



The World Today

The Changing Roles of China and India in the World Economy

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The evolving roles of China and India in the world economy have clear implications for the Caribbean, where international economic policy must be approached in a much more strategic manner, if the region is to move from primarily 'sunset' commodity production and trade to sustainable growth, driven by the exploitation of competitive niches. The early 21st century reflects fundamental global changes, which cumulatively place the economic viability of the Caribbean's small developing states at risk.

The key challenge is that our countries cannot readily generate economies of scale or scope. The best argument for regional integration is not the creation of such economies, but enhanced allocative efficiencies, especially in capital and labor markets, and a more effective voice in international economic negotiations. Knowledge management already dominates international business, when less than 15% of the region's secondary school graduates continue to universities, traditional trade preferences are essentially eliminated, and regional product/service activities are still attempting to adjust.

China (1.31 billion) and India (1.09 billion) have the largest national populations in the world. For 25 years, China's GDP has grown by an annual average of over 9% to \$7 trillion, compared with the USA's \$12 trillion, in purchasing power parity terms. China's trade surplus with the world surged from \$32 billion in 2004 to \$102 billion in 2005. By February 2006, industrial output amounted to \$138.5 billion. China has overtaken Japan, in holding the world's largest foreign exchange reserves. However, China's GDP per capita is still only \$1,300, compared with the USA's \$40,000, and US industrial productivity remains 500% of China's.

China's economy will probably grow by 8.9% in 2006, slowing from 9.5% in 2005, and 10.1% in 2004. Since 2000, China has contributed more to world GDP growth than the USA, and 150% more than the three next largest emerging economies, India, Brazil and Russia. China's exports, especially in electronics and textiles, have lowered world prices, while China has become the largest importer of copper, aluminium and cement, and the second largest oil importer, significantly increasing international prices. However, space-based sensors document the existence of the world's largest plumes of nitrogen dioxide pollution in the atmosphere above Beijing and northeast China.

India has experienced impressive growth, since its 1991 macroeconomic crisis, and the reforms that followed. These reforms included the gradual abolition of import licensing, the privatization of aluminium production, automobile manufacturing, telecommunications and information technology, exchange rate liberalization, and the relaxation of foreign direct investment controls. During the decade to 2005, foreign investment rose to over \$26 billion, and the annual turnover of the securities market increased fourteen-fold, to \$131 billion, or 23% of GDP. In 2003, India recorded an 8.2% GDP growth rate, a GDP per capita of \$3,100, and the country's foreign reserves totalled over \$100 billion.

With its call centers and software companies, India leads the world in 'back office' services. Since assuming power in May 2004, India's coalition government, led by the Congress Party, has proposed many policy reforms, despite often successful opposition by allied Communist parties. The Prime Minister's Economic Advisory Council has clearly stated that globalization is an unavoidable process: "*There is no room in a globalized world for an economy which is not integrated into international trade and investment flows.*" However, India is home to the widest range of anti-globalization groups in the world, and initially opposed the Doha Development Round of international trade liberalization talks.

Governments, unions and many businessmen have traditionally emphasized import-substituting industrialization and nationalization, for instance in 1969 and 1980,

especially in commercial banking. It is often argued that the Bharatiya Janata (BJP) government of former Prime Minister Vajpayee lost the 2004 elections because his party paid insufficient attention to India's poor. The first official act of Prime Minister Manmohan Singh was to meet with the families of drought-stricken farmers in the state of Andhra Pradesh. At the same time, the Congress-led coalition government set out to expand the role of foreign investment in the insurance and telecommunications sectors.

However, by December 2005, India's exports accounted for only 0.8% of world trade, compared with 6.4% in the case of China. Leaving aside telecoms, most infrastructural services cost 50-100% more in India than in China. Indian manufacturers pay twice as much for electricity, and three times as much for rail freight. By the year 2003, China was spending 700% as much as India on infrastructure development, in absolute terms, and three times as much, relative to the size of their economies – 10.6% of GDP compared with 3.5% of GDP.

Last year, India attracted less than \$6 billion in foreign direct investment – 10% of the amount that flowed into China, mostly into the manufacturing sector. Indian industrialists have made the point that technology, rather than cheap labour, makes Indian manufacturing competitive. Yet by 2005, 38 million Indians were classed as 'hard core unemployed, and the country's labor force was projected to expand by 71 million to a total of 762 million by 2010, with workers continuing to leave agriculture for the cities.

While CARICOM has been focusing its economic policy and diplomatic energies upon EPA and CBI negotiations with the EU and the USA respectively, the WTO's Doha Development Agenda, and CSM(E) implementation, the region is paying insufficient attention to both the lessons of China's and India's recent economic growth and development experience, and the potential for significantly increasing investment from, and exports to, countries that will be among the major economies of this century.