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The rapid emergence of China and India dramatically transformed the global economy during the last decade. But the two countries have pursued contrasting strategies: China's industrialization has been fueled by public-sector investments and large-scale foreign direct investment (FDI) in manufacturing; India's has been driven largely by domestic companies and entrepreneurs. More recently, however, the two countries have taken efforts to collaborate. India, for instance, has learned from China's successes to lure investors to the country's manufacturing sector and has become the third largest recipient of FDI. As this "Straits Times" article claims, closer engagement between China and India has tremendous implications for the Asian economy and should be welcomed by their neighbors. Nonetheless, the authors argue, both countries must undertake extensive domestic reforms to capitalize fully on the benefits of globalization. – YaleGlobal

Different Paths of Asian Giants

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THE economic rise of China and India has begun to alter the regional and global landscapes. Both countries are on steep learning curves, and if they continue on current trajectories, both will inevitably play a bigger role on the world stage.

The rapid economic emergence of China as a global trading and manufacturing powerhouse and the world's leading destination for foreign direct investment (FDI) is by now conventional wisdom. Between 1985 and 2003, China has consistently been the world's fastest-growing economy, with average real annual growth of 9 per cent.

India's rise is of somewhat more recent vintage. While the country has been gradually liberalising since the mid-1980s, the turning point was the balance of payments crisis in 1991. Since then, its growth has become far more broad-based and more durable.

According to most estimates, China's economy should grow annually at about 8 per cent until 2010 and 7 per cent from 2010 to 2020, while India can hope to achieve an average annual rate of 7 per cent until 2015.

Investment house Goldman Sachs predicts that China could grow 30 times (in nominal US dollar terms) its current size by 2050, overtaking the US as the world's largest economy, while India could grow by over 50 times, becoming in turn the world's third-largest economy.

Differences in growth strategies

CHINA'S industrialisation is fuelled by large-scale FDI in manufacturing, together with public-sector investments resulting in impressive infrastructure. This has been faster and on a much larger scale than seen elsewhere in the recent past.

India's industrialisation has been more organic in nature, driven largely by domestic companies and entrepreneurs and indigenous funds, with limited FDI (at least until recently). Private Indian companies such as Infosys, Wipro, Ranbaxy, Reliance, the Tata Group and others are all world-class businesses in knowledge and technology-based industries.

The variations in growth strategies (top-down in China and bottom-up in India) as well as the speed of economic transformation are partly inevitable, in view of their markedly differing political systems.

Nevertheless, these differences in growth strategies have fuelled an intellectual debate on which approach is better and more durable. India does appear to be utilising available scarce resources far more efficiently than China. Others argue that India may make less significant progress in poverty alleviation.

China and India appear to be consciously learning from each other. And as they do, there will be a gradual convergence of development strategies over time in several areas. When Chinese Premier Wen Jiabao visited India in April 2005, he made it a point to stop over in Bangalore before heading to New Delhi. Taking a leaf out of India's book, China is building up more of its own domestic enterprises that will have the ability to compete globally.

While China has been the most attractive FDI destination in the world, India has steadily risen from the sixth to the third most likely FDI location globally. This shows a significant change in attitudes among global investors and corporate leaders towards India.

India's growth story is not limited to services; investors are increasingly recognising its potential in manufacturing as well. Clearly, India has arrived on the global scene: The current investor view is 'we cannot afford not to be in India' - a view that they have held for well over a decade in the case of China.

Reforms and restructuring

IT IS critical for both countries to continue to embrace the forces of globalisation in a judicious manner as a means of bettering the lives of their respective populace. At the same time, they need to undertake internal economic reforms to ensure that they are able to fully capitalise on the benefits of an open economy and meet the rising expectations of their people.

China is specifically challenged by its weak banking system, while many of India's problems can be traced to rather poor public governance (corporate governance is robust); an ineffective public service; bureaucratic barriers; low agricultural productivity; and relatively large fiscal deficits, all of which have been identified by the government as priority areas. India's poor infrastructure limits it in following the Chinese lead. This shows the need for greater private-sector investments, a huge challenge for India.

Both China and India face daunting problems associated with ageing populations. This is already a fact in China, and will be so in India before too long. Pension reform is highly complex in that it requires corresponding reforms in the financial, capital and labour markets, as well as organisational and administrative reform. India has relatively stronger financial and capital markets

and appears to have shown far more commitment to undertaking pension reforms than China.

International relations

BOTH countries suffered in the age of colonialism and imperialism, again in different ways, achieving 'liberation' in the immediate post-war years under comparable banners of anti-Westernism, socialism and dependence, to differing extents, on the Soviet bloc.

Emancipating themselves not only from colonialism and imperialism, but also from legacies of utopian ideology that followed, both India and China are now emerging powers with 'realist' agendas.

Multipolarity and multilateralism are areas of shared interest. Accepting the reality that this is still an age of 'one superpower with many powers', China is committed to a balancing act. This was seen in the slogan 'China's peaceful rise', which was quickly revised to 'peaceful development'. It proved difficult to market, though China's non-peaceful capabilities, while increasing, are arguably still far from constituting a 'threat', certainly to the US.

At the same time, China certainly has been visibly moving from suspicion and hostility towards the international system, to 'identifying with it'.

India's movement is the same, but more so. India is a challenger in its own region, but keeps its relations with the US and China in careful balance. Like China, India has benefited from the US' post-Sept 11 need to link up with potential allies in the war against terrorism. India's continuing economic growth and internal stability are crucial in these efforts.

In the near future India is unlikely to receive a poor score card from Washington as a bastion of freedom and democracy and economic openness. Indeed, the US increasingly views India as a strategic partner in the evolving regional economic, political and security arrangements in Asia, and is keen to work with India to help make it into 'a major global power in the 21st century'. Meanwhile, China has difficulties precisely on these issues.

Going forward in bilateral ties

SINO-INDIA bilateral relations are in general moving in a pragmatic and productive direction. Trust, confidence and understanding are growing, and the undercurrent of hostility which had been present since the 1962 border war has been put aside in favour of rapprochement and cooperation.

Both countries are clearly underweighted in one another's trade relations despite the rapid acceleration in recent years, making for a massive potential for sustained bilateral trade growth.

Boundary issues and energy security are potential minefields that will require strategic vision, diplomatic skill and mutual accommodation.

The rest of Asia, including Asean, should welcome the closer engagement between these two Asian giants.

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