth the central objective of development policies: the reduction of absolute poverty.

Below are the most recent income Gini coefficients for a certain number of emerging and OECD countries.

We note a considerable dispersion among income Gini coefficients within emerging countries. Generally speaking, social inequalities are lower in Asia than in Latin America and Africa with the exception of China, which in the last 15 years has reached the level of inequality characterizing some Latin American countries, whereas it began its catching-up process with a Gini coefficient of just over 30, very nearly on a par with India at the same time.

Changes in inequality over the past two decades

Empirically, here are the major trends that emerge from the changes recorded in some 60 poor and emerging countries according to the WDI 2007 report. We note that from the early 1980s to 2004:

- the absolute poverty rate was considerably reduced in East Asia, more moderately in South Asia. In 1996, this rate even started to decrease in sub-

table 8: **Growth, Poverty, Inequality in a selection of emerging and poor countries 1981-2004**

Pakistan (2002)	30.6	Chile (2003)	54.9
Indonesia (2002)	34.3	Brazil (2004)	57
Vietnam (2004)	34.4	South Africa (2000)	57.8
India (2004)	36.8	Norway (2000)	25.8
Russia (2002)	39.9	Germany (2000)	28.3
Mexico (2004)	46.1	Korea (1998)	31.6
China (2004)	46.9	France (1995)	32.7

Saharan Africa, but owing to population growth, the number of poor rose between 1990 and 2004;

- among the 36 countries in the sample that experienced growth in average per capita income, 26 also experienced a rise in inequality;
- in at least six of them, per capita income growth should have reduced poverty, but a rise in inequality overcame it and poverty finally increased;
- inequalities rose in 20 of the 23 countries where average per capita income diminished;
- however, nearly one-quarter of the countries show exceptions to the rise in inequality, with ten countries having an increase in average income and a drop in inequality, and even countries where inequality was reduced despite a drop in average income.

For India and China, which make up part of the sample and which we will discuss in detail further on, here are some additional data.

Growth, particularly in China, has spectacularly reduced the rate of absolute poverty and the number of poor. However, as will be seen in greater detail in the following two sections, such growth has coincided with a sometimes rapid increase in inequality. Thus the reduction in absolute poverty was not as significant as it might have been if the benefits of growth in the catching-up process had been more evenly distributed, unless of course the rise in inequality is itself a condition for the very fast growth of competitives' income. We shall return to this question in the concluding remarks.

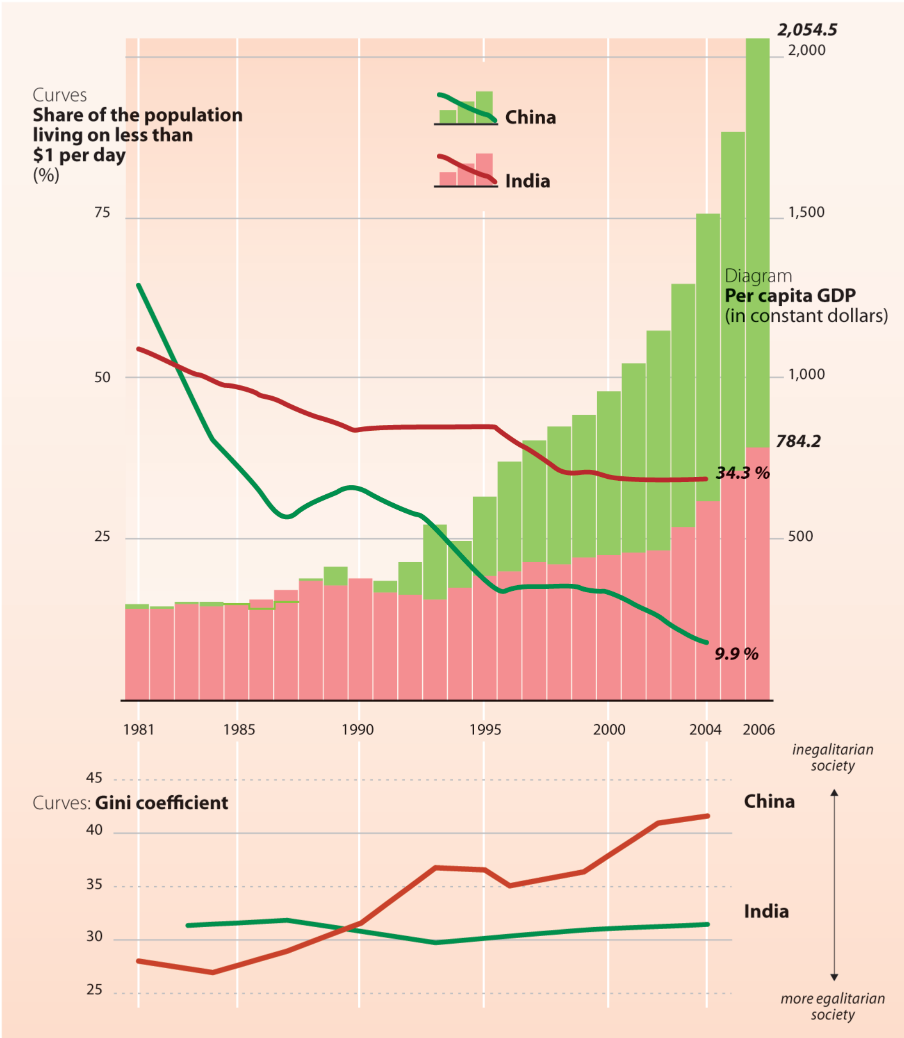
In the two countries, inequality among the Chinese provinces or Indian states has increased.

