

# **“The Rise of China and India – Its Implications”**

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## Abstract

The rise of China and India is a triumph of market-based economy. India is not just a small economic version of China. India is the world center of business and high tech outsource to competitively deflate business process and services cost. China becomes the factory of the world to export cheap goods to every corner around the globe. The speed of both nations to “catch up” with the advanced economy is depending on which and how technology each is embracing given their institutional constraints. “Chindia” enhances world social welfare by opening up more young and urbanized population and asserting technology innovation productively into every aspect of our every day life. This is a gigantic market opportunity.

With different value, endowment and starting point, China and India have its own way of path dependent political economic progress. What is justice and fair may depend on people to decide and to choose. India’s political system in federal republic parliament style is rooted in colonial legacy and non-violent belief in respect different views of multi-ethnic, -linguistic and -religious communities. Chinese effective executive branch strives for a strong nation and economic power at the expense of civil liberty. Yet, gradual economic convergence between two countries may be seen in service oriented and heavy industry areas. Divergence in income disparity, partly due to Indian ineffective administration is undesirable and partly due to Chinese high wealth and power concentration. Potentially, more balance economic development in India and more balance political evolution in China may be desirable for the world peace and prosperity as Chindia thrust forward to proclaim its rightful world leaders. Water scarcity, energy efficiency, environmental pollution, foreign reserve recycling problem and security apprehension are highlighted among potential global issues with suggestive resolutions. This is a worldwide immense challenge.

**Key Words:** China, India, Chindia, comparative political economic development, transitional economy, globalization, democratization, market economy

JEL: F40, I30, O1, P1, P3, P5

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## I. Introduction

The rise of China and India could shift the political economic center of the World to Asia in a matter of next few decades. China and India share many similarities. Both have huge population and high economic growth. Both have thousands years old ancient civilization to give their strong sense of identity and greatness. Yet, both are two of the kind in term of political economic structure in their own path dependent progress. China has the lead in jumping start its economy first in the 1980's. China has larger and wealthier population than India. While China becomes a factory of the world exporting cheap manufacture goods and merchandises, India is a global center of services - destination of outsourcing business process and software competitively. What matters most is not just what have happened and would happen in these nations but rather how they would impact the world.

Economics is about how to allocate scare resources efficiently with self-interest rational agent. The economic success in both China and India is the great triumph of market-oriented economy and capitalism in some extents<sup>1</sup>. China has proved immense success in open up its economy after many decades of futile centrally planned economy. Along with local and oversea Chinese entrepreneurs, its state-enterprises stakeholders have enjoyed economic windfall as China is allowing foreigners and individual to invest and participate in market as it is adopting technology and know-how from abroad. On the other hand, for most part of last century India had retarded its economy by inward looking and overburden bureaucrat system. But somehow private Indian firms manage to pull together in outsourcing and software business as Indian politicians have not understood this well to regulate them. Essentially both nations begin to prosper when they open their market for innovations and begin to embrace technology along with foreign capital in their own ways. With dissimilar starting points and distinctive paths in economic development, it remains to be seen how China and India would converge as they learn from each other.

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<sup>1</sup> Capitalism is generally defined with economy predominantly owned and operated by private sector for profit and in which investment, distribution, income, production and pricing of goods and services are determined through the market-based mechanism. In this sense, capitalism has not fully prevailed.

Politics is how collectively society manages itself through the authoritative allocation process. Centralized Chinese government proves to be very effective in implementing its ideology and state policy with great success in recent years and striking disappointment in early days. After bloody civil war and culture revolution, China had forged a new unified socialist sense of country. Collective elite leadership with iron-fist ruling has so far been peaceful and smooth with only few occasional hiccups over last few decades. In economic transformation from low to middle income country, more freedom to choose and civil liberty may be overlooked. Unless there is a real crisis, there would be no real impetus for a real change in political setting. In contrary, India as the world's largest democratic country is always budged down with "red tapes" and inertia. Every administrative move is always to be countered by special interest groups. Protests, debate and lobbying are common for most of the issues. With diverse value and belief among different ethnic and multi-religious and linguistic groups, it is very difficult to have a decisive action to drastically change Indian political economic landscape. Weak coalition parliament government with strong judiciary system and English language as their official language seems to keep this country from splitting into pieces. While large Indian conglomerates are driving the formal sector economy, private micro-enterprises in informal sector are vibrant. One wonders how the two nations would fare better in a globalized world, particularly in the long run. More importantly, how their foreign policy driven by their political economic desire would impact the world.

Social welfare is created to collectively help the majority of poor and less fortunate population to survive and adjust in fast changing world. As income disparity widening between urban and rural and have and have-not widen, social political tension would continue to grow. Government has to politically consider all stakeholders' benefits and shortcomings to maintain social harmony. One of the main government roles is to help people whom market fail to improve their life. Social welfare has to be provided to help the transient poor, human development should be done for the structural poor and government assistance ought to be given to the permanent poor. In a world of unparalleled prosperity, majority of Chinese and Indian people in middle of economic boom are still being deprived of water, energy and dignity. What justice or fair is lastly depending on how people in that society decided.

The next section would describe the different origin of Chinese and Indian revolutions in modern history. Section III would portrait the rise of China and India as a new economic world order. The economic policy implications are examined in section IV. Political evolution is next discussed. Challenging issues are agrued in Section VI. And the last section concludes.

## II. The Revolution(s):

### 1. Genesis<sup>2</sup>:

From the beginning of history up until 1700's, World GDP per capita was relatively stagnant as shown in Figure 1. After the Renaissance, the 1<sup>st</sup> wave - **British Agriculture Revolution** in 18<sup>th</sup> century saw a massive increase in agricultural productivity and net food output. Many historians claim the key drivers in agricultural modernization were the four innovative causes. First, in post-feudalism, British converted public to private lands by force and bloodshed. The enclosure or land reform is to entitle farmers to the open field system and to fair share of the products. Second, mechanization was utilized to improve labor's efficiency. Seed drill, horse-drawn iron plough, threshing machine and walking-tractor were among the fine early invention to increase productivity. Third, four-field crop rotation gives higher yield. Wheat and barley was, for instance, in first two crops. Nitrogen-rich legumes or plants of the pea/bean family, as the third crop slowly increased the fertility of croplands after the "fallow" – empty field. In essence, different crop in each of the three fields follows by "fallow" yield more productive crops. Livestock, manure and food were more plentiful. Finally, scientific method in selective breeding was introduced to reduce genetic diversity. Desirable programs for producing bigger and more profitable livestock were, for example, found by inbreeding under government support. Furthermore, concept of private property, corporation and intellectual property was redefined, encouraged, enacted and protected.

The Agriculture Revolution helped the thrust for the 2<sup>nd</sup> wave – **British Industrial Revolution** in 19<sup>th</sup> century. The manual labor based economy began to be replaced by industrial economy and the manufacture of machinery in the 1800's.

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<sup>2</sup> More discussion on this section is available at <http://en.wikipedia.org>

Mechanization of the textile industries, development of iron-making techniques and introduction of electronic power generation were among the fine industrial inventions. Railways, telegraphs and steam-power ships enabled trade expansion worldwide for more business and job creations. **Industrial division of labor** yields specialization and comparative advantages to enhance overall social welfare across humanity. Prosperity had increased tremendously and particularly for the nations that effectively adopted the machinery invention, new management concept and free trade. Socio-economic and cultural conditions in Britain had consequently spread throughout the world. Industrialization and urbanization process was eventually influenced almost every aspect of daily life and human society in some ways in the last century.

World GDP per capita has grown exponentially in the last few decades as evidenced in Figure 1 as the 3<sup>rd</sup> wave of **digital revolution** has proceeds. Waves of innovations striving by advance information technology in globalized world increases world productivity at unprecedented growth level. Internet forms new unlimited cyberspace. For instance, over 106 million registered users at [MySpace.com](http://MySpace.com) as of September 2006 make this less than 5 years old site community in virtual world equivalent to the 11<sup>th</sup> largest populated country (between Japan and Mexico) in the globe. The number of text messages sent and received every day exceeds the number of people in this planet every day. Open communication, massive computation power and distributed creativity proliferates innovations in product and business process boosting productivity from every corners of the world. Car manufacture, for example, was once very integrated, but now does not make anything – they become a “value net” integrators. Jobs like back-office operations, programming, call center, translation, etc. are being exported from high wage mature economy to the low wage emerging one for cheaper talent. **Talent division of labor** further builds more wealth and opportunity at the faster rate than any time in human history.

Web or new economy of young firms like [Google.com](http://Google.com) , [Alibaba.com](http://Alibaba.com) and [Ebay.com](http://Ebay.com) which leverages on innovation and network effects has created more value and high growth digital services than most, if not all, of any old manufacture-based economy. Found in September 1998, [Google.com](http://Google.com), for an example, has become the largest search engine in the world with USD 200 billions market capitalization in 2007. At the present explosive growth rate, Google.com would be the most valuable

tech firm with half-trillion dollar market capitalization company by 2010. Its concept was originally based on online advertising to relevant internet search model from the Larry Page and Sergey Brian - its founders' incomplete Ph. D. dissertation framework at Stanford University. Google's pay-per-click business has now grown over 50% year on year with half of the revenue come from international market in 2007. Specialization, efficient use of resources, mass personalization, interactive entertainment and digitalization are among the current fine trends adding economic benefits and social welfare in connected and innovative space as the **knowledge-based economy** is unfolding itself. It is hard to imagine how the explosive growth in innovation and technology would re-shape our social-political-economy in the future.

