ISAS Brief

No. 193 – 31 March 2011

469A Bukit Timah Road
#07-01, Tower Block, Singapore 259770
Tel: 6516 6179 / 6516 4239
Fax: 6776 7505 / 6314 5447
Email: isassec@nus.edu.sg
Website: www.isas.nus.edu.sg

China and India: Competitors or Collaborators?

Shahid Javed Burki[1]

Abstract[2]

As the global economy is slowly emerging from the devastating 2008-09 recession, China and India have been leading the way in global growth, both nearing the double-digit markers in regards to their respective gross domestic product (GDP) growth. At the same time this growth has not been universal. The United States (US) has revived to some positive numbers but it still remains under-par in historical comparison. Situations in Western Europe have proved to be even worse. Several countries have been facing crises with balance of payments (BoP). Britain has had negative growth of one-quarter, which, followed by another such quarter drop, would bring the country back into a recession. Japan's severe earthquake and resulting tsunami has knocked down the country's economy and there is likely to be a drop in *the future rate of economic growth. This clearly means that for the moment, economic activity will be in Asia and within the continent's largest economies, China and India. What will these trends portend for the global economy?*

---

[1] Mr Shahid Javed Burki is Visiting Senior Research Fellow at the Institute of South Asian Studies (ISAS), an autonomous research institute at the National University of Singapore. He can be reached at sjburki@yahoo.com. The views reflected in the paper are those of the author and not of the institute.

[2] This paper is based on a speech given by the author at the Singapore Indian Chamber of Commerce and Industry Biennial Conference; Shahid Javed Burki, 'India-Singapore-China Business Opportunities in the Trilateral Relationship' (27-28 May 2011), Suntec Singapore International Convention and Exhibition Centre.

Introduction

It has now become a cliché to talk about China and India as the rising giants in the global economy. As President Barack Obama famously observed during his state visit to India in November 2010, 'India was not rising; it had already risen.' A similar statement was made of China a decade ago. Combined, the two countries carry close to 40 per cent of the world's population. They account for almost 10 per cent of global production. This year, both countries saw their GDP grow nearly 10 per cent; this rise accounts for the greatest contribution to global output.

What is interesting is that the two countries have taken very different routes to attain their present state of development. The result of the different paths taken by China and India are two very different economic structures and possibly two very different economic futures. Given these differences, will the countries become competitors or collaborators in the evolving global economic and political systems? A historical comparison to today's China and India could be made with France and England of the late eighteenth and early nineteenth century – two sets of countries both rising in economic prosperity and linked by geographical proximity. The question remains of whether China and India create a bond or take the route of France and England, creating decades of hostility.

One complication for China and India may be that they share a long border, parts of which are still contested. That said, it is more than likely that the two Asian giants will work with each other to their mutual advantage rather than become hostile neighbours. It seems extremely unlikely that the border disputes will not be resolved diplomatically and, therefore, not re-enacting the military actions of 1962.

Economic Transformations of China and India

China began its journey towards rapid economic growth and modernisation in 1976 when the mantle of leadership moved from the shoulders of Mao Zedong, the founder of modern China, to Deng Xiaoping, the country's builder. India's rise started a decade and half later in 1991, under the stewardship of Dr Manmohan Singh, the country's current Prime Minister and then Finance Minister.

The process of economic change began in both countries during periods of great crises. In China the crisis was political. An ailing Mao became erratic in his tactics for establishing his successor. He had attempted to influence his succession by sending a number of his competitors, including Deng Xiaoping, into domestic exile. Deng bided his time and after a struggle with the group that came to be called the 'gang of four' which included Mao's wife. Deng later emerged as the undisputed leader of post-Mao China. For India the crisis was economic as the country faced a severe BoP crisis that led to the pledging of gold to obtain finance which would keep its international payments current. It was clear to the managers of the Indian economy that the old model of excessive control by the state over the processes of production had not worked. It had established what had come to be called the 'license raj' which kept a tight control over private investments, permitting only those that were considered to be socially desirable. The result was what Indian economists themselves had called the 'Hindu rate of growth' – increase in the rate of GDP of about 3 to 3.5 per cent – not enough to deal with the growing problem of poverty. The slight opening in the market that was allowed in the mid-1980s by the Congress Party government headed by Narashima Rao had put an enormous amount of pressure on external accounts. With the opening, imports picked up while exports remained stagnant.