In China and India, how do the legacies of socialist and developmentalist periods fit in with the game of nomadic and sedentary firms in the current trend toward globalization? With what results? This is what the following two sections propose to examine.

China

The Maoist legacy

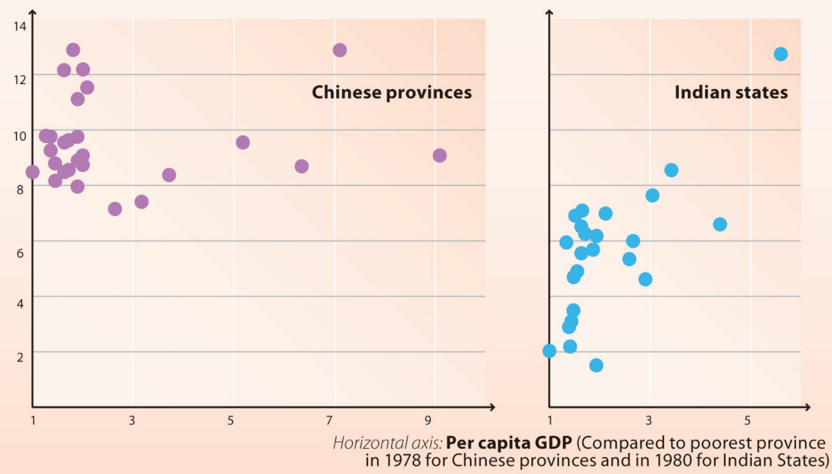
In 1978, when China engaged in "reforms" and opened the door to economic globalization in which it would become a major actor, the legacy left by the Maoist era was as follows: a centralized and omnipresent party-state with branches all the way down to basic production units; within the party-state, in the general framework fixed by the central powers, relative autonomy at the level of the provinces and large and even secondary cities; a rural industrial tradition drawing its source figure 100: **Per capita GDP and poverty in China and India, 1981-2006**



Source: Adapted from Chen and Ravallion, *Poverty measures*, 2004 ; IMF World Economic Outlook, Globalization and Inequality, 2007, World Economic Outlook Database, http://www.imf.org/; UNCTAD, Handbook of statistics, *2006-2007*; United Nations, *Millennium Development Goals Indicators.*

in the Great Leap Forward and reinforced by the people's communes; a method of reform proceeding by pilot experiments later applied across the board if successful (this method first widens disparities, then reduces them); a multi-millennial concern by the centre about the danger of the country's breaking up; a socialist respect for the worker, the factory, technology; and a basic educational level initially much more egalitarian than in India.