## 2. China:

After the Opium War, the end of Qing Dynasty marked the conclusion of two thousand years of imperial rule. The Republic of China (1912-1949) was nominally unified and shaped by Sun Yat-Sen of the Kuomintang (KMT) or Nationalist Party in the midst of civil unrest and foreign invasion. Despite of nation-building efforts to modernize the economy with its first constitution, the republic was caught in the conflicts between KMT, the Communist Party of China (CPC), remnant warlords and Japan. A series of political, economic and military chaos led to quite a few wars among themselves and between nations. Eventually, the People's Republic of China or PRC (1949- present) was established under CPC Chairman Mao Zedong.

In 1949, Chairman Mao followed Soviet-style centrally planned economy in the first five years national plan (1953 –57) with radical goal to transform China into modern, powerful, socialist republic. Closed to 70% of all modern industrial enterprises (e.g. steel, coal, cement, electricity, etc.) were state-owned and the rest were under public-private ownership. No privately owned firms remained. After land nationalization, collective farming was instituted in joint producers' cooperatives. The initial success of the first plan brought more ambitious policies. First, Great Leap Forward (1958-60) was focused on heavy industrial production, with a slogan, "surpassing the UK within 15 years and catching up to the US". The result was chaos in Chinese economy as the direct result of negative aspects of the centrally planned

economy surfaced. Then Agriculture First policy (1961-65) was initiated to re-allocate its resource for more food production to fencing famine. In spite of everything, the Chinese economy was on the brink of collapse. Without market competition and control authority concentrated centrally, governance at corporations and local government was at lost. Culture Revolution (1966-76) was later to compellingly unify political idealism to prevent adverse political social percussions from the slump of China's economy. Curtailing imports of foreign advance equipment, closing of many "radical" universities and lacking ownership and incentive to perform profoundly affected every aspect of its political economy. Agriculture production stagnated. Industrial production was far below normal output. And most of transportations [e.g. train, trucks, etc.] were disrupted extensively due to poor management and shortage of resources. Though Premier Zhou Enlai (1970–1974) attempted to revive the economy by campaigning for the return of skilled and highly educated personnel along with foreign contacts, the success was mediocre. The Culture Revolution was finally marred with the *first* Tiananmen Incident in 1976.

In the Post-Mao era, the *de facto* PRC leader Deng Xiaoping had fundamentally altered the China's basic policy for "reform and opening" in 1982. To pursue market liberalization, the economic system was then oriented toward more market-based mechanism. Trade and investment were opened to foreign investment and management. In agriculture, contract farming responsibility system was to replace collective commune structure. Farmers once again allowed for theirs fair sharing of crops and to sell theirs products in free market exchange. In a nutshell, farmers' property rights and incentive to perform utmost were instituted. In industrial sector, special economic zones (SEZ)<sup>3</sup> for selected clustering sectors along the coastal provinces were established to provide greater flexibility, autonomy and market friendly involvement to improve productivity and efficiency. Enterprise-managers gained their control over their units, while incentive for profit sharing was now acceptable. The result had been spectacular as indicated in Figure 2. The liberalization

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<sup>3</sup> During the 1908's, China separated the country into Eastern, Central and Western regions and developing each of these region in stages. The Easter contains SEZs and open coastal cities (e.g. Shanghai, Canton, etc.) and the main drive for Chinese high economic growth rate. Western region (e.g. Tibet, Sichuan, etc.) has many minorities and is rich in natural resources. The economic development has been impaired and social problem is increasing as the disparity between other regions is growing. Chinese government is prioritizing this area and allocates more assistance and support.

plan sought to double real GDP between 1980 and 1990 (achieved by 1988) and double it further by 2000 (achieved in 1995). Even so, a step backward was taken as the second Tiananmen Incident unfolded in 1989. Economic sanction, slow down in FDI from the West and slump domestic economy were among these setbacks.

Again China has bounced back. Facing economic slowdown and rising inflation, in 1992 Deng revealed a new pragmatic slogan of a “socialist market economy”,<sup>4</sup> to accelerate and deepen market liberalization for “economic building” development. A balance between socialism and a market economy was sought after. Nonetheless, the four pillars of CPC leadership, socialism, Mao Zedong Thought and one-party rule were maintained. In 1994, a new company law was promulgated. In the following year, a policy of “grasping the large and letting go the small” was implemented. Consequently, private small and medium enterprises (SMEs) were flourished and striving. The state-owned enterprises (SOEs) were privatized and transformed to be conglomerates. The number of SOEs was reduced to 26,000 in 2006 from 65,000 in 1998. About 40% of industrial output (2005) was yet for SOEs’ account despite of their weak performance and persistent government intervention.

Thus, Chinese GDP has grown 2,280 % in 23 years or from mere RMB 80 billion in 1982 to plentiful 18,232 billion in 2005. Chinese foreign exchange reserve is now hoarding well over USD 1.3 trillion. The transformation led to average annual rates of growth of 10% in agricultural and industrial output for over two decades. China is currently a middle-income country though many social problems (e.g. environmental degradation, income disparity, etc.) remain serious issues.

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<sup>4</sup> A *socialist market economy* is initiated and practiced in RPC and followed by Vietnam. So-called socialism with Chinese characteristics is the economy in which major industries are owned by state entities, but compete in a pricing system of market-based mechanism. This should not be confused with the *social market economy* first originated in West Germany after World War II known as *Soziale Marktwirtschaft* in German. This social market economy is a *middle path* between socialism and capitalism (i.e. a mixed economy) to balance social and economic factors by sometimes using state intervention.

### 3. India:

Throughout five thousand years history of India, foreign rulers from Alexander the Great to Delhi Sultanate, from Europe to Middle East had always tried and often succeeded to colonize India or part of India unlike Chinese experience. During Indian last dynasty – Maratha Empire (1674-1818), Portugal, Netherlands, France and the Great Britain (or UK) first began with trade and later exploited their advantages of fractious nature of pluralistic, multi-ethnic and multi-lingual society to establish colonies in the country. By 1856, after agriculture and in the advent of industrial revolutions, UK became the most powerful country on the planet as the center of commerce and manufacture. Most of India was under the control of the British East India Company<sup>5</sup> that monopolized the supply of Indian commodities to supply the spiraling cycle of prosperity in UK. In effect, India was under the direct control of the British Crown as a colony of the British Empire. Colonial rule had instituted common law, adversarial legal system, taxation regime, property rights, English as an official language. Capital market, railways and telegraphs were extensively developed. **Colonial division of labor**, in short, was successful in creating wealth and prosperity selectively to few elite groups and brought unevenly affluence to India through efficient methods of production and increased availability of raw materials via *laissez-faire* economy and technology advancement.

Unlike China, India had won its independence as a modern state from British in 1947 after World War II by widespread use of non-violent resistance as a means of social protest. Mahatma Gandhi, Jawahrlal Nehru and Sardar Vallabhbhai who led the civil disobedience against the colonial administration, declared India a Republic in 1950 as the parliament adopted its first constitution ever. The Non-Violence Independence Movement (NVIM) from the world's largest democratic nation served as a major catalyst for similar movements around the world like the quest of democracy in Myanmar led by Aung San Suu Kyi and African National Congress led by Nelson Mandela against apartheid in South Africa. Kashmiri

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<sup>5</sup> More discussion at [http://en.wikipedia.org/wiki/British\\_East\\_India\\_Company](http://en.wikipedia.org/wiki/British_East_India_Company)

Brahmin<sup>6</sup> descent Nehru became the first Prime Minister (PM) under a well UK lawyer educated, Hindu Modh<sup>7</sup> descent Gandhi's mentorship. PM Nehru introduced Indian version of state planning and control over the economy and strict regulation over private enterprises, foreign trade and foreign direct investment out of colonial paranoid. Like China, the first Five-Year Plan in 1951 was introduced with strong socialist and nationalist inspired approach. The policy was a simultaneous mixture between capital- and technology-intensive industry along with subsidizing manual, low skill cottage and agriculture industries. Strategic industries such as mining, heavy industries, banking, serving public interest utilities were invested, owned and operated by state-owned enterprises (SOEs). Nuclear energy was, for example, harnessed. State-owned outputs were used to serve public interest and often as checks to private firms' abnormal profit. For agriculture sectors, land redistribution and resource endowment programs like building irrigation canals, dams, and spread the use of fertilizers to increase agriculture production was envisaged. The result was impressive as exhibited in Figure 3. Despite good intention, for most of Nehru's PM term (1947-1964), India continuously faced serious food shortage, impair productivity, low quality and dismal profitability. Despite chronic unemployment and entrenched poverty with low steady GDP growth, Nehru's popularity and iconic image remained unaffected. Perhaps, one of the reasons was his government had extensively built water and electricity supply, health care, roads and infrastructure to a large degree of rural population. Another reason was his passionate education and social reform. Caste discrimination was, for example, enacted as criminal offense. Adult education centers, vocational and technical schools were created for adults.

India had changed its policy to gradually open up its market through economic liberalization of 1991 under PM Narasimha Rao and then Finance Minister

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<sup>6</sup> Brahmin is the highest caste, the priestly class in Hindu society. More discussion at <http://en.wikipedia.org/wiki/Brahmin>

<sup>7</sup> Modh is a 'community' of merchants originated from Modhera in Gujarat. One of the famous Modhs is Dhirubhai Ambani, founder of Reliance group in India more discussion at <http://en.wikipedia.org/wiki/Modh>

Manmohan Singh<sup>8</sup>. SOEs were privatized bit by bit in the midst of political debate, especially on foreign interest. License Raj (i.e. investment, industrial and import licensing) was coming to an end. What intriguing is in the advent of the digital age, Indian large population of young fluent English-speaking workers (a legacy of British colonialism) and trained professionals has become an important destination of the world in outsourcing and service industry. Business processing outsourcing (BPO), enabled services, software development, financial research, and medical tourism are among the fine services export from India. Over 23 % of workforces are employed in business services sector with average growth more than 7.5% per year. Foreign exchange reserves have risen from mere USD 5.8 billion in March 1991 to USD247 billion in September 07. With GDP growth closed to 10 % for more than a decade as shown in Figure 3, Indian GDP is equivalent to USD1.1 trillion as the twelfth largest economy in the world in 2006. So far, with USD964 nominal income per capita in 2007, World Bank classified India as a low- income nation. As the direct result to its huge illiterate population, poverty remains hitherto a serious issue. One estimates that about 27% of Indians still lives below USD1 per day living poverty line standard.