There are a number of other similarities between the two countries in addition to the origin of periods of development in deep crises. Both countries are modernising rapidly, India somewhat more narrowly than China where the process of change is much broader in scope. Both are seeing enormous growth in the sizes of their urban populations. Both are becoming integrated in the global economy, again China more rapidly and more thoroughly than India.

Differences between China and India

Apart from the similarities noted above, there are a number of differences in the way the two countries are being managed. India is a well functioning democracy that over the years has been able to give voice to its diverse citizenry and provided enough space within the political system not to have those with grievances to adopt approaches outside the constitutions to express their frustration. The political system in China is centrally managed with little space allotted to those who are aggrieved and would like to express their views. This is certainly the case if these views markedly differ from those held by the ruling Communist Party. A vibrant print and electronic media in India is fully representative of its boisterous democracy. In the decentralised Indian political system, a variety of political parties hold power in the constituent states. In China, the centre and the provinces are governed by the same party – the Communist Party.

The structures of the two economies differ. In spite of rapid development of the economy and the modernisation of a number of sectors, India remains a largely rural and agrarian-based economy. On the other hand, manufacturing is a large sector for China. China relies much more on external trade to find markets for its rapidly developing industrial base. In India, output of the economy is much more oriented towards meeting domestic demand. There is no international pressure on India to stimulate its domestic demand for feeding economic growth. Such a pressure has been exerted on China for years. Many in the West – in particular in the US – believe that the global economic imbalances can only be corrected if China moves its growth strategy from export expansion to domestic demand promotion, and in the process appreciates its currency.

The Process of Development in the Two Countries

How did the two countries reach their present economic situations? For both it happened in two phases.

In China, there was emphasis on human resource development and achieving food self-sufficiency during the Mao period from 1949 to 1976. During this time the country was able to achieve universal primary education and universal primary health coverage. It also brought out its women from near-servitude. The second phase from 1979 to 2011 saw China become the workshop for the global economy moving from the production of labour-intensive manufacturing to technologically sophisticated goods.

India's two phases were from 1947 to 1991 and from 1991 to the present. In the first phase, it put the state on the commanding heights of the economy in order to invest in heavy industries for the public sector. In the second phase, it pulled the state back and allowed more freedom to the private sector. India now gives the state a much less significant role than it did during the period of the 'license raj'. That is not to say that the state has pulled back entirely. For instance, foreign direct investment is still allowed in a limited extent in some sectors. In retail trade, for instance, multi-brand stores are not allowed to be established. Investments in finance and insurance are also subject to strict state scrutiny and control.

On the external side, China has a policy of working with its neighbours to develop a regional economic system, making them less reliant on the markets in the West. It is correct in assuming that those markets, given the serious demographic transitions they are experiencing, have only a very limited capacity for expansion. The expansion that will take place will be in non-tradables such as healthcare. India, on the other hand, remains indifferent towards much of its immediate neighbourhood, preferring to leap-frog over them and reach out to the rapidly transforming economies of East Asia. China has used the large programme of domestic demand stimulation to deal with the Great Recession of 2008-09 by connecting itself with its neighbours by building a modern transport infrastructure.

Devising a more China-India-Centric System of Global Economic Management

With these differences in history and endowments, the two countries will have to work hard to work together. One way of doing this will be to create a G2 between them based on developing common positions on international economic issues. During his first official visit to Asia in November 2009, US President Barack Obama indicated his support for the establishment of a new political order for the management of the global economy. A G2 made up of the US and China would be at the apex of the system followed by the G20 that is made up of seven industrial countries, 12 large emerging economies and the European Union. Most of the large policy initiatives would be the responsibility of the US and China, while India would be relegated to the second tier. The Chinese did not show much enthusiasm for the proposal. It was for this reason that President Obama began to court India a year later when he visited that country.

On the other hand, a G2 arrangement involving China and India may better serve their separate and mutual interests. They could also begin to gather under one umbrella the various regional economic and trading arrangements that have proliferated in the last few decades. They should develop a common approach in gaining access to the global resources that both are deficient in. In other words, the idea should be to stress the commonality rather than allow other large global powers to put an accent on the perceived differences between the Asian powers.

. . . . .