At the end of the Maoist period in 1978, China, like India, had one of the lowest income Gini coefficients of all the Southern countries: between 30 and 35 (more than 60 for Brazil and South Africa). However, stark inequalities remained figure 101: **Per capita and annual growth by region in China and India, 1978-2004**



Source: Compiled by Pierre-Noël GIRAUD and Joël RUET, from China Statistical Yearbook, various years ; Central Survey Organization, Government of India.

between the city and the countryside. 80% of the active population worked in rural areas. Only 22% of the active population were industrial wage-earners in urban areas, thereby benefiting from the socialist system known as the “iron rice bowl” (housing, social welfare), on the eve of reforms.

Inequality since the 1978 reforms

On the whole, “competitives” undeniably had an upward mobility effect on the “protected”. Very sustained growth provided for a spectacular reduction in the number of individuals living below the poverty threshold of one dollar per day, as explained in section 2.

Income rose for all quintiles of the population. However, between 1993 and 2004, annual per capita income growth was +3.4% for the 20% poorest, but +7.1% for the 20% richest. Consequently, inequalities among households measured by the consumption Gini coefficient rose sharply in China. Between 1993 and 2004, the coefficient rose by seven points. It was 47 in continental China in 2004, compared with 33 in Taiwan and 32 in Korea. Estimates presented in a recent Asian Development Bank report entitled *Inequality in Asia* (2007) indicate that with the same growth rate, if inequality had not risen, the absolute poverty rate would have dropped below 5% (instead of 10%).

Inequalities between urban and rural areas

The initial reforms applied to the peasantry, as was the case in Korea. They were relatively egalitarian in that peasant families were granted locally well-distributed land-use rights. However, this system allowed significant differences to persist, due to varying degrees of fertility of the regions and distance from town markets. Peasant income increases, which reached a record level during the first half of the 1990s with an annual rate of 14%, ran out of steam from the early 1990s. Competitives involved in industry and services, which have been growing at a rate of 10% or more since the 1990s, have of course only shared a decreasing portion of their income with the protected rural agricultural workers, agriculture thus increasing only by 2% per annum, and rural income by 3%.

In the countryside, the weight of numbers is decisive. The number of peasants doubled between 1950 and 1990 for a cultivated surface area that remained practically stable. Despite higher yields since 1978, the fragmentation of land has reached such a point that it dooms most peasants to low incomes. Out of the 248 million rural households in China, 200 million farm plots of land with an average surface area of 0.6 ha. Over the whole planet, only Vietnamese peasants cultivate smaller plots of land. The French farmer cultivates an average surface area 35 times larger, the American farmer 100 times.

The levelling of incomes between cities and countryside and between industry and agriculture, usually occurs through rural-urban drift. For easily understandable political and economic reasons when one considers the extension of slums in South Asia, that drift is fairly controlled in China. But this undeniably widens the inequality between large cities and the rural milieu.

The difference with city dweller incomes, which narrowed somewhat in the 1980s, has considerably widened since then. Today it is at its highest level since 1949. A rural dweller earns 3.2 times less on average than a city dweller (the lowest divergence to date, reached in 1985, remains 1.8). And this gap is widening for peasants in the interior regions and the far west who earn nearly ten times less than the average annual income of someone living in Shanghai. Even in industrial jobs, for equal skills and seniority, wages in large cities are 50% greater than what they are in average-sized cities in the interior.

Growing inequality in access to public services

Against a backdrop of rising per capita income, the proportion of private funding of once public services has risen sharply, accentuating inequality and causing a slump in household consumption. Moreover, between 1978 and 1994, China organized the phased decentralization of its tax system. The lowest echelons of the administration now manage a large portion of health and education expenditure. The wealthier local governments have the means to redistribute, but not the poorer ones. For instance, tax revenue for an inhabitant of Shanghai is 15 times higher today than for someone living in Guizhou Province, a fact that contributes to widening the inequalities in access to public goods and services.