#### **4. The Crystal Palace:**

In 1851, HM Queen Victoria graciously presided at the Crystal Palace in Hyde Park, London for the grand opening to the Great Exhibition to show the world of British engineering and ingenious products in the midst of Industrial Revolution. Ironwork and furniture, steam hammers and hydraulic presses, firearms, barometer, fabric and fireworks along with two railway stations are among the marvel industrial products of the Victorian Age. As illustrated in Exhibit I, the Crystal Palace, wrought iron and glass, symbolized UK's superpower nation status. As more than half of coal, steel production in the world was produced under the Empire, UK was then the only the richest and superpower nation that was capable of building up such a state of art building and magnificent display. The United States of America, Germany and the rest of Europe began to industrialize and caught up in technological advance. UK's

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<sup>8</sup> As a member of the Indian national Congress headed by Sonia Gandhi, Prof. Dr. Manmohan Singh is the 14<sup>th</sup> and current Prime Minister of India. PM Singh is the first Sikh ever to become PM on May 22, 04.

comparative advantage in trade and manufacture goods diminished, whilst UK was very busy in administrating her vast empire and dealing with mass social problems. The fortune of the Crystal Palace was in the decline. High maintenance cost and low admission fee collection from decreasing public patronage left the building in shame. On Nov. 30, 1926, the Palace which stood for a mighty empire and unlimited imagination was accidentally burnt down and destroyed. Winston Churchill was reported to say, “This is the end of an age” as the flames lit up the night sky.



Exhibit I : The façade of the original Crystal Palace, London (1851)

Beijing and Delphi are scheduled to host next the Olympic in 2008 and Commonwealth Game in 2010 respectively. Time, sport events and displays will eventually entertain and pass before our own eyes. Chinese and Indian greatness as emerging once again as middle-income countries and as wonderful hosts will be majestically anticipated, appreciated and astonished like their dominance history in past millenniums. A few questions may be raised. How would Indian merge as Chinese re-claims its world leader position? Which man-made palace, buildings or objects would be constructed and remained for our next generation as the witness of these greatest moments in human history? One may be wonder how Chinese and Indian fortunate would continue to drift into their new economy.

### **III. A New Economic World Order – Chindia 2020**

*Chindia* was a portmanteau name first coined by Mr. Jairam Ramesh, a member of the Parliament of India and a founding member of the Indian School of Business in Hyderabad in collaboration with the Wharton School of University of Pennsylvania, the Kellogg School of Management, Northwestern University and London Business School. Essentially Chindia refers to China and India together in

economic sense to represent the highest potential for growth in the next 50 years. The economic strength between the two countries is widely considered complementary. China is strong in industrial or hardware industry whilst India is a leader in service oriented or software sector. This has a deep root in history since the Silk route era. From Table 1, by 2030 Chindia would represent more than 30 percent of the World GDP, surpassing the combined GDP of US and Western Europe.

If one could imagine the nature holds its presence course until 2020, the demographic trend and economic structure would suggest a significant alternation from the present as summarized in Table 2. Chindia will represent 37% of world population of which 40% and 50% of Chinese and Indian population will be under 25 year old. In other words, about 376 million (equivalent to 1.3 times US) young Chindia people are going to be urban and rich along with firm nuclear family formation. More than half of steel, cement, coal and cotton world production and about 30% of copper, nickel and sugar global output are among the key commodities that will be required to support this phenomenon. Over 100,000 kilometers (km) of railway network, 2.5 trillion person/km air traffic forecast travel and 1374 Giga-Watts power capacity addition are projected to power the growth. What's more, about 915 million (4.5 times US) internet users and one-third of world mobile-subscribers based will be Chindia. The consumption effect will be prominent. As a consequence, the market size of USD 100 billion (bn) for mobile-handset, USD 480 bn for package-food and USD 9 trillion increase in banking loan asset will be created according to CLSA (2006).

China's economic growth has been and will be investment-led financed by strong domestic saving and high foreign direct investment (FDI). Previously, investments in infrastructure projects (e.g. roads, ports, airports, power housing..) in SEZs are the main drive. In the near future, the investment avenues are conjectured to concentrate in shifting to value-adding manufactures and energy-efficient projects. On the other hand, services have been Indian GDP driver. Indian software and BPO export should reach USD 60 bn by 2010 or 2.5 times in 2005. The composition of services has changed and continued to change to more communication and business service along with financial service and more high value software development. As Indian eases FDI restriction and adopt China's SEZ model, more multi-billions USD FDI in industrial sector will be required. Energy, telecom, real estate and other

infrastructure development will be among the top priority for Indian development. In next two decades, re-deploying their labor from agriculture to industrial sector and accommodating the fast growing service sector are among Indian goals.

In summary, Chindia will be the center of the world gravity in term of economic and social sense. This is the greatest opportunity in the century if Chindia remains peaceful and free from unforeseen tragic paradigm shift catastrophe.

## **IV. Economic Policy Implications:**

### **1. Barriers to Riches:**

UK entered modern growth first, US and West Europe followed industrialization a little later. In less than a half of century after World War II, Japan had successfully transformed to be one of richest countries. Thailand, China and India have followed the leading industrialized nations soon to be middle-income nation in 1980's, 1990's and 2000's respectively with different starting point as depicted in Figure 4. It is intriguing to see each and different countries, especially in Asia to grow and prosper at simple catch-up pattern after they liberate their market and accept foreign investment and technology advancement. Their wealth and opportunity were redistributed for social welfare enhancement through open trade despite of their difference in political systems and natural resource endowment.

Parente and Prescott (2004) develop a theory to explain the different income levels of different country based on productivity improvement. The countries' **relative efficiencies** as the direct result of effective technology adoption are exposted to relate to the evolution of international income levels over the last millennium. The level of production efficiency at different setting, not only the different stock of knowledge, differs in the amount of society-imposed constraints on the choices of the technology that their citizenry may opt to. The 2004 Nobel Laureate Prescott (2005) asserts that as a country looses their institutional constraints and embraces technology advance in different points in time, the country will "catch up" the leading rich counties. As per Prescott's conclusion, there are two critical constraints that reduce productivity. First, what matters is **how a technology being operated**. Work rules

(e.g. one man one forklift, elevator operators..), inspection and bribes, and poor infrastructure are among fine examples of unproductive frictions impeding the maximum realization of technology. Second, another issue is **which technologies can be operated**. Regulation, laws, capital market and bribes are among obstacles in which prevent free flow of technology and innovation.

## 2. Market Imperatives:<sup>9</sup>

Previously China and India seem to share common pitfalls when they look inward and placing their nationalist ideology before technological progression. If Sir Issac Newton is the father of physics to shape the mechanic world; James Watt holds the key of industrialization to innovate the source of mechanic power; then Adam Smith is the **“invisible hand”** to operate this know-how. The concept of invisible hand is a market economy concept in which people can freely exchange their goods, services and ideas for their own self-interest. Each consumer is allowed to choose freely what to buy and each producer is allow to choose freely what to see and how to produce it. To maximize profits, efficient methods of production with the latest feasible technology will be adopted. No one is in charge of the market. Decentralization brings dynamism and innovation. Thus, markets empower people.

China has successfully emerged from famine prone in 1950-70's to middle income nation as the factory of the world today. The primary reason is Premier Deng Xiaoping in 1982 initiates the basic economic policy for “reform and opening” to allow markets to blossom. Perhaps, the most conspicuous symbol of open trade and investment is the fourth coastal special economic zones (SEZs) found in 1984. Dailian, Tianjin, Shanghai and Guangzhou have been quickly transformed to be commercial and industrial centers where foreign investment could receive special treatment. **What's Chinese done right?** First, China begins the reform by clearly defining the property right. By 1984, almost 98 % of all farm households were granted long term land lease, for instance, under their own responsibility. Farm income rose rapidly. Second, laws are enacted to protect people's property right along with basic rules. Commercial contracts (e.g. crop or profit sharing, private

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<sup>9</sup> See more discussion at Mc Millan (2002)

partnership, free-market activities..) are, for instance, legalized and encouraged in 1980's. Foreigners also allow to invest and profits can be expropriated out. Entrepreneurs – local and foreign – at this point have incentive to work hard with modern technology and management skill. As asserted by Schumpeter (1942), in pursuing for profit and private kingdom, entrepreneurs are the risk-taking agent who brought innovation to drive economic progress. Third, competition is fostered. Free flow exchange of goods and services beyond their communes is allowed. Markets generate gains from trades. Of course, this processes produce losers as well as winner in ever changing market. Forth, third parties curtailing is regularly examined. Corrupted officers and abuse of officials' power are trailed and severely disciplined - often in capital punishment. Finally, more and more information, particularly non-political sensitive materials are allowed to flow smoothly. With well-defined property rights to overcome the externalities problem, possible engagement to lower the transaction costs and other conditions to allow market to operate, the “invisible hands” and the Coase theorem<sup>10</sup> are again attained as Mc Millan (2002) contends.

