

The Rise of China and India: Regional and Global Perspectives

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Led by the rise of China and India, the eastward shift of the centre of gravity of the global economy to Asia has been one of the most significant developments of the last decade. As these two countries progress towards increasingly integrating themselves with the global economy, their relevance in terms of contribution to global trade and output is simultaneously getting enhanced. This became increasingly evident in the aftermath of the 2008-9 global financial crisis. While the developed economies are struggling to achieve economic stability and overcome the burden of sovereign debt, China and India, with sustained positive growth rates, have emerged as the future growth poles of the global economy. These two countries are likely to perform this role in a multi-dimensional and distinctive manner, given two things: (a) the differential growth path their economies have followed in the course of their development; and (b) the many ways in which the global economic and financial order is being questioned and is therefore likely to change.

Closely following the changes in the global economic order are the regional imperatives. Recognizing the weakening global prospects of recovery, it is necessary that regional bonds are strengthened, with active participation and support from the major regional players which includes China, India and ASEAN. ASEAN's current growth and trade volumes and high levels of integration are linked to China's global growth and capacity to import. To reiterate: China is a critical player in the regional dynamics. India as yet is only trying to secure its place in the regional order. Again, the differences stem from their differential pace and character of participation in the regional economic framework. For China, the takeover from Japan as the hub of the production networks in South-East Asia has been a major development; while for India, the involvement with the region, though initiated only in 1991 with its formal Look East policy, has acquired a more strategic economic content

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with the signing of the India-ASEAN Free Trade Agreement (FTA) in 2009.

Simultaneous to the global and regional dynamics is the flourishing India-China trade relationship, which has set the context for establishing a bilateral strategic economic dialogue.

This paper undertakes an analysis of the multi-layered dynamics of the rise of India and China, highlighting the similarity and differences of the evolving growth and global integration strategies of their economies as also their response and adjustment to ongoing global events. It brings forth the need to shape the global expectations of these two economies accordingly, exercising due caution as regards the Chinese economic growth trajectory and recognizing the apparent differences with the Indian economy.

India and China: Rise as Global Players

India and China have over the last two decades become the two fastest growing economies in the world. The dynamism in their growth process has been a consequence of the timing, pace and nature of economic reforms that have spelt a major breakthrough in their growth strategies, from inward-looking closed economies with minimal emphasis on the external sector and extensive state controls to more liberalized economic systems.

Growth and Recovery from the Global Financial Crisis

In the last decade, while China has relentlessly moved forward with a double-digit rate of growth, India has since 2003 seen an almost uninterrupted 8 per cent-plus rate of growth. For both countries, recovery from the global financial crisis of 2008-9 has been easier and quicker than for the rest of the world. In 2010, China with a rate of economic growth of 10.3 per cent made a return to its pre-crisis double-digit pace of growth; India similarly recorded growth of over 8 per cent (see Table 1). Relative to the rest of the region and global growth trends, these two economies stand out in their performance and are therefore being seen as saviours of the recuperating global economy. However, the global expectations are far greater from the Chinese economy than from India; the former having consistently contributed a larger proportion of the global output: almost 13 per cent in 2009, compared to about 4 per cent from India in 1990-91. The Chinese contribution comprises about a third of the developing South's and almost half of developing Asia's contribution to the world output. In contrast, India's contribution shows only a modest increase from 3 per cent in 1990-91 to a little over 5 per cent in 2009 (see Table 2).

Table 1
Growth Rate of GDP (% per year)

	2008	2009	2010
India	6.7	8	8.6
China	9.6	9.2	10.3
US	-	-2.6	2.9
Eurozone	-	-4.1	1.7
Japan	-	-6.3	3.9

Source: Asian Development Outlook, Asian Development Bank, 2011.

Table 2
Share of World GDP (%)

	1990–91	2000–1	2009
The South	27.8	33.6	41.3
Developing Asia	13.1	18.3	25.7
China	3.7	7.3	12.6
India	3	3.8	5.2

Source: Asian Development Outlook, ADB, 2011.