The difficulty of access to education in rural areas has thus produced a sharp rise in illiteracy in recent years, with a 36% increase between the year 2000 and 2005; it now affects 116 million people, primarily peasant children. Nearly one million peasant children leave the school system each year because their parents cannot afford the cost of education (Rotman 2007).

Widening inequality in the cities

The widening of inequality in urban areas is the result of two phenomena. First, despite the *hukou* system (a sort of internal passport that prohibits a rural dweller from going to work in large cities, legally at least), migrant workers have arrived from rural areas en masse, even though they remain excluded from the urban education, housing and social welfare systems. Second, massive layoffs have been made in the public sector since 1994 to restructure state-owned companies. These have affected between 30 and 50 million people, creating more vulnerability among large segments of the urban population that belonged to the "socialist" system. One worker out of three in the public sector is estimated to have been laid off at some point in 1994. Over two-thirds allegedly found new jobs but in more unstable conditions than those provided by the former Socialist "iron rice bowl".

The development of private entrepreneurship and corruption has also led to the formation of a very wealthy class in the space of some 15 years. It is hard to know the precise figures in a country characterized by mass tax evasion, but their numbers have skyrocketed since 1992, the date when the first Chinese millionaire was counted. A study conducted by a foreign consulting firm estimated that there were 236,000 Chinese millionaires (in US dollars) in 2004, with a rate of increase of about 12% per year. Nearly 2 million Chinese households have available savings of over 100,000 euros.

Towards policies to control inequality?

In China, just as the state claims to be seriously concerned about environmental problems today, growing inequality is also the topic of lively debate. With Beijing's support, cities in the centre of the country such as Wuhan and Chongqing have undertaken to catch up with the coastal cities, which nevertheless continue to grow at an impressive rate.

The "harmonious society" policy advocated by the Chinese Communist Party since 2003 and reinforced during the recent 17th Party Congress is an attempt to refocus growth on domestic consumption, with a rise in purchasing power for the middle classes and rural migrants arriving in the cities. This policy involves reducing inequality in access to public goods, particularly education and health care, which should make possible a decrease in the rate of household precautionary savings and boost consumption. Out-of-pocket medical expenses for the Chinese citizen today are 61% of medical fees (compared to 20% in Thailand, 30% in Brazil and 13% in the United States). As for education, the share of private funding has topped the 50% mark since the early 2000s (it is 1% in Norway).

The first measures aiming to reduce urban/rural disparities were taken in 2004 (Lardy 2006). As regards tax policy, the tax on agricultural produce has been gradually eliminated and peasant income tax has been reduced. The effects of these measures have nevertheless been limited. Tax savings are only about 2% of the rural dwellers' consumer expenses, and moreover, other taxes have been introduced at the same time in the rural milieu. In education, early measures involved waiving tuition for the children of the poorest rural households. These measures were complemented by increased education subsidies at the lowest echelons of the administration, which are precisely the ones responsible for financing these expenditures but are severely lacking in the means to do so.

It is still too early to analyze the repercussions of these measures. As with public health care expenditure, there is a huge lag to make up for. Education expenses today only represent 2.7% of GDP and they are very largely concentrated in the cities. The Chinese government recently announced huge budget increases for education, hoping to reach top the 4% mark in 2010.

India

India has 4,693 communities inventoried by the Anthropological Survey of India (1996), based on self-declared communal membership during a vast anthropological survey conducted from 1991 to 1995 among 25,000 people in over 3,500 villages and 1,000 cities. This gives an idea of the divide and thus the potential inequalities between urban and rural areas, between ethnolinguistic, caste or living communities, and lastly among social-professional categories. Two-thirds of the population live in rural areas. Half of the population earns a living from primary sector activities. To understand the political-economic trajectories, they must therefore be identified at a fairly disaggregated level. In the history of independent India, three distinct political-economic phases should be distinguished, the first two of which (from 1947 to 1971 and from 1971 to 1984) correspond to a closed economy that gradually reduced internal inequality, while the third (from 1985 to today) has gradually engaged the country in the inequality dynamics of globalization.