In contrary to China, India always has legal infrastructure for free market activity as the direct result of colonial legacy. But because the fear of foreign dominance has been paramount in its post-independence history, India adhered a quasi-socialist approach to control over private sector. Foreign trade and foreign direct investment were restricted. Thus, which technology and how technology would be operated was dictated by this institutional rigidity. Not until financial economic crisis in 1991, India gradually liberated its markets through economic reforms and reduced state roles. Heavy burden caused by bureaucratic system from company register to taxation, from capital control to civil rights has prevented people to realize their full economic potential. Only large corporations with political connection are able to perform well in formal sector. Million small entrepreneurs are vibrant and fair better in micro-enterprises (e.g. street vendors, smuggling, self-employ..) in informal sector to avoid rigidity in mercantilist law and the lack of institutional support. What

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<sup>10</sup> The Coase theorem is attributed to the 1991 Nobel Prize winner, Prof. Ronal Coase who describes the law and economic environment (e.g. ownership right, incentive, etc.) that yield the economic efficiency of an economic allocation or outcome in the presence of externalities. (see more discussion at [http://en.wikipedia.org/wiki/Coase\\_Theorem](http://en.wikipedia.org/wiki/Coase_Theorem) )

intriguing is how Indian business service sector has evolved and prospered from small groups of self-employ knowledge workers to the global outsourcing center.

Hence, the main lesson here is a well-designed market free decision-making at the household level to shape and support the process of business transactions intelligently. As claimed by Schumpeter, in pursuit for their profit and private kingdom, entrepreneurs as risk taking agent have dynamically managed and brought innovation to drive economic progress. Market driven by self-interest individual is operated collectively and automatically omnipotent (possessing all power), omniscient (having all knowledge) and omnipresent (existing everywhere) like invisible hand or hand of God. The more open to trade and exchange it is more social welfare enhancement will be. It is critical to note that what we do not discuss is how and when markets can fail and how to handle them.<sup>11</sup>

### **3. China and India Economic Convergence or Divergence:**

India had traditionally been contented with “Hindu growth rate” economy of just around 3 % annual real GDP growth. It was indicative of a bureaucratic state stifling private enterprise until the gradual pro-business reform in late 1980. Lately, Indian economic scorecards had changed almost unrecognizable with the growth rate in Asia second to China. Even so, the two economies are fundamentally different as shown by Fig. 5a and b. Both are booming with similar population size. Both initiates market liberalization and maintain socialist approach. Indeed, both economies underwent a measure of **creative destruction** in Schumpeter (1942, pp. 82-85) sense during the 1980’s and 1990’s, when many of the country’s state owned industries were privatized and restructured. The overall effect was positive with high income and high growth. But with effective government, China has a larger economy and wealthier population than India. Because China is more integrated to global economy via its exporting cheap finished goods and importing natural resources globally, China has a huge impact on global inflation rates, interest rates and currency markets. China’s enormous (USD 1.3 trillion as of Nov. 07) foreign reserve that is hoarding at

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<sup>11</sup> Market failure is a condition which goods and services cannot be allocated, produced and consumed efficiently by market forces. Four main causes of market failures are 1) imperfect competition, 2) high transaction cost, 3) imperfect information and 4) externalities. When market fails, it is a justification for government to intervene in the free market place.

increasing rate as shown in Fig. 5a and b cannot be overemphasized. On the contrary, India is a deflationary force in service and technology sector, but it consumes and invests more than it is earning. Indian economic development is more in line with a classic emerging market style progression. Table 3 illustrates some basic measures and perspectives of development between the two countries against US counterpart. It appears that Indian structural constraints still in terms of “red tape”, corruption and literacy rates are far worse than those of China’s statistics.

Typically, an emerging economy would modernize itself by establishing a manufacture base first. China has progressed initially with light labor-intensive industry and soon to processing- and capital-intensive industry. But in India case it has shifted its economy toward business services and skipped establishing a solid manufacture base. Indian services industry accounts for over half of real GDP growth. Indian has leverage on big English speaking population and carved a niche in global business outsourcing – not just a call center and back office processing center, but also software and design for many of the things being manufactured in China. Just as China is the factory of the world, India is doing the same with services. China has in essence relocated entire factories from overseas to their land. As an outsourcing center, India is taking services jobs where specific functions of a company’s business are conducted from high-income countries to their people. Indian also plays a vital role in the global innovation chain. Multinational corporations (MMCs) like Cisco and Hewlett-Packard use team of software designers and programmers for hardware manufactured in China. Wipro, a leading Indian technology firm, designs MP3 players for Europe and flat-panel TVs for the American Market. More wealth through innovation, hence, is created per Indian knowledge worker than Chinese factory workers. Hitherto, in China the wealth is more widespread. Simply put it, a factory employs a lot more unskilled people than knowledge workers on an office floor designing software and call centers. As the result, India’s GDP per capita in 2007 of USD 1,010 is around 40% of China’s USD 2,460.

There is no doubt the two great nations should learn from each other to emulate development element that they are missing. When Chinese Premier Wen Jiabao and Hu Jintao officially visited New Delhi, the capital of India in April 05 and Nov. 06, both had made time to visit the world capital of business outsourcing city,

**Bangalore.** To take advantages of fast and low set up cost IT and communication infrastructure for service industry, China is now implementing and expediting their Western inland economic development zones as the service centers. According to the 11<sup>th</sup> Five-Year Plan from 2006 to 2010, China would like to have at least 3% of GDP contributed from high-value-added service sectors (e.g. software development, offshore BPO, financial services. **Chengdu**, the capital of Sichuan province is, for example, off to a good start as the most dynamic service sector and a national base for electronic and IT industry. Many leading international tech MMCs (e.g. Intel, IBM, Nokia, SAP and Microsoft) and the domestic powerhouse like Lenovo all are situated in the heart of the city's Hi-Tech Industrial Development Zone. About half of this inland Southwestern Chinese city's GDP (or USD 17bn) is derived from service and IT industry. Its airport is the busiest aviation hub in inland China. The hard part is how to massively educate and train their people for English (and other) language and necessary service related talent. This may take some times and effort though it is possible for Chinese government to administrate.

At the end of 2007, one estimates China's online population to be at 137m, second to American's 165m-210m. China will soon overtake America as the country with number of internet users in the planet despite of China's rudimentary IT infrastructure. In fact, China is already ahead of American digital life for the aged 16-25 year old internet users, particularly on game online and digital life according to the Economist issue on Nov. 27, 07.<sup>12</sup> A million of a new class of business people or internet entrepreneurs will thrive, conjectures by Mr. Jack Mao, the founder and CEO of [Alibaba.com](http://www.alibabacom.com) – 25 million registered users B2B e-Business catering especially for SMEs and the China's biggest internet company. Billionaire Mao predicts customer would focus more on competitive and responsible business practices rather than relationships with people in power as the key success factor in business. In 2007, the leading consumer marketplaces counted 50 million users and the value of daily online transactions surpassed the cash taken by major physical retailers in China such as Wal-Mart. Users of online-payment system also exceeded the number of credit-card

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<sup>12</sup> See more discussion at "America's emobyte deficit" by Economist, Nov. 27<sup>th</sup>, 2007 or at URL [http://www.economist.com/daily/columns/businessview/displaystory.cfm?story\\_id=10201521](http://www.economist.com/daily/columns/businessview/displaystory.cfm?story_id=10201521)

holders unlike in US or India.<sup>13</sup> Meanwhile Indian internet is still a laggard. The 2007 online shopping spend is expected to be USD1.5 bn. Half of which is done by online shoppers aged between 26 to 35 years old. About 90 million internet users with USD 5 billion online market potential are projected for 2010. Half of users would be under 25 year old according to CLSA.

On the other hand, India is trying to emulate their own SEZs to streamline procedures, tax breaks and good infrastructure (e.g. road, rail, port, power, water..) for export-oriented industries. The idea is simple. In 2000, eight existing “export processing zones’ dated back in 1960’s were converted into SEZs. In February 2006, a new SEZ law was enacted. There has since been the bureaucratic equivalent of a gold bonanza. Over 212 of about 400 applications to set up SEZs have been approved in 2006. Politically SEZs are under attracts when the policy leads to farmers are being forced to sell their land and lose their occupations and the state government and developers are profiteering. Instead of resolving huge infrastructure deficit, many developers enjoy tax holiday by turning SEZs to property deals – acquiring cheap land and sell it after minimum infrastructure improvement. Instead of luring much needed foreign direct investment and fresh capital to modernize its industrialization and infrastructure, India may end up depriving itself of tax revenue. Furthermore, by comparison to Shenzhen, the biggest and most famous of China’s original SEZs covering 126 square miles, most of Indian SEZs are tiny (about 5 square miles). One exception may be the Reliance Industries, India’s biggest private-sector company for planning enormous, town-sized SEZs near Mumbai and Delhi Without critical mass size, it is not feasible to develop world-class infrastructure at the SEZs.<sup>14</sup>

Given its poor infrastructure and over-burden regulatory environment, Indian successful conglomerates start to acquire company overseas instead of building the manufacture base and creating jobs at home. Wipro – one of the top three IT corporations, for an example, had bought technology companies in Portugal, Finland and California. As a matter of fact, in 2006, with booming local equity market and

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<sup>13</sup> See more discussion by Jack Ma and Hang Zhou (2008) and “E-hinterland” (2007) or at URL [http://www.economist.com/surveys/displaystory.cfm?story\\_id=10053202](http://www.economist.com/surveys/displaystory.cfm?story_id=10053202)

<sup>14</sup> See more discussion from “India’s Special Economic Zones – Cash Cows”, The Economist, dated on Oct. 12, 06.

renewed self-confidence, Indian firms had acquired more than 115 companies overseas with a total value of USD7.4 billion as almost equal as foreign acquisition to Indian firms. Mittal, India's private steel maker, for another instance, bought out and merged a much larger Pan-European rival – Arcelor in 2006. In addition, in Nov. 07, Arcelor Mittal, paid USD647 million for a 28 % stake in China Oriental Group, a privately owned and Hong Kong listed steel maker from iron ore rich Hebei and Jinxi after a year earlier the Beijing disapproved its acquisition of Laiwu Iron and Steel, China's ninth largest mill. Arcelor Mittal is currently the world number one steel company with its production equivalent to 10% of the world worth more than USD88.6 bn turnover from 320,000 employees in over 60 countries. Instead of taking advantage of its vast low-cost labor force like China for manufacture, India leverages more on lower salaries for college graduates in service industry and in automated, capital-intensive production. Unless and until India can develop its labor-intensive industry at home, it would be difficult to have its wealth widespread among all people like China. Perhaps, one of the ways to do this is to dismantle the "License Raj" and limit and down sizing its bureaucratic system. This may be easier than educate and train the majority of Indians en mass for all service industries. Indeed, Indian has outpaces China in global deal making because Indian companies that are privately owned has more incentive to expand without government support internationally.

