


**The Rise of China and India:
Its Implications**

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**Agenda – The Rise of India and China:
Asean Implications**

- I. Prologue**
- II. The Revolution(s)**
- III. A new Economic world order – Chindia 2020**
- V. Policy Implications**
- VI. Epilogue**

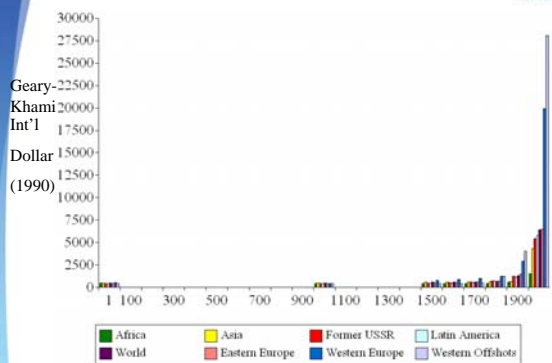
Prologue – The Trilemma



1. **Economics** focuses on how *self-interest*, rational agent as our basic elements of the society to allocate scarce resources.
2. **Politics** is on how *society* manages itself through the authoritative allocation process.
3. **Social welfare** of all *stakeholders* must be mutually considered to make the two compatible.

What *justice* or *fair* is ultimately depending on how people in that society decide.

Figure 1: World GDP per Capita between 1 – 2003 AD



Source: Angus Maddison 04 and un.org

1st Wave – Agriculture Revolution



British started between 16th to mid 19th Century to massively increase agricultural productivity & net output by 4 key changes as below:

1. Enclosure: In **post-feudalism**, British converts public to private lands by force and bloodshed. **Concept of private property, corporation and intellectual property was enacted.**
2. Mechanization:
3. Four-Field Crop rotation:
4. Selective Breeding:

Both land and labor matter. Members of family becomes economic source.

2nd Wave – Industrial Revolution



British started major changes in agriculture, manufacturing and transports to profoundly effect socio-economic and cultural conditions as below:

1. Dominant of Industry and manufactured based economy: Mechanisation of textile industries, dev't of iron-making tech, the use of refined coal to power industrial world..
2. In late 1700, James Watt Steam Engine enabled trade expansion by introduction of railways, streamers ships..
3. In 1850, the invention of internal combustion engine and electronic power generation..
4. In late 1800 to now: Telegraph, Telephone, Radio, Net

Sir Issac Newton – the father of physics, mechanics;
James Watt – the keys to power mechanics world; and
Adam Smith – the “invisible hand” to use this key

Division of Labor creates Wealth



- **Specialization** intended to increase efficiency of output. Mass production and standardization are driven by open trade, rise of capitalism and complexity of industrialization
- Division of labor was observed as
 - Natural Source of **Inequality** for humanity by **Plato**
 - A source of **productivity** improvement by **Smith**
 - **Colonial** Division of Labor
- **Low income** country like **India** offers cheap and abundant labor supply with its national resources.
- **High income** country offers capital and technology innovation with management skill and experience.
- **Middle income** country like **Thailand and China** has to move up the value chain.

3rd Wave – ICT Revolution



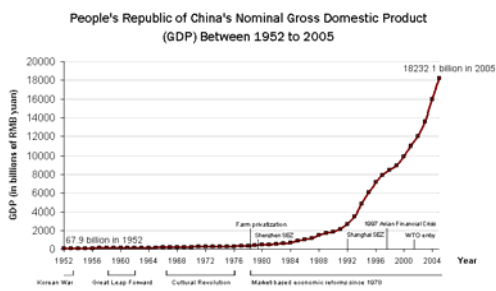
- The era of using knowledge to produce economic benefit. Food is plentiful, natural resources are finite, but knowledge has no limit.
- Globalization and borderless world started in 1990
Ex: Email, web based content, transaction..
- Age of information abundance
- Free flow of communication and information
- Knowledge Worker for Advance Technology and Information Economy
- Web 2.0 started in 2003 to focus on users' behavior and attitude rather than technology by using network as platform and inducing users' participation. Ex: social media, RSS, Blog, Wiki..