Global Trade Integration

Outward orientation, as reflected in the global trade integration of the two economies, is even more spectacular. Currently, trade constitutes an important component of their economic activity, with China's share in its GDP far outpacing that of India. When China initiated its economic reforms in 1978, its openness index¹ was 6.6 per cent, close to that for India at 6.4 per cent. In 1991, when India initiated its trade liberalization programme, China already had started to reap the gains of economic reforms, as reflected in an almost three times increase in the value (20.8 per cent) of its openness index. India's openness index rose after its economic reforms started to make an impact in the late 1990s, increasing to 22.9 per cent in 2010, but well below the Chinese figure of almost 32 per cent (see Table 3). The differential rates of trade expansion for the two economies are particularly apparent with regard to the volume of exports. In 2008 China exported (US)\$ 1.6 trillion worth of goods and services that accounted for 8 per cent of world exports, against India's \$263 billion or 1.3 per cent of world exports.² China's larger presence

in the global trade scenario is evident. India, while having made significant strides from its pre-liberalization days, is yet a small player on the global stage.

Table 3
Global Trade Integration: Export of Goods and Services, 1978-2010

	China			India		
	1978	1991	2010	1978	1991	2010
Export of Goods and Services (as % of GDP)	6.6	20.8	31.8	6.4	8.6	22.9
Export of Goods and Services (as % of world)	0.6	1.7	11	0.6	0.5	2

Source: Wignaraja, Ganeshan. 2011.

'Economic Reforms, Regionalism, and Exports: Comparing China and India', Policy Studies 60, East West Center, Honolulu, Hawaii.

There are also fundamental differences in the pattern and pace of trade expansion of the two economies. China's outstanding participation in international trade has been based upon its rapid expansion of manufacturing sector exports, which in turn has been an outcome of its evolving diversification of manufacturing sector production, based upon its comparative advantage. The Chinese have built strong export capacities in high-technology industries, having shifted away from low-technology and labour-intensive sectors like textiles. India's trade expansion is growing with a relatively slow evolution of the structure of its comparative advantage, with the dominant exports continuing to belong to low-technology labour-intensive sectors. Marginal changes are observed in terms of a decline in textile industry and rise in R&D-based industries like pharmaceuticals and organic chemicals. India has, however, been able to gain a distinct advantage in the information and communication technologies (ICT) services sector; trade in IT-enabled services (ITES) constitutes a large proportion of its total trade. Despite the differences in trade patterns, by exploiting their relative comparative advantage in the manufacturing and services sectors, the two countries have together contributed to and shared in the dynamism of the electronic goods and ICT services trade, which has experienced growth exceeding the total world trade.³ Further, given the knowledge and R&D component of production and export expansion in their electronic export development and ICT services, the two countries have created an innovation potential that other developing countries may find challenging in the course of their development and participation in international trade.

India-China Trade with the Developing World

In the rapid growth of their trade liberalization also, India and China have displayed some similarities. The Asian economies have always been and still remain the most important trading partners of both countries, even though some diversification of their developing-country trade is also observed. China alone accounts for roughly 40 per cent of the increasing developing-country or South-South trade. Developing Asia accounts for about 75 per cent of the total of the South-South trade, which has registered an increase from 7 per cent in 1990 to 17 per cent in 2009. In Asia, it is intra-trade within emerging Asia that has recorded the sharpest increase, having risen by 8½ times between 1990 and 2006; and China seems to have a special role in this pattern. Trade between China on the one hand, and industrial Asia, ASEAN+3 and the Asian newly industrializing economies on the other, has increased at impressive rates. Clearly, China has emerged as the fulcrum of the Asian export platform of Factory Asia, which involves intermediate goods being sourced from within the region for assembly into final goods in China that are then exported to predominantly the developed Western markets (see Table 4).