Free market driven economy promotes full information disclosure and competitive price discovery process. Marketplace is based on rational self-interest individual to adjust his/herself according to ever changing market condition and theoretically yielding **Pareto optimal allocation**<sup>15</sup>. But in real world, particularly in less developed country most of the people are structurally and often permanently poor and incapable of any adjustment due to the lack of human development. Economic growth and a pro-market philosophy are instruments for advancing human development and social welfare, but are neither necessary nor sufficient condition. India in comparable to Africa has more wide spread out poor people who are living on less than 1 USD per day (absolute poverty line) than China in more comparable to

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<sup>15</sup> Pareto optimality is a set of conditions which market has derived optimal efficiency in consumption, production and allocation. No further market movement from one allocation to another that can make at least one individual better off without hurting another. The term is in the honor of Vilfredo Pareto (1848-1923), an Italian economist, who first explored this concept of economic efficiency and income distribution trade-off.

Latin America as illustrated in Fig. 6a, b. As one moving inward away from coastal line, China's poverty incidents is worsening as show in Fig. 7a. So does the human development in China as report by World Bank (1999) as in Fig. 7c. For the moment, Indian urbanites propel into high value knowledge based economy, the income disparity would likely diverge as the poor and uneducated left behind. Similar to Russia, India's Gini coefficient Index <sup>16</sup> displayed in Fig. 6 b. Most part of India is poor with low human development, especially in the North and North East region as in Fig. 7d. Socio-political discontent may be seriously detrimental if corrective policy is not encouraged in due time.

In summary, market may delivery economic growth if institutional constraints are overcome. The creative destruction measure to privatize the state own enterprise has emphasized more on markets and competition since then the overall effect has been positive and brought more technology, innovation and prosperity. Still economic growth may not delivery in human development and equity distribution. India is not just a small version of China economically. Gradual convergence of economic development is likely in few areas, namely in capital-intensive manufacture and service industry. Sino-India bilateral relations may be generally moving toward pragmatic and productive direction that may complement each other. As bilateral trade is rapidly expanding and bilateral cross border investment is increasing, the economic integration and dependency may be projected. However, territory and security issues are potentially minefield as the two nations share very long borderline and both compete for natural resources. Indian income disparity as poor rural people left behind economic progress would likely diverge away from Chinese counter part if Indian corrective policy like education reform, infrastructure build up and labor intensive industrial development is not implemented.

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<sup>16</sup> The Gini coefficient is a commonly measure of inequality of income distribution or inequality of wealth distribution. This statistical dispersion is defined as a ration from 0 to 1. Thus, the more equal income or wealth distribution is the Gini coefficient index would be closer to 0 would be. The high coefficient index hence, implies the high inequality. See more Discussion at [http://en.wikipedia.org/wiki/Gini\\_coefficient](http://en.wikipedia.org/wiki/Gini_coefficient)

## **V. Political Economic System: Evolution and Implications**

All fundamental changes in politics in human history typically precede fundamental changes in economics and power. During the war and economic depression, change in administrative regime or political leader in the midst of anarchy is generally inevitable. At the onset, the modern state founders of China and India with people's choices have laid down the path for political economic processes in their long political struggle to gain their independence and to improve welfare of the states. What remains to be seen is how political system would evolve as wide spread prosperity naturally follows by civil liberty demand and freedom or as inequality divergence more often than not follows by social discontent and sometime revolution.

### **1. India's Experience:**

Indian has long tolerated foreign rulers due to their lack of unity caused by multiple ethnic, religious and linguistic communities. Mahatma Gandhi, the father of modern Republic of India won the heart and souls of all walks of life first in his non-violence movement and later quest for its independence from the UK's colonial rule. All administrative mechanism and civil servants were unharmed in a smooth transition. No wealth from the rich was nationalized. No execution of former top officials, aristocrat or royal members was done like in French revolution experience. No land reform was massively redistributed among the people. As a matter of fact, Indian reform is a peaceful and bloodless. Essentially, in one simple sense, Indian political economic structure persists as a two-tier society – one fortunate minority group and another unfortunate majority, with and without endowment assets (e.g. wealth, education, political/social capital, etc.) respectively. Democracy is being arranged by the few and prepared the media for the mass. This post-colonial and post-feudal structure is deeply rooted from the legacy of the imperial rule and thousands of years of Indian tradition and culture despite the equality assurance from the constitution. Market based economy is wonderful for wealth creation and maximizing social welfare in aggregate for selected few, but is inadequately in income distribution as it is based on inequality and self-interest basis. Economic weakness will be driven out of the economic system and the strongest would survive and prosper. With near perfect world like G-7, government has little role. Nevertheless with an enormous

different starting point in life in low-income, less-developing country like India, it is hard to imagine for the structural and often permanent poor to be able to catch up or at least making their way to middle class citizen on their own capability.

To heed different voices, to uphold their vast different values and to fence off foreign influence, Indian has peacefully become the largest democracy in the humankind history on January 26, 50. A parliamentary multi-party representative democratic system was modeled after the UK Westminster system in a federal republic of twenty-eight states and seven union territories. Like symbolic constitutional monarchy, the President of India is the official head of state elected indirectly by an electoral college for a five-year term. The Prime Minister who has the parliament support however is the *de facto* head of government and had most of the executive powers over one billion people population.<sup>17</sup>

Democratic system is based on equality one-man-one-vote as opposed to market based concept of social economic Darwinism. Dramatic failures (e.g. feminine, massacre, etc.) are in general unthinkable because people would simply vote or street protest to oust their leaders or representatives in due course. In spite of that, the democratic system is typically suffering more from subtle failures (e.g. education quality degeneration, poor health care, etc.) as everyone tries to compromise and trade long term off for short term goals as discussed by Hoontrakul (1999). In a low-income country prone with corruption and personal/special interests and lobbyists like in India, it is hard to attain a stable and strong government to bridge the gap between the rich and poor and the have and have-not. Human security and social welfare (e.g. quality education support, capability building assistant program, affordable public healthcare, etc) are basically needed to make the two concepts – market economy based on self-interest utility maximization and democratic system based on equality of one-person-one-vote compatible. If these basic needs and inequity convergence are not addressed, one day when people have enough, they may violently revolt or separate off for their own destinies. An increase in subsidies

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<sup>17</sup> See [http://en.wikipedia.org/wiki/Politics\\_of\\_India#Central\\_and\\_State\\_Governments](http://en.wikipedia.org/wiki/Politics_of_India#Central_and_State_Governments) for more discussion.

(especially for oil price), National Rural Employment Guarantee Act and quasi-fiscal deficit profligacy may ease off the short-term, but not medium- and long-term pains.

India has a good structural growth story with higher savings and investment, favorable demographics and rapid productivity catch-up (among urbanites) from a low base. With more reliance on domestic demand and lower external linkages (total exports are about 17% of GDP), India is in a good position to drive its own destiny to be more dynamic emerging economy and to help the poor by investing more in its infrastructure and industrialization. Doubling the capacity of ports, roads, power, telecom and railways are needed in the next five years in order to keep pace with demand growth as evaluated by Goldman Sachs report on Nov. 29, 07. The key risk is the political one. Rampant corruption rampant in all levels threatens **industrialization and infrastructure build-up process**. Persistent rising inequality is demanding for reservations and protests against land acquisition and growth aspiration of the political elites. Immediate enabling SEZs, effective resuscitating a moribund agricultural sector and improving sensible health and quality education are among fine examples of the top priority in economic development. A determined political action under Fiscal Responsibility Act is required. The opportunity exists for a win-win social economic development for a constructive “grand” coalition government arrangement with systematic rotation. There are plenty of funding and interests from local, Indian non-resident and foreign investors, if India adopt selectively some of Chinese market based investment policies, namely in SEZs, banking and telecommunication along with public private partnership scheme.

## 2. China's Experience:

Throughout Chinese history, Chinese fundamental values are national unity, sovereign and greatness. After the first emperor of China, Qin Shi Huang (259 BC-210 BC) waged wars against other 6 feudal states to unify China into one, the Great Qin introduced legal and administrative system and forged common Chinese Characters in which his legacy have lasted until very day.<sup>18</sup> Moreover, the Great Qin

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<sup>18</sup> The State of Qin led by Qin Shi Huang had waged wars and conquered one by one of other six feudal states as follows: Han in 230 BC, Wei in 225 BC, Chu in 223 BC, Yan and Zhao in 222 BC

built the precursor version of the Great Wall along with massive national road and canal system during his 11 years reign. Literally speaking millions of Chinese people have sacrificed their lives for this type of glory for thousand of years. Unlike India, China has never been conquered and governed by foreign rulers though they would fight among themselves for their supremacy. For the nation building inspiration in modern time, people had eventually revolted against the last Qing emperor and foreign influence in late 1800's. Briefly people tolerated the chaotic and multiple philosophical views in the democratic Republic of China (1912-1949).