Agenda – The Rise of India and China: Asean Implications



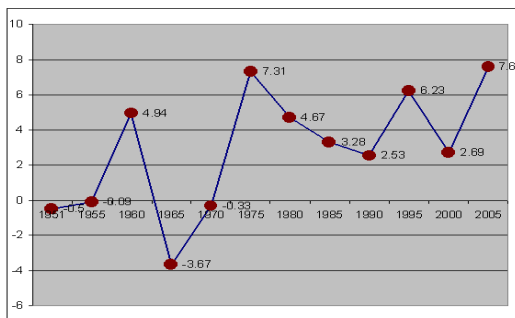
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Figure 2: Chinese GDP during 1952 to 2005



Source: http://en.wikipedia.org/wiki/Economic_history_of_the_People%27s_Republic_of_China

Figure 3: India GDP during 1952 to 2005



Source: http://upload.wikimedia.org/wikipedia/en/9/9a/Indias_growth_rate_of_real_GDP_per_capita%281950-2006%29.png

China & India – the Republic



At the end of Qing Dynasty and opium war, Republic of China (1912-49) by Sun Yat-sen/KMT

The People's Republic (1949-present) was created and led by Mao Zedong after his victory in bloody Civil War.

Followed by disruptive socio-economic movements

Great Leap Forward in 1960's,

Cultural revolution in 1970's and

Economic Reform in 1990's

China is the fastest growing market based economy and the largest socialist nation.

Radical Dream, Radical Change

India was then a UK colony in 1850's after Maratha Empire's fall.

India won independence in 1947 led by Mahatma Gandhi in a non-violent, civil disobedience way.

UK Legacy in administrative system: Judiciary, Legislature and executive branches along with common English language usage.

India is the largest democracy in the world with a quasi-socialist way.

Subtle failures – Education, Health, infrastructure

China & India – Economic Power



China as factory of the world India as outsourced center

- Investment and trade at 47% of GDP
- Growth led by Huge investment in factory and infrastructure.
- High saving rate and FDI
- Focus now on improving capital, material and energy efficiencies and improving the export mix to higher value-added
- Services are the key driver
- India's software and BPO exports are set to reach USD 60bn by 2010
- Indian software could add 100 bps to GDP in 2008.
- China's SEZ model is being adopted to speed up industrial growth
- Deregulate and relax FDI

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Table 1: Asia's Growing Importance in the World Economy, 1900-2030 (% , 1990 International Dollar) 

	Share of World GDP (%)				Growth of GDP (%)	
	1900	1990	2003	2030	1990-2003	2003-2030
Western Europe	34.2	22.2	19.5	13.8	1.9	1.6
United States	15.9	21.4	21.2	18.7	2.9	2.4
Japan	2.6	8.6	6.7	3.9	1.1	0.8
China	11.0	7.8	13.1	20.2	7.2	4.5
India	8.7	4.0	5.6	10.2	5.7	5.1
Other Asia	5.9	11.4	13.6	15.8	4.4	3.5
World	100.0	100.0	100.0	100.0	3.0	2.9

Note: These GDP data are based on purchasing power parity measured by the 1990 international dollar and growth rates, which may be different from official statistics, and have been adjusted by Maddison.
Source: Angus Maddison, 2005, "The west and the rest in the world economy: 1500-2030," Australian National University, Canberra.

Table 2a: Imagine Chindia 2020 

Still a young region

- 37% of world population
- 40% of China and 50% of India are below 25 years of age
- 256m to be added in the 15-64 age bracket
- Young Chindia is getting urban, family nuclearization and rich.
- A USD16 trillion economy by 2020; in PPP term Chindia = US = 20.3% global GDP

Source: 2006 CLSA Asia-Pacific Markets

Table 2b: Imagine Chindia 2020 

- 376m addition to urban population, 1.3xUS
- 66% share of world iron-ore consumption
- 51% world steel consumption
- 70-80% oil imports as a fraction of total annual requirement
- 1374 GW power capacity addition
- USD 9 trn increase in banking loan asset
- USD480bn package-food market size, 1.5xUS
- USD 100 bn mobile-handset market size
- 915m Internet subscriber base, 4.5xUS
- 1/3rd Proportion of world mobile-subscriber base