Inequality over three political-economic phases

From 1947 to 1971, a mixed economic regime was in place, based on the standard tools of developmentalism, around a coalition of "proprietary classes" (capital, feudalism, high caste/class urban intelligentsia), according to Bhardan (1984). In a situation where, in 1947, 85% of the population lived in rural areas with the modern economy concentrated in a few large cities, public financial transfers went from the cities to the countryside. This initiated a nationwide trend towards reduction in economic inequality. Rural development extended the geographical scope of industrial development, which under British rule had been confined to a few industrial cities (Bombay, Calcutta, Ahmedabad). Many inequalities diminished between states, between urban and rural areas, and probably, to some extent, among the thousands of listed communities. When inequality was not reduced, the level of inequality (communal, from one class to another) was at least stabilized. There are two notable exceptions: the aboriginal communities living on the site of major development projects (i.e. dams) and inequalities between Hindus and Muslims. This last exception is rooted in the fact that many of the most affluent Muslims left India in 1947 for Pakistan. Although this trend is purely statistical, the Muslim community nevertheless found itself suddenly orphaned of its elites and was marginalized in the "Congress" system of proprietary classes.

In the 1967 elections, for the first time in the country's history, Congress lost key states. In 1971, Indira Gandhi led the party of Congress to victory again but on a profoundly altered political-economic platform. India entered an era of "mixed socialism". Up to 1984, the political intermediaries in society were shifting. The accumulation of physical capital remained a central model, but with intermediation in the form of social capital constituted by communal ties, class factors, and at the level of the states, which became major actors in negotiation (no longer the federal government alone). The overall dynamics of inequality was still on a downward turn, but new phenomena appeared: the emergence of medium-sized cities as relays for the development-oriented administration; what Gilbert Etienne calls the "overall rural development process", the start of agricultural mechanization creating activities for small local workshops, themselves generating local purchasing power for basic manufactured goods; and especially, state payments to the formerly underprivileged classes via specific development programmes for tribal or aboriginal communities, untouchables or *Dalits*, and specific programmes and administrative bodies set up to help the inhabitants of certain slums. Though not fully able to solve the problems, they did their job of social conversion and redistribution, contributing to the expansion of essential services such as running water, electricity and to a lesser extent sewage treatment. These programmes were complemented by more and more reservations of both local and elected offices, which largely contributed to changing the face of Indian democracy.

These changes stand in contrast with what was, during this period, probably a univocal reduction in inequality. They are the consequence of Green Revolution policies that lifted entire regions out of poverty. In this process, the internal inequalities within the Green Revolution Society increased dependence on the initial capital endowment.

Since 1985, a "liberalization" process was initiated and the political economy refocused on industry and partially on civil society, which gained autonomy from the state reference in a drive toward social modernization. Nationalism, liberalism and economic revival of cities went hand-in-hand. As categories, "competitive" and "protected" have now gained a certain relevance in explaining social realities in India today, although these must be applied with caution.

Globalization, competitives and poverty

The effects of globalization and competitive/protected dynamics are very apparent in India. In the 1993 to 2004 period, 70 million jobs were created in the formal sector, including 13.4 million in manufacturing and 28.8 million in services. The services sector is thus increasingly driving the job market. It is partially made up of export-oriented competitives and brings about the development of related protected sectors (construction services, hotel business, other personal services, etc.). Among the jobs created in the formal sector, 42% are for employees with a medium educational level (incomplete secondary education), compared with a total of 26.9% for people who have secondary education and higher education; in the services sector the figures are respectively 28.1% and 40.5%. Demand in the sector is thus increasing income disparities between skilled and unskilled workers.

During the same period, the income ratio of the 20% richest to the 20% poorest went from 4.85 to 5.22, a 1.18% annual increase in disparity (to be compared with 3.7% for China on the same indicator during the same period). The income of the 0.1% richest rose from 1.2% of the national income for the 1982-83 fiscal year (a historic low) to 4.2 % in 1997-98, that of the 0.01% richest from 0.3% to 1.8% of the national income during the same period. In 2006, India surpassed Japan in the number of billionaires in dollars (36 compared to 24).