To unify the nation in modern time, again CPC Chairman Mao had naturally pursued the ancient history of Great China's inspiration to build a strong executive branch in the *egalitarianism* promise of communism doctrine. After a bloody civil war, Chairman Moa established the People Republic of China (PRC) on October 1, 1949. Land and wealth were nationalized and redistribute to people in taking up communist equity philosophy. With 1.3 billion people in twenty-two provinces and five autonomous regions, the country is ruled under the Constitution of the PRC and is run by one party, CPC. A strong collective executive leadership was established in part to share responsibility and supposedly to satisfy different society and strata.<sup>19</sup> Effective central government under presidential style with trivial check and balance mechanism has been Chinese hallmark to socially engineer their people to do almost anything.

After a series of idealistic pursuits ending in near-collapse economic experience, nearly all Chinese population were *equally* struggling in hardship during the Great Leap Forward and Culture Revolution. Not until the market oriented economy was initiated and adopted by Premier Deng. Market empowers people.

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and Qi in 221 to end the Warring States Period. Thus, the Great Qin declared Qin Dynasty and unified independent China in 221 BBC. He abolished **absolute feudalism** headed by lords and replaced with "**semi-feudalism**" headed by appointed governors into thirty-six provinces with strong central administration in military style legal system. One of the most famous phase which was carved edicts of Mount Taishan (in city Tai an, Shandong province today) was "**To let Heaven know of the unification of Earth under an emperor**", and also to propagate the new common Chinese linguistic characters among all people. The Great Qin's legalism consequently taught that laws were obeyed out of fear, not respected. (See [http://en.wikipedia.org/wiki/Legalism\\_%28philosophy%29](http://en.wikipedia.org/wiki/Legalism_%28philosophy%29) for discussion) It is very intriguing to learn that in order to achieve unified Chinese characters, the Great Qin ordered to burn all existing books, excepting some medical and agricultural texts held in the palace archives only. More discussion at [http://en.wikipedia.org/wiki/Qin\\_Shi\\_Huang](http://en.wikipedia.org/wiki/Qin_Shi_Huang)

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See more discussion at [http://en.wikipedia.org/wiki/People%27s\\_Republic\\_of\\_China#Politics](http://en.wikipedia.org/wiki/People%27s_Republic_of_China#Politics)

Information is wanted to be free. Entrepreneurs take risk and innovate their ways to chase after their dream of profit and private kingdom. Entrepreneurship involves discovery, innovation and acting on the opportunities that discovery and innovation create (Schumpeter, p. 132). In any process of creative destruction, there are always winners and losers along with sideliners. Inequality and turbulence, in Schumpeter's view, are a price to pay for material progress. In this established economy, socialism might complement where market fails for the poor and the disadvantages. Social welfare has to be provided to help the **transient poor**, human development should be done for the **structural poor** and government generosity ought to be given to the **permanent poor**. But the danger of a populist backlash cannot be overemphasized as evidenced by the collapse of socialism in Eastern Europe and in Latin American as argued by Henrekson and Jakobsson (2000) and maybe missed by Schumpeter.

During the industrialization period, **codified knowledge** gave a rapid progress in science and technology realization. After a large share of its GDP (1.7%) to R&D investment for years, China's export is as sophisticated as those of Brazil or Israel. China passed US to become the world's export of hardware high-tech staples such as telecom/audio/video equipment, integrated circuits, computers and electronic components in 2004 according to the OECD reports. Traditionally, a large company sought to be vertically integrated and to protect its monopoly economic rent. Strong directive from central government to mobilize resources may strategically be desirable as discussed by Hoontrakul (1999). In this relatively stable period, any firm that possess superior products, technologies, or organizational capabilities can earn positive economic profit. Indeed, industrialization for export-oriented economy in China brings wealth and prosperity to its people though income disparity may persist as argued earlier. Perhaps, China should rebalance its economy toward more domestic demand driven and more equitable economic development. Focusing more on **urbanization** rather than industrialization process, for example, could increase rural land value and to transform millions of farmer into consumers with fast speed and vast scale. Expediting Chinese currency appreciation is also another option to re-align its economic structure and to de-couple from Western economic dependence.

In the new economy age, sources of useful knowledge are increasingly diverse with fast changing innovation in open communication. Nowadays in chaotic

complex environment company, for instance, has to accelerate innovation rate and to add more flexibility led by outsourcing components and subsystem innovations to other interactive SMEs in supply chain. Performance based subcontracting is common. Innovations and knowledge, particularly tacit one from outside is crucial. Technology diffusion is critical. Social capital based on trusted networks globally for innovation and entertainment is very important. The only way to build this social capital is to interactively communicate among peers repeatedly in order to build trustworthiness in cyber space or beyond boundary. In the new dynamic economy structure, periods are often punctuated by fundamental technology and innovation shocks or discontinuities that destroy old sources of competitive advantages (e.g. cheap labor, political connection, license, location, etc.) and replace them with new ones. Good entrepreneurs who exploit these opportunities these shocks create can achieve profit during the next period of stability. What really counts is competition between new products, technologies and organizational techniques, not price competition (Schumpeter, pp. 84-5). Any well endow firms or countries with competitive advantages based on inimitable resources or capabilities or early-mover advantages are still vulnerable in a long run as new technologies arise, taste change or local and international state policy evolves.

There is increasingly diminishing space for government to intervene technically as well as administratively in open market of this new economy and borderless world. Growing numbers of protests and civil disobedience incidences may be evidenced of this discontent. Popular parallel digital life for Chinese may also imply a convenient way to escape their “regulated and dull” life. Internet may denote the test-drive freedom and identity experience. As more people are online for business or pleasure, the more they would wish to express themselves and communicate to others for more choices and freedom. How centralized and rigid Chinese administration and bureaucrat would coup with this ever increasing process and the growing gap in income disparity between the have and have-not, the rural and urban, the digital divided groups going forward?

### 3. Political Systems Comparatives and Evolution:

Evolving political system in emerging market is shown in Fig. 8a. China and India political institutional systems are included on the right and the left bottom corner. Indian political institutional system is multi-party parliamentary democracy with unstable cabinet, but theoretically not necessarily unstable democracy. York (2006) asserts that this democracy is more stable than presidential type because his empirical record proves that it is less prone to coup attempt and radical change.<sup>20</sup> Though India was intentionally designed to be more like duo parties “Westminster” democracy, one-winner-takes-all majority in India is unlikely. Minority and different belief are inclusive and into the cabinet. Different opinion for different sections of the population is heeded. For this reason, proportional representation may be appropriate. Hence, election is not merely to choose a government, but a debate parliamentary platform to government measures and maybe to send the government out for another election as Schumpeter inferred. Consequently, India as a federal parliamentary republic, would need a strong and independent central bank and efficient bureaucrats to off set the dispersed political power with low identifiable as depict in Fig. 8b.

Since there is no separation of power between legislative and executive branch in Indian parliament system, power is highly concentrated, but fragile or strong as the wielding of the majority vote from the parliament.<sup>21</sup> Thus, the political party system should be strong and resilient. Bureaucratic system should be right sizing with term limit for structural functions without undermining the political party system. In short run, it appears the best hope to massively help the poor is the market-based solution - **to industrialize Indian economy** for more economic progress. Implementing effective SEZs is one of the keys. To resolve the income disparity concern and to avoid shortsighted populist policy (e.g. handout, subsidy, easy credit, etc.) are serious political issues in long run. **Capacity building approach** to the poor is needed though the implementation may be political difficult if all stakeholders are not heeded. Budget restrains and public debt ceiling ought to be disciplined under the

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<sup>20</sup> Thailand may be an interesting case to study. See more discussion Hoontrakul (2008)

<sup>21</sup> An extreme case can also happen when one party dominated in parliamentary system with undesirable consequences. See more discussion Hoontrakul (2008)

Fiscal Responsibility Act to avoid run away public debt and inflation. In other words, industrialization process would create more wealth, increase more income to both skilled and unskilled labor and vitally nurture the rise middle and mercantile class people. This process should gradually weaken post-feudalism bureaucrats and political structure and pave way for a non-violent movement political reform. Given the current institutional setting and past non-violence political movement, the likely evolution should be for India to be more toward Germany model after the unification.

On the other hand, Chinese political system is more akin to US presidential style as shown in Fig. 8a despite of their very opposite philosophy – gradual socialist market economy and liberal capitalist democracy respectively. Political power is highly concentrated and monopolized by Chinese Communist Party (CCP) at the executive branch with subordinated bureaucratic structure as shown in Fig. 9. CCP, the biggest and most powerful political party in the world has 66 million members who are tightly organized. CPC influences every aspect of people’s lives from school curriculum to TV program, from jobs to housing, from number of children per family to travel permit. At the heart of collective leadership is the 24-member politburo elected by CPC’s central committee, the nexus of all power in China. But the nine-member Standing Committee which works like an inner cabinet controls the real executive power. In a few words, only a handful of persons who sit on Politburo make every significant decision affecting Chinese 1.3 bn people.