Source: 2006 CLSA Asia-Pacific Markets

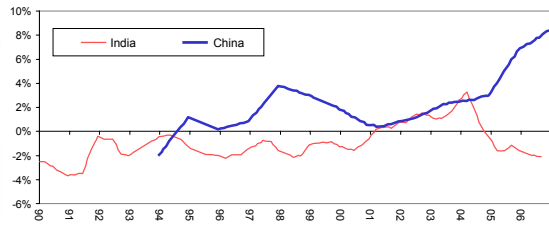
Table 3 Chindia and US Statistics



Miscellaneous Stats	China	India	US
Computers per 1000	40.9	12.1	749.2
Phones per 1000	258.3	43.8	616.7
Literacy of adults	90.9	61.0	98.0
Life Exp	71.4	63.5	77.4
IT Expenditures % GDP	5.3	5.9	8.8
GDP per capita US\$	US\$ 1,444	US\$ 586	US\$ 37,574
GDP per capita PPP adjusted % US	14.8%	7.4%	100%
Urban population (% of total)	40.4	28.7	80.8
Birth Rate per 1000	12.3	24.1	14.1
Corruption major constraint (% of managers)	27.3	37.4	#N/A
Service exports (BoP, current US\$ Bln)	70.3	35.1	375.8
Days to Start a Business	48	71	5

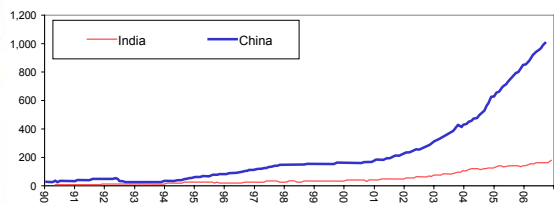
Source: Bridgewater (2007)

Figure 5a : Current Account % GDP



Source: Bridgewater (2007)

Figure 5b : Reserves US\$ Bln (level)



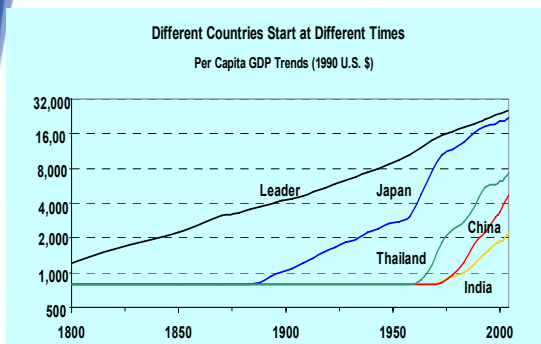
Source: Bridgewater (2007)

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Figure 4: Different nations have different
Endowment and different development.



Constraints That Reduce Productivity



- **Constraint 1:** How a technology must be operated
 - Examples: Work rules, inspection, community, civil rights, caste, education and bribes.
 - **Constraint 2:** Which technologies can be operated
 - Examples: Regulation, laws, corruption, human capital, capability, resources, etc.
- Institutional Rigidity or legacy does matter !

Fig. 7a Population living on less than 1 USD per day by Wikipedia.com (May 07)

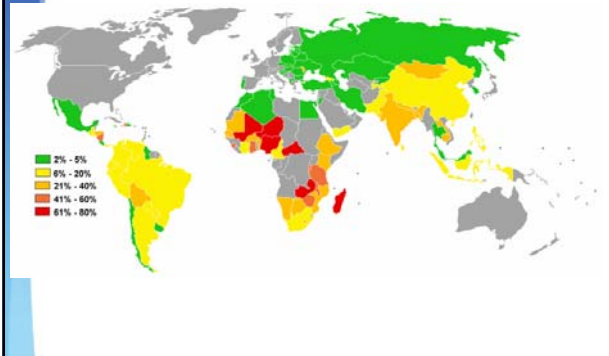


Fig. 7b World Gini Coefficient Index by Wiki (June 07)

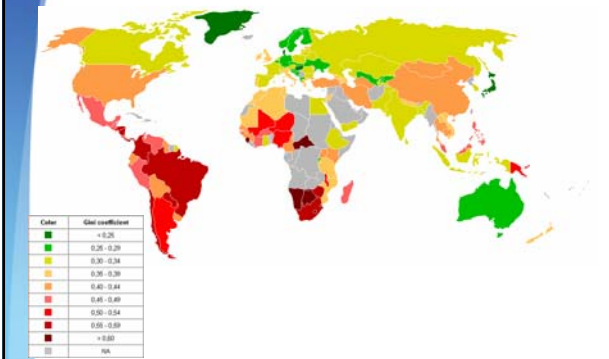
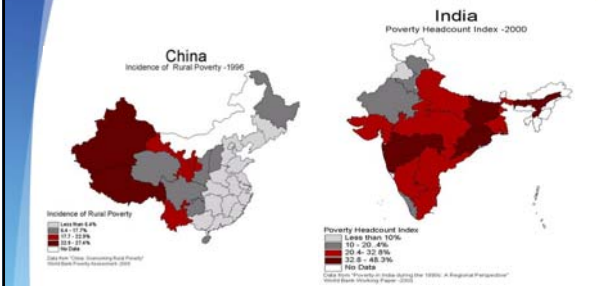
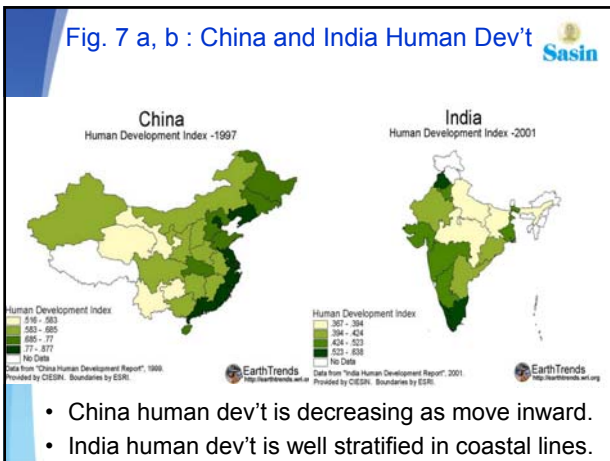