Table 4
Share of India and China in South-South Trade (%)

	1990–91	2000–1	2009
South-South Trade as share of world trade	6.9	9.9	16.9
Developing Asia's share of South-South Trade	87.5	77.5	74.4
China's share of South-South Trade	39.7	36	40
India's share of South-South Trade	2.2	2.4	5.4

Source: *Asian Development Outlook*, ADB, 2011.

A most significant impact of the high growth of the Indian economy is its increasing integration with the developing world in general and developing Asia in particular. This integration with developing Asia has, in large part, been driven by China's growing importance as a trade partner. Closer economic ties with the more dynamic segment of the South-East Asian region too have grown rapidly in recent years. India experienced fairly high rates of trade growth during 1998–2006. While exports in value terms grew at an annual compound rate of 17.6 per cent, exports to industrial countries grew at a slightly lower pace of 13.6 per cent; and to developing countries at 21.8 per cent. Export growth to Asian countries, at 23.2 per cent, surpassed that registered for developing countries as a whole: in absolute values, the Asian

region alone accounted for nearly one-third of India's increase in exports. Developing Asian countries also accounted for a high value, almost 29 per cent, of increase in India's imports: as a result, the share of various Asian sub-regions in India's total trade, with the exception of the South Asian region, increased considerably.⁴ Trade strengthened with the relatively more developed South-East Asian economies like Singapore and Malaysia, followed by Thailand, Indonesia and Philippines. Though India does not seem to have integrated its manufacturing sector with the Asian production networks like China, it is seen to be emerging as a rapidly growing market for Asian goods. This is evident in its trade surplus with ASEAN. The fact that India is emerging as an important market for intra-regional exports is further corroborated when we look at India's trade with ASEAN and ASEAN+3 economies of China, Japan and Korea. The average annual rate of growth of India's imports from ASEAN+3 exceeds that of its exports to the region. In addition, the rate of growth of India's imports from ASEAN+3 is second to China and significantly higher than that of Japan and Korea. Over the last few years India registered very high rate of growth in the region for Chinese and Indonesian exports. For Korean, Malaysian and Thai exports India is second only to China as the most attractive market in the region.⁵

The Chinese growth and export expansion is therefore crucial for the region, with its many spill-over effects, while India with a more nationally oriented system of production has a relatively limited impact on the region in production linkages. In fact, the initial supposition of Asia's decoupling from the adverse impact of the global crisis was belied despite the limited exposure of Asian financial institutions to the toxic assets at the heart of the global financial turmoil, to a large extent because of the indirect exposure that trade with China brought to these economies. This also makes it worthwhile to consider the fact that the current Chinese trade patterns do not necessarily reflect deepening regional economic integration so much as they portray a very active global supply chain, as ultimately the Chinese demand for intermediate goods from ASEAN is a function of the global demand for its goods.

Other than Asia in the developing world, the forays of China and India into Africa have also caught the world's attention. While the economic interaction between these countries is not new, it is now progressing at a rather rapid pace. China is ahead of India in its trade relationship with Africa, even though there has been an attempt this year by India to shore up its trade relationship with that continent and emerge out of China's shadow. In this India is especially focused on energy, as it imports 70 per cent of its oil requirements and has