One US core element that Chinese strong executive branch lacks is the balance of power with legislative and judiciary branches since in Chinese system everything is top down chain of command approach. As Lord Acton quoted in 1887, “Power tends to corrupt, and absolute power corrupts absolutely. Great men are almost always bad men”.<sup>22</sup> As a matter of fact, corruption is one of the most common cites as a major threats to China’s political stability despite of widespread crackdown Over 67,000 government official had been arrested during 2003 to 6. In Shanghai Pension Scandal alone, China has punished more than 17,000 officials and many high profile communist party members (e.g. Mr. Chen Liangyu, city’s top Communist Party official, Mr. Zhang Rongkun, one of the richest men..) on the corruption charge

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<sup>22</sup> See more discussion at <http://www.phrases.org.uk/meanings/288200.html>

according to agency Xinhua. This large-scale corruption implies the weakness of the system that lacks transparency, disclosure, check-and-balance and good governance. Punitive measure alone would not help to correct this systematic flaw because no one is checking on the regulators. In the worst case, collusion has transformed entire jurisdictions into local mafia states as reported by Carnegie Endowment for International Peace as reported by BBC.co.uk on Oct. 11, 07. More protests and rogue state movement may not be ruled out any time soon.

Given the Chinese long history, only when serious shock interruption originated by basic innovation changes, major disasters or resources shortage occurs and caused recession or depression impacting every day life, radical change may be expected. Economic issues would move to political sphere and may lead to the collapse of political strata. Probably the creative destruction process in the **gradual political liberalization** may be worth considered before a serious interruption occurs again with too many casualties like in the past as more Chinese become urbanized and internationalized. Democracy may still, for example, be limited to elitist, representative form. Since in this presidential type system, issue accountability for political action may be easily traceable unlike Indian parliamentary system, the candidate can compete on how and what to accomplish for the people. The masses may have the power only to vote regularly for fixed term executive and legislative representatives who compete for popular support. Dingping Guo (2007) concludes that it is impossible for China to develop Western-style liberal democracy. To develop **socialist democracy**, Chinese need to be more engaged in public participation on selected issues though stop short of multiple party platforms. Schumpeter summarizes and hypothesizes on how democracy and socialism can work together as in Fig. 10.

## **V. Challenging Issues:**

With divergent demographic trends, one with ageing population in more developed economy (e.g. US, Western Europe, Japan..) and another with young and urbanite population in emerging countries as in China and India. This mega trend constitutes driver for the redistribution of sources of growth and income flow on a worldwide scale. Because our planet has finite resources, the scarcity of essential needs would be far-reaching impacts as two most populous nations continue to

consume and invest at an accelerating pace. To be ware of potential conflicts among the nations and within communities, below are few selected issues to be highlighted.

1. **Resource Constrain:** China and India are increasingly becoming major factors in our daily life due to their enormous size of population. The two Asian powerhouses' problems become the world's problem, more true for China and lesser extended to India. Economically the persistent high price of all kinds of commodity, especially oil and food are one of the unpleasant impacts directly from their strong demand and limited planetary resources supply despite the lackluster demand from the US. Brent cruel oil price, for instance, is in reach of USD100/barrel at the all time high in Nov. 07. The "super spike" of oil price leads to cost-push inflation and depress consumers power to spend globally. Because both powerhouses subsidy their energy price heavily to supposedly help the poor as indicated in Figure 11 a, b, the distortion of the true world demand for oil from their unconstrained economic development is being adversely felt everywhere. Similar stories can be said in food, fertilizer, water and other basic commodities. Natural resource conservation and efficiency programs will not work well in China and India as long as both cannot get their pricing right. As an example, Chinese Steel, Cement and ethylene producers, on average, use 20%, 45% and 70% more energy and resource per ton than the international average according to the World Bank study. To cut these price subsidies or supply shortage, together may face huge inflation at home and risk social unrest.

There are also physical limits such as soil exhaustion and the negative effects of hyper-intensive agricultural practices. As expositied in Fig. 12, the more acute challenge is severe water shortage that may easily lead to riots when more farmlands turn to desert and seasonal or extreme weather turn erratic. China cannot simply engineer its way out of this problem by building high multiple network of canals, rivers and lakes to transport water from the sources of water supply to the drought are. Missing the "invisible hand" or market-based mechanism, water conservation, water recycling and water rationing programs may not work well enough because there is no economic justification. To tap natural water irresponsibly and/or without regional consensus from Central Asia, China is potentially creating regional conflict as India and other emerging countries are in need for water security too.

Both China and India are choking on their own success. Like all countries that have emerged to be major industrial power, China and lesser extent India is creating a legacy of environmental damages that being export out. When China's coal fired power plant, for example, is spewing sulfur dioxide and nitrogen oxides, acid rain on Seoul and Tokyo is being generated too according to the Journal of Geophysical Research. Mutually World Health Organization and UN agreed the total death toll had reach 750,000 a year caused by water-related pollutants and bad air in 2006. In addition, with the higher standard of living and urbanite lifestyle, future populations will consume more, own more, travel more in the end, pollute more. Even under a highly optimistic projection, CO2 emission would raise by 40% by 2050, a level is confirmed to be unsustainable as per Societe Generale report in May 07.

Sexually China and India preference is our problem too. The geopolitics of sexual frustration is something one should not joke about. "Masculinisation" or "male preference" in the two most populous nations has led to sex ratio imbalances. From Beijing to New Delphi, the ever-growing numbers of families are actively avoiding the birth of daughters. Men will outnumber women by 26 million in China and by 23 million in India by 2030 by UN estimation. What would be security implications of Chindia' surplus male or "missing women" population? Mr. Branches in his 2004 book alleges the imbalance will lead to crime and social disorder as suggested by biological, sociological and history experience. It is intriguing to note that economics is often the main reason for the preference for boys. Sons are considered as asset to support parents in their old age. Daughters are liability. Indian families traditionally pay dowry when daughters marry, while Chinese families would typically consider their married daughters belong to the husband families. To address the socio-economic basis for preference for boy, social security, female participation in workforce and education to break social belief are among the possible state policy.

Unconstrained development cannot continue forever in China and India. Providing no fundamental change in geo-political, social or behavior condition, the above outline may be the "tip of the ice-burg". There is no miraculous answer to the above issues. To delivery prosperity placates the public, to provide spoils for well-connected officials and to forestall the political economic discontent are well understood. Yet, to avoid far-reaching dysfunctions of many kinds, radical changes in

behavior and development modes may be needed for more balance policies in order to reduce the impacts or limit its amplification. An economic cost may be offset by increased productivity. The pace of productivity gains may exceed the growth in our economic loss for sustainable development. Market based price discovery fully or even partially for natural resource is the best mechanism to adjust supply and demand imbalances and spring off more innovation to cope with growing demand. Energy efficient is for one - the cheapest form of energy and pollution problem resolution that we have, but this is irrelevant if the energy price is artificially low.

## 2. Sino-India Relationship, Foreign Affairs and Security Issues:

China and India had history of “uneasy friendship”. Tension was high along the Line of Control in Arunchal Pradesh over 84,000 square mile territory sovereign issue as indicated in Figure 13. Bloody War was briefly fought on this right in 1962. India long standing critic of Chinese policy over Tibet as India was surrounded by “a dangerous neighborhood” – political instability South Asia region consisted of Pakistan, Bangladesh, Sri Lanka and Nepal.<sup>23</sup> Apart from North Korea, China’s role in Burma like “a big bother” is not kindly accepted in international arena, predominantly after the recent bloody crackdown of Buddhist monk dissidents in Oct. 07. India with pluralist principles is typically proud to play an ever less important role in its foreign policy – at least its immediate neighborhood. Indian diplomats may be good in *not* pick and choose between “good” and “bad” autocrats. Nevertheless China is making it clear well across Indian Ocean that it wants a bigger role in the Middle East and Africa to secure its oil supply and natural resource asset for future economic expansion. Middle East, for instance, provides about 45% of China’s oil imports with Iran as the third largest suppliers after Angola and Saudi. China spends increasingly amount of annual fiscal budget on defense with military might projection forces (e.g. long range missiles, anti-satellite weapon, ambitious space program, navy buildup..) to protect its interest. The scary part is Asia is the continent that has actively nuclear programs from China to India, from N. Korea to Pakistan.

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<sup>23</sup> Pakistan and Bangladesh are under emergency military rule. Nepal and Bhutan are facing in delicate transitions from monarchy. China and Myanmar are de factor dictatorship regime.

Cross border trade and investment are supposed to be largely a source of stability derived from more comparative advantages and more welfare enhancement, not a source of tension. The deadlock in the Doha round of world trade talks does not help the situation. What the world need is Sino-India bilateral relationships and their foreign affairs to other regions are generally moving toward pragmatic and strategic engagements that may complement each other economically as well as politically. The two aspirant great powers need to be some encountered balance the west and few against each other in more responsive foreign affair. Asia is consisted multi-culture and ethnic nations in which we need multiple voices, from India, Asean and Japan especially to Russia and advanced G-7 countries. Even a small and open country like Thailand can do more to expand FTA (foreign trade agreements) as per Fig. 14 to include more - India and less developed states - in open regionalism concept for more comparative advantages. Political isolation and sanction against rogue states (e.g. Myammar, Pakistan..) do not work. Only engaging these less developed nations would help them to be more open and democratic. In short, Asia in multiple voices collectively ought to be more responsible stakeholders in the global economy.

**3. Great Economic Power and Great Responsibility:** Emerging economy, namely Chindia is currently “catching up” and driving growth for the world. Chinese economic power and lesser extend to India are recognized and respected as the massive foreign reserve hoarding and double-digit growth sustained over the years. To decouple from western countries economically and politically is absurd in globalized world. Instead, global economic rebalancing is delicate and should be considered with great care. Gradual foreign exchange realignment is likely to initiate from export-led to better balance consumption and investment policy mix, not just for the world, but for their own welfare people. To place fully or partially market-based mechanism on their subsidy should be encouraged. Sensible resource consumption and energy efficient investment program cannot be overemphasized.