From 1993 to 2004, India went from a Gini coefficient of 32.9 to 36.2. The coefficient was higher in urban areas (37.6) than in rural areas (30.5). The impact of this growing inequality is reflected, as in China, in a smaller reduction of the absolute poverty rate (less than a dollar a day) than what could have been achieved if recorded growth had been divided according to the income distribution recorded at the start of the period. The absolute poverty rate today is allegedly 31%, instead of the real figure observed of 34%.

From federal states to metropolises

The inter-state Gini coefficient went from a little over 15 in 1980 to nearly 23 in 1996. This is related to the concentration of investment in a few large states as well as the concentration of remaining large pockets of poverty in only six states. Certainly it is no surprise to find Bihar, Uttar Pradesh, Madhya Pradesh and Rajasthan—given their high population growth and endemic poverty—among the six states. But it is more surprising to find among them Western Bengal, which underwent a major agrarian reform under its communist regime and today is starting to attract investors; more surprising still to find among them the state of Maharashtra, which for a long time was the first destination for both FDI and national industrial investment and which is still among the leading recipients today. Analysis by district would show a high contrast between the very rich western part of Maharashtra and the very poor and isolated northeast, or even the eastern districts of this fairly developed state which is nevertheless threatened by an unprecedented economic and social crisis in agriculture (the Indian rural milieu is experiencing a crisis unknown in human history, with 100,000 suicides among peasants in ten years). This "fracture" in India overlaps a very clear-cut geographical reality, a divide between the country's northeast (except for Punjab, Haryana and Delhi) on the one hand and the west and south on the other. The former group of states is undergoing a process of population growth which, although slowing, is still very high. The literacy rate remains weak, particularly among women. The fertility rate remains very high (usually about 3.5 and often close to or exceeding 5) as opposed to the south (in most districts, it is lower than 3, and often 2), where the literacy rate is very low, especially among women. As a corollary, the capacity to engage in economic development that would "absorb" the demographic transition is very unevenly distributed. This capacity is well measured by the "dependency ratio" (the ratio of nonworking people—children and the elderly—to the working population), with variations as high as 100%. A state such as Bihar, already the most densely populated in India, continues to have a dependency ratio of 0.95, which is characteristic of underdevelopment, compared with states such as Kerala or Tamil Nadu, where the ratio holds steady at 0.56, in other words a rate closer to that of developed countries. The effects of globalization will not bring the absolute poverty rate down in the north; that will require draconian public education and redistribution policies. The relevant echelon for competitive activities becomes the metropolis, even the industrial metropolis, whose numbers have risen in the past 60 years from three to a few dozen (the 2001 census counted 35 cities of over one million inhabitants).

In short, competitives are emerging in information technology and large-scale industry, which has a well-known spillover effect in localized industrial districts but also in conurbations (the cities of Bombay, Thane, New Bombay, Pune and Nasik for instance) and the "industrial corridors" (Bangalore-Mysore and Bangalore-Chennai for instance) that are currently developing. Most of these competitives are employed by large Indian nomadic firms undergoing a rapid process of multinationalization (see the chapter by Ruet and Huchet in this volume). But by comparison with China, the proportion of skilled and semiskilled jobs is greater and the trickle-down effect is less palpable, in terms of both the number employed and geographical scope.

Communal fragmentation, the 'protected', and poverty in the informal sector

Another aspect of inequality specific to India is the economic impact of social fragmentation by caste and religious community. Since independence, the status of a certain number of lower castes has improved, in particular after they achieved political representation at the national and local level through electoral quotas in the more than 600,000 villages in India. 92% of the Muslims (whose number totals 130 million) work in the informal sector, a sector that concentrates 79% of the jobs or activities, and are thus highly vulnerable socially. The Muslim situation is comparable to that of the scheduled castes (SC) (this category includes the erstwhile "untouchables", now also called *Dalits*), and scheduled tribes (ST) or aboriginals, who benefit from positive discrimination measures in public sector jobs. The Muslims are not eligible for this policy, whereas their social and economic situation is also a consequence of discrimination.