Fig. 7 a, b : China and India Rural Poverty



- China poverty is increasing as move inward.
- India poverty is spread out except in near the capital.

Fig. 7 a, b : China and India Human Dev't



BASIC NEEDS

CAPABILITIES

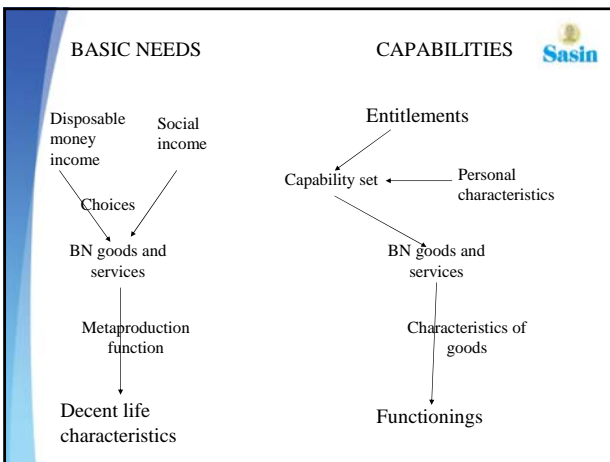


Figure 8a: Evolving EM political systems and their colonial progenitors/G7 models

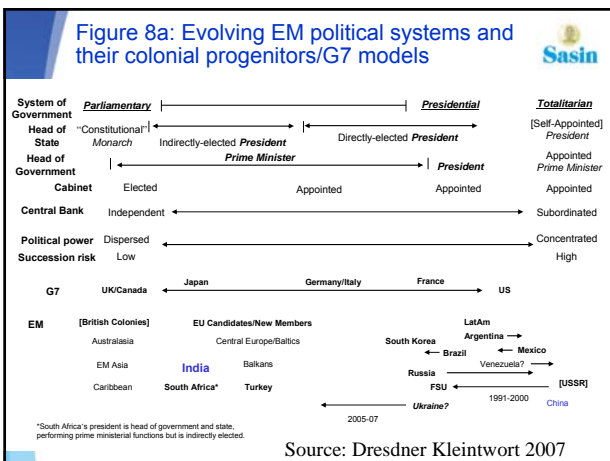
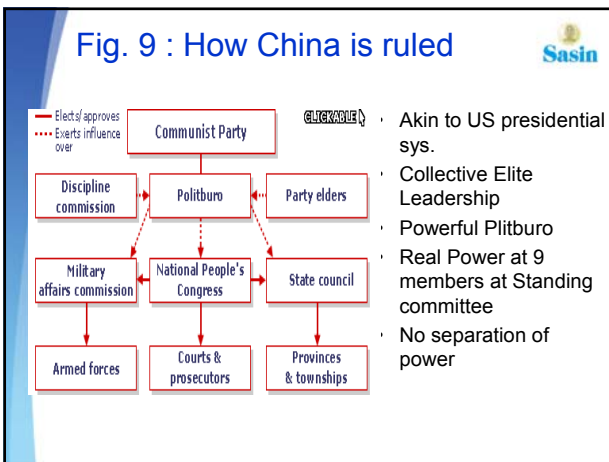