turned to new suppliers such as Nigeria, Sudan and Angola to reduce its dependence on the Middle East. India's relationship with Africa includes aid, technology and education, such as a new centre in Uganda to train businesses about global markets, a diamond processing facility in Botswana, and assistance to cotton farmers in four of the continent's poorest countries. But India remains about a decade behind its Asian rival. China has a trade-infrastructure relationship with Africa, having built roads, bridges, railways and power stations in return for access to markets and resources. During 2000–2010, Africa's merchandise trade with China grew from \$9 billion to \$119 billion and with India from \$7 billion to \$35 billion, that is, at an annual rate of 29 per cent and 18 per cent respectively. In 2010 China received 13 per cent of Africa's exports in comparison with 4 per cent for India. About 12 per cent of Africa's imports come from China and 3 per cent from India. The two countries have also played a small role in capital investment in Africa, with each accounting for less than 5 per cent of the inbound foreign direct investment (FDI) stock in Africa.⁶ Apart from India and China having shown competing interests in resource and extractive industries like oil and mining, the trade composition and trends also reveal a complementary relationship between these Asian economies and Africa. The rising purchasing power of the Chinese and Indian economies is capable of creating a potential demand for light-manufacturing-industry output of African countries.⁷ Some of the goods where African comparative advantage can provide potential opportunities for increased trade are wine, agribusiness, automotives, chemicals, and harbour wharfs. West African cotton exports have gained through the phasing out of the Multi-Fibre Agreement (MFA) and the textile industry expansion in China even while the newly acquired African comparative advantage in apparel is being taken over by the Asian giants.⁸ Evidence has been cited about growing demand from India and China helping sub-Saharan African economies divert their commodity exports away from traditional OECD markets to these Asian giants. In a manner therefore, the African economies have benefited from the rise of India and China, diluting to a certain extent the commonly held perception of the extractive-industry-based trade being exploitative.

India-China Trade Relationship

As the two economies raise their interaction with the developing world, their own bilateral trade relationship is also expanding. With a spectacular increase in bilateral trade during the 2000s, China has now emerged as the largest-single-country trading partner for India. India-China trade increased to \$42 billion from \$17 billion over the period 2005/6–2009/10.⁹ The flourishing trade

has not however so far led to a formal preferential trading arrangement (PTA). The two countries did set up a joint study group for the purpose in 2004, but the outcome was a rather ambiguously defined regional trading arrangement. India's reservations about a well-defined and traditionally designed FTA concern its trade deficit with China, which during the five years up to 2010–11 has increased by 160 per cent.¹⁰ This growing deficit is an outcome both of India's limited diversification of its export basket as also of the many hidden non-tariff barriers (NTBs) that China has in place for products where India is comparatively advantageously placed, such as pharmaceuticals, agricultural products, machinery, and even IT products. Chinese exports and their overwhelming presence in the power sector have also been a cause of some anxiety in Indian policy circles. India's concern with the growing deficit, while being noted by the Chinese, has found little reflection in their policy, particularly in terms of relaxation of sector-specific and other general NTBs. As a formal forum, the establishment of the India-China Strategic Economic Dialogue is a positive step; but whether this will work for the benefit of both and help overcome the many economic humps will have to be seen in the coming years. The outcome of the first Dialogue held in Beijing in September 2011 has been positive, in terms of delineating areas for future cooperation like infrastructure and, in particular, railways, energy efficiency and environment protection, water conservation and clean-water technology, but has shown hardly any progress on existing problem areas in bilateral trade.

India and China and Pan-Asian Economic Integration

The India-China economic relationship stretches to other larger regional forums aimed at building a pan-Asian economic architecture. India has been a member of the Bangkok Agreement,¹¹ an inter-sub-regional integration arrangement in existence since 1975. The Agreement was not very active till the Chinese accession in 2000. Even now the limited scope of the concessions offered under the Agreement makes it rather ineffective in taking forward the idea of a regional economic architecture in Asia. A more concrete initiative that also has both India and China as members and is aimed at evolving a pan-Asian integration framework is the East Asia Summit. The EAS, held for the first time in 2005, had to overcome China's initial reservations to its extension beyond the ASEAN+3 economies of Japan, China and Korea to include India. Indian inclusion was ensured through the positive support extended by ASEAN to counterbalance the Chinese presence as also by friendly individual members like Singapore and Japan.