Employees in the small-scale sector, which long benefited from "Gandhian socialist" policies protecting them not only from external competition but also from large firms, today find themselves exposed to market competition, primarily from China. India's opening up to globalization is less univocal than that of China. In any event it requires heavy investment in the industrial fabric of small "sedentary" businesses and second stage relocations (relocation of low added value computer industries to Vietnam for instance) are starting to take place.

The protected are found in large numbers in partially opened up rural areas. However, the development of rural road infrastructure and Indian agricultural markets on the internet (*e-choupal*) are putting them more and more in competition, despite their relatively low productivity (public investment in agriculture reached its lowest level between 1997 and 2007 with the Ninth and Tenth Five-year Plans). This is taken all the more seriously today since 200 million Indians are directly involved in agricultural activities (about 40 million households), 70% of the population lives in rural areas (the potential for rural industry also depends on the agrarian economy), the sector's contribution to national growth can be considerably improved, and notably, 170 out of India's 602 districts today are affected by Maoist-inspired Naxalite guerrilla movements; 55 of these districts now receive special development aid. Lastly, there is a strong relationship in India (as in Africa) between alleviating poverty and preserving natural capital for the tribals, hard hit by poverty, as well as other poor peasants living in seriously degraded forest areas and areas that constitute world reserves of biodiversity.

It is hard to draw conclusions regarding the future of public policy and India, but New Delhi is certainly beginning to be convinced that physical, human and natural capital are not perfectly interchangeable and that the country's catching up requires a balanced development of all three. The previous government learned this to its cost in the 2004 general elections. The current government is afraid that this reality will catch up with it in the next nationwide elections to be held in 2009 at the latest.

On the geographical, societal and human substratum handed down by three decades of socialist policy, the creation of wealth in India and China, powerfully stimulated by large nomadic firms—including Indian and Chinese firms—in the process of globalization, has been accompanied by a sharp increase in social and geographic inequality. The dynamics of concentrating new wealth largely prevail for the moment over the dynamics of diffusing wealth. In neither country is the government highly engaged in policies to correct these inequalities so far, even if the governments seem to be showing increasing concern for the problem and have already implemented certain measures toward reducing absolute poverty.

Indeed, to allow inequality to grow or, on the contrary, to reduce it by stringent public policies is one of the fundamental strategic dilemmas of catching up that emerging countries have to confront. To be sure, the current competitiveness of their competitives depends partly on the poverty of the protected. It is thanks to them that an Indian engineer who holds a PhD from Stanford University can actually live much better in Bangalore than in Berkeley with a third of the salary at the current exchange rate. From this angle, the widening of inequalities between a territory's competitives and protected puts the competitives at an advantage in that it improves their relative competitiveness. But it is also true that more self-centred growth, a sort of "Asian Fordism"—not targeting the entire population, of course, but seeking to heighten the emergence of a middle class—could in the long run benefit the competitives just as much or even more, by reducing the disparities with the protected, to whom a large portion of this demand for a rising middle class would be addressed.

Owing to their population size and the economic weight China and India have already achieved, this strategic choice will have all the more consequence in what are today's richest countries. There is indeed no doubt that the current advantage of Indian and Chinese competitives, largely based on the apparently lasting poverty of their protected, is wreaking havoc among the competitives of rich countries. The latter cannot all manage to raise their level of skill or innovation fast enough to remain in the running, and thus find themselves thrown back en masse into the protected group. Thus there are continually more and more of these protected who are seeking to satisfy the demand coming from the "resisting" competitives of their territory, a demand that they have no reason to increase. An increase in inequality is the consequence, which is empirically observable in most rich countries. For some (Giraud 1996 and 2007), the likely outcome of this process is nothing less than the wiping out of the middle class. It is thus plain that there is a long-term objective interest shared by the middle classes of rich countries and those burgeoning in emerging countries. Middle classes of the world... unite?

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