Figure 8b: A Typology of Democratic Regimes



	SMP Electoral System	PR Electoral System
Parliamentary Democracy	<p><u>"Westminster" Democracy</u></p> <ul style="list-style-type: none"> - ≈ 2 parties - Minority government rare - Stable government based on majority party - High identifiability - But winner-takes-all. Tyranny of the majority? 	<p><u>Multi-Party Parliamentary Democracy</u></p> <ul style="list-style-type: none"> - Multiple parties - Sometimes a minority government forms - Unstable cabinets, but not necessarily unstable democracy - Low identifiability - Inclusive. Minorities often get into the cabinet
Presidential Democracy	<p><u>"USA" Democracy</u></p> <ul style="list-style-type: none"> - ≈ 2 parties - Divided government less likely - High identifiability - Winner-takes-all? Tyranny of the majority? Probably less than Westminster. 	<p><u>Multi-Party Presidential Democracy</u></p> <ul style="list-style-type: none"> - Multiple parties - Divided government likely. Deadlock? - Likely that President's party is weak in the legislature - Of these four types of democratic regime, this is probably the most unstable.

Fig. 9 : How China is ruled



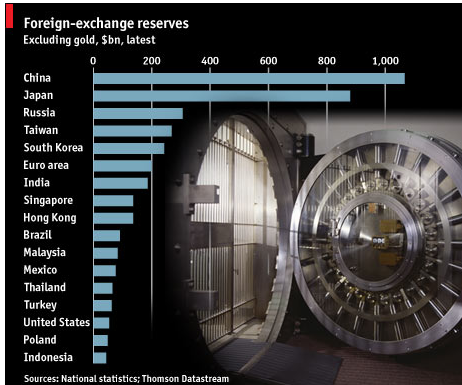
Joseph Schumpeter (1883–1950)



- Contrary to Marxist theory, and other theories that place faith in the 'will of the people', Schumpeter claimed that the masses are capable of little, other than stampeding. **Democracy should be limited to elitist, representative forms**, in which the masses have the power only to vote at regular intervals for representatives who compete for popular support.
 - In *Capitalism, Socialism and Democracy* (1942, PP. 82 to 85), Schumpeter characterizes **capitalism** with the famous phrase "**creative destruction**" in which old ways of doing things are endogenously destroyed and replaced by the new.
- This view seems far more current than Smith's Newtonian notion of an "invisible hand" generating stability in the marketplace.
- **Schumpeter concluded capitalism will be replaced by socialism for non-Marxist reasons.**

Different Setting ?

0704 Asian FX Reserve Hoarder by Econ



Challenging Issues for Asean



1. Regional Economic issues:
 - 1.1 Imbalance China & Overheat India Growth (and aging Japan)
 - 1.2 Free Trade: Asean+1, Asean+3 ...
2. Democratization: Burma, Parkistan, N. Korea ..
3. Security Issue: Sino-Indian territory dispute, Panchasheel treaty, Energy and Water Security, Nuclear proliferation..

Challenging Issues for Asean

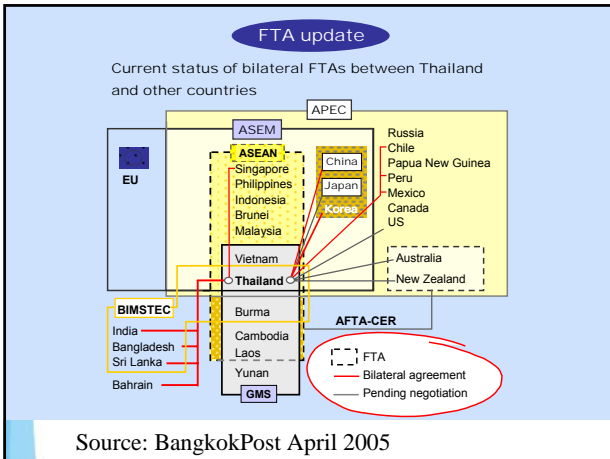


4. Social Issues- Asian Education Agenda, Aids poverty reduction, civil rights..
5. Environmental Issues: Water, Deforestation, pollution, global warming..

Multipolar world wants unipolar Asia with China's prime position !?!

How is Japan reacting to the new Chindia economic order ?

What should a small country like Thailand position itself in borderless worlds ?



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Epilogue for Asia

Aristotle once states
 “Benevolent dictator is the most effective form of government...But it is easier to find a tyrant than a benevolent king (or elite).”

“Democracy is the least evil form of gov’t because no one has absolute power”

Often stated by one is
 “Democracy for the few (elites) and (Propaganda) Media for the mass”

Reference - for further reading



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- *Available for free download (or forthcoming) at www.Pongsak.Hoontrakul.com



END

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