Over the years, the EAS has advanced to become the most plausible institutional alternative towards the achievement of economic integration in Asia, with ASEAN as the accepted nucleus and driver of the process.¹² China has overcome its initial hesitation about the open nature of the EAS and has in fact worked towards more favourable relations with ASEAN, being the first to have announced and implemented an FTA with the regional grouping with a prior successful early harvest programme. India, not to be left behind, has legitimized¹³ its place in the EAS by also signing an FTA with ASEAN in 2009. This is notwithstanding the distance that ASEAN itself needs to cover to successfully drive the process to its final destination.

The Global Financial Architecture after the Global Financial Crisis

The Chinese trade expansion and surplus accumulation are considered by many as the major factors responsible for the global financial crisis of 2008-9 and for that reason are at the core of a reassessment of the international financial institutions (IFIs). The manner in which China can and may choose to undertake to adjust its trade imbalances and the underlying currency revaluation is a matter of debate, concern and huge implications for the evolving global financial configurations. The US, which has correspondingly the largest deficit with the Chinese economy, is deeply desirous of a revaluation of the Chinese currency that may in turn set the unwinding of the global imbalance in a favourable direction. The crisis-induced debt problems of Eurozone, that may need support from international reserve pooling, also accord the Chinese economy, with its \$3.2 trillion foreign exchange reserves, a critical position in the entire process of debt and crisis resolution. India, though with lesser foreign exchange reserves of \$314 billion, has shown willingness to contribute to the global reserve fund, if required. It is important to note that these suggested solutions for the ongoing crisis have come in the proceedings of G20, which has emerged as a justifiable alternative international financial forum, with its due representation of the developed and emerging economies.

However, there is large-scale scepticism about the G20 ultimately replacing the currently ruling IFIs, particularly the IMF, which has been ineffective in its primary function of exchange rate surveillance, particularly of surplus nations like China over the last half decade. India as a member of the G20 has also been active and a co-votary of a change in the global financial order, but it is focused on very different objectives, which underscore the differences between the Indian and Chinese economies and their level and nature of global integration. China is at the heart of the evolving global scenario, and accordingly seeks

reform in IFIs for a change in global reserve currency with greater Asian representation, with equally apparent differential expectations of its role by the developed world. India in contrast continues to ask for the more basic needs of the developing world in the form of corrections to fluctuations in oil and food prices, reduced protectionism by the developed world, and a forward movement of the multilateral trading system at the WTO.

Hence, while China and India are rising apace, Chinese pre-emptive economic liberalization, diversified manufacturing production, emergence as a global manufacturing hub, outstanding trade surplus with the US and European economies, distinguish it with a possibility of a larger and differential presence than India in the evolving global economic and financial architecture. There is however a need to bring to the fore the doubts that arise in evaluating China's ability to continue its growth trajectory infinitely into the future. The issue of sustainability of the Chinese growth path may in fact place India in a far more advantageous position. The context presented by the global financial crisis and the slow and halting recovery of the developed world makes this seem increasingly probable.

The Caveats

China may find it difficult to continue with the existing predominantly export-led growth strategy. The sharp drop in demand from the US and Eurozone will continue to have a detrimental impact on China's growth until domestic demand development is undertaken to sustain this high growth rate. So far Chinese households have been heavily oriented towards accumulating savings that have been kept as deposits in state-owned banks and in turn invested in state-financed projects, creating excess capacity in the economy. Deviation of savings to private consumption expenditure demands that social sector reforms, in particular in sectors like education and health, are undertaken in the immediate and medium term. Simultaneously, fundamental reforms in the financial sector would also be required to allow the interest rates to be market determined and thereby correct the saving-investment balance in the economy. Other necessary accompaniments to ensure sustained onward growth and survival out of the current crisis based on domestic demand development in China include managing the apparent and rising labour discontent, regional inequalities, and the existing pressures for currency correction. While not impossible, China requires both political strength and ingenuity to undertake these reforms and the accompanying domestic economic management.

India's growth has been achieved through maintaining a balance between

consumption and investment as also export and domestic demand. The global crisis impacted manufacturing sector exports; but the services sector, and particularly the IT and related services, were not as badly affected. Overall, India is protected from the global decline in export demand because exports constitute a relatively smaller proportion of its GDP. Future growth projections remain predicated on India's ability for fiscal consolidation, which is more a matter of policy correction than dependence on external corrective forces to play themselves out. India's conditions for sustained growth are far more manageable than those of China. But it may also be appropriate to state that even with a more secure growth process, India has to undertake major economic reforms to enter the double-digit growth phase that China has experienced for almost a decade, and sustain its position among the leading emerging economies like Brazil and Russia which simultaneously gather economic momentum.

Overall, the emerging global and regional situation may in all likelihood have the rising Asian economies of China and India playing complementary roles at least till they resolve their internal constraints to sustained growth.

Endnotes

- ¹ Openness index is defined as the ratio of export plus imports of goods and services to GDP.
- ² Wignaraja, Ganeshan, 2011. 'Economic Reforms, Regionalism, and Exports: Comparing China and India', *Policy Studies* 60, East West Center, Honolulu, Hawaii.
- ³ Against an overall growth of 7 per cent in total trade in goods and services, trade in electronic goods increased at about 8 per cent and trade in computer and information services at around 24 per cent over the period 1995–2005 (Bensidoun, Isabelle, Françoise Lemoine and Deniz Unal. 2009. 'The Integration of China and India into the World Economy: A Comparison', *The European Journal of Comparative Economics*, vol. 6, no. 1).
- ⁴ This notwithstanding the importance for India of West Asia for oil imports.
- ⁵ Batra, Amita. 2007. 'Asian Economic Integration – ASEAN+3+1 or ASEAN+1s?', *ASEAN Economic Bulletin*, vol. 24, no. 2.
- ⁶ Gupta, Anil K. and Haiyan Wang. 2011. 'Myths about China and India's Africa Race', *Bloomberg Businessweek*, October.
- ⁷ Broadman, Harry G. 2008. 'India and China go to Africa', *Foreign Affairs*, March/April.
- ⁸ Goldstein, Andrea, Nicolas Pinaud and Helmut Reisen. 2006. 'The Rise of India and China: What's in it for Africa?', *Policy Insights* No. 19, OECD Development Centre, May.
- ⁹ Directorate General of Foreign Trade, Ministry of Commerce and Industry, New Delhi. [Online: web] URL: <http://dgft.gov.in/>
- ¹⁰ Trade deficit is the gap between exports and imports and is indicative of India's import

dependence on China. In 2010–11 Indian imports of Chinese goods have increased to \$43.5 billion from \$17.5 billion in 2006–7; exports have seen a relatively slower positive change, having increased to \$19.6 billion from \$8.3 billion over the five-year period.

- ¹¹ The Bangkok Agreement is now called the Asia Pacific Trade Agreement (APTA).
- ¹² This is despite many analysts describing the design of the pan-Asian architecture as fluid as of now, owing to the many proposals that have been announced since 2005. However, the Australian and Japanese proposals (specifically by Prime Ministers Rudd and Hatayoma respectively), put forward in 2009, did not go beyond the announcement stage and therefore do not necessarily acquire the status of serious contenders to the EAS. The inclusion of the US and Russia as new members in the upcoming EAS this year may also only lead to an expansion of the agenda in political and strategic terms even while there are new fears arising over the scope for direct competition or dilution of the status of EAS on account of the Trans Pacific Partnership (TPP).
- ¹³ All of the other +3 economies (China, Japan and Korea) and Australia and New Zealand had signed an FTA with the “accepted” driver of Asian economic integration before India. China in particular had the investment and services liberalization pacts on the anvil. By signing the Agreement in 2009, India has become equal in status with the other members of the EAS vis-à-vis ASEAN (see Batra 2007 and Batra, Amita. 2010. ‘Indo ASEAN Agreement Boosts India’s Image, Policy Commentary’, Sigur Centre for Asian Studies, George Washington University, February).