US and other G-7 economies in less extent are de-leveraging its financial institution and household debt after the subprime woes<sup>24</sup>. Widening gap of US deficit and sinking USD along with other effect economies seriously threatens the slowdown in global economy. What is very intriguing is the western credit problem and trade issue arising is caused by too much liquidity (from abroad), not because of too little liquidity. It is a classic cash-recycling problem<sup>25</sup> from huge current account surplus export nations like China and other oil-export countries back into mainly the US capital market in order to preserve their wealth because of US capital market size and depth along with political stability. In fact, Chinese central bank have invested, USD Bond issue equivalent to USD 425 bn and 220 bn in 2006 and 2007 respectively according to Bridgewater (2007). This is more than half of the combination of all emerging markets and oil export nations purchase. With large foreign capital inflow to finance its deficit and housing to the poor, US households borrow and US financial institution leverage irresponsibly. In other words, easy money from abroad will create excessive consumption that will cause a credit crisis in US and elsewhere.

To ease off the crisis and to avoid massive loss in their wealth holding, China and others has to invest and support increasingly more in US economy to help stabilize the mature and advance US. This considerable sum of funding can help a billion of Chinese rural poor peasants. If the financial crisis does not occur in mortgage sector, it may occur in another asset class in US, as implied by Dalio et al (2007), as long as the massive reserve does not find the “real and productive” way to be invested and stored their value. To permit five of the world’s 10 biggest companies<sup>26</sup> that are Chinese state owned to buy more oversea assets or companies elsewhere is not going to resolve this issue because the real issue is to manage them

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<sup>24</sup> The subprime mortgage financial crisis started in the US during the fall of 2006 and become a global financial crisis by July 2007. After the housing bubble in US and later in UK and elsewhere, many banks and finance companies along with hedge funds that lends to the subprime (below creditworthy standard) borrowers faces massive defaults. The effects of the meltdown spread well beyond US housing to disrupt global financial markets. See more discussion at [http://en.wikipedia.org/wiki/2007\\_subprime\\_mortgage\\_financial\\_crisis](http://en.wikipedia.org/wiki/2007_subprime_mortgage_financial_crisis)

<sup>25</sup> Other incidences are in 1970’s (petro-dollar from Opec), 1980’s (Japanese huge surplus), 1990’s (Chinese and other emerging markets’ trade surplus)

<sup>26</sup> According to Bloomberg, the world’s 10 biggest corporate by market capitalization are Chinese state owned - China Life (insurance), PetroChina (oil), China Mobile (telecom), industrial and Commercial Bank of china (bank) and Sinopec (oil).

afterward. The real question is whether China or India would like to grow responsibly for good life and quality macro fundamental factors.

## **VI. Conclusion:**

The rise of China and India is a triumph of market-based economy. India is not just a small economic version of China. India is the world center of business and high tech outsource to competitively deflate business process and services cost. China becomes the factory of the world to export cheap goods to every corner around the globe. The speed of both nations to “catch up” with the advanced economy is depending on which and how technology each is embracing given their institutional constraints. “Chindia” enhances world social welfare by opening up more young and urbanized population and asserting technology innovation productively into every aspect of our every day life. This is a gigantic market opportunity.

With different value, endowment and starting point, China and India have its own way of path dependent political economic progress. What is justice and fair may depend on people to decide and to choose. India’s political system in federal republic parliament style is rooted in colonial legacy and non-violent belief in respect different views of multi-ethnic, -linguistic and -religious communities. Chinese effective executive branch strives for a strong nation and economic power at the expense of civil liberty. Yet, gradual economic convergence between two countries may be seen in service oriented and heavy industry areas. Divergence in income disparity, partly due to Indian ineffective administration is un-desirable and partly due to Chinese high wealth and power concentration. Potentially, more balance economic development in India and more balance political evolution in China may be desirable for the world peace and prosperity as Chindia thrust forward to proclaim its rightful world leaders. Water scarcity, energy efficiency, environmental pollution, foreign reserve recycling problem and security apprehension are highlighted among potential global issues with suggestive resolutions. This is a worldwide immense challenge.

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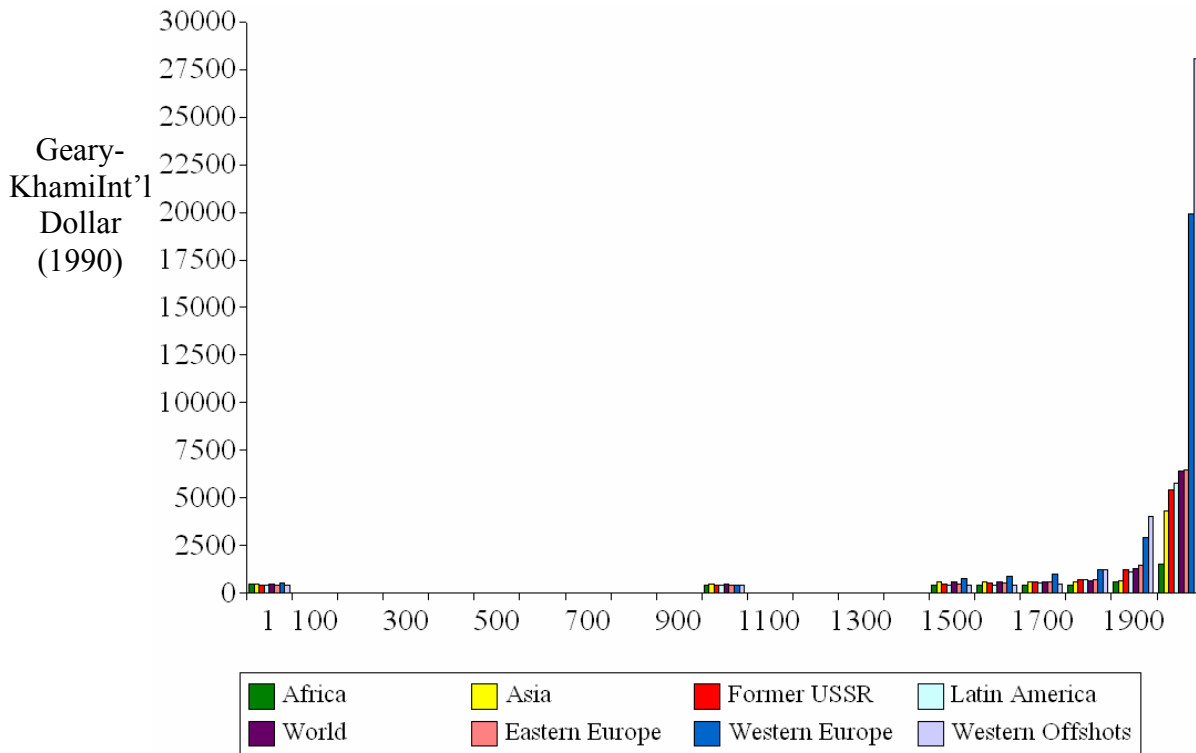
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**Figures for  
The Rise of China and India:  
Asean Regional Implications**

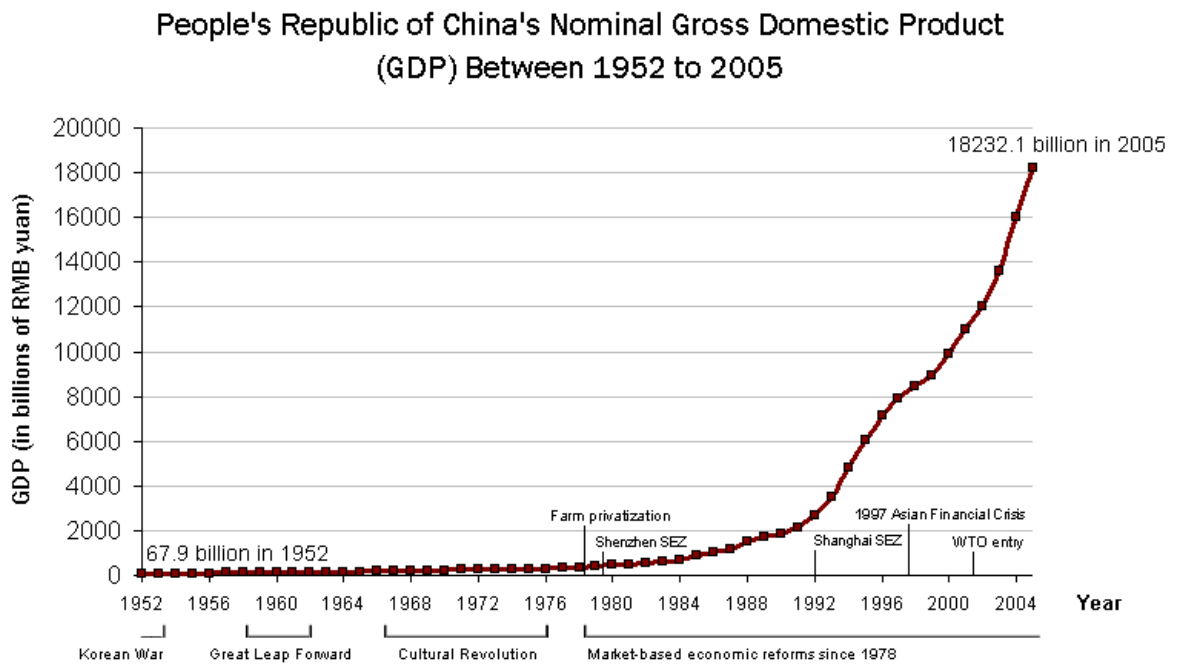
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Presented at  
Graduate Institute of Development Studies, Geneva  
On Dec. 5, 2007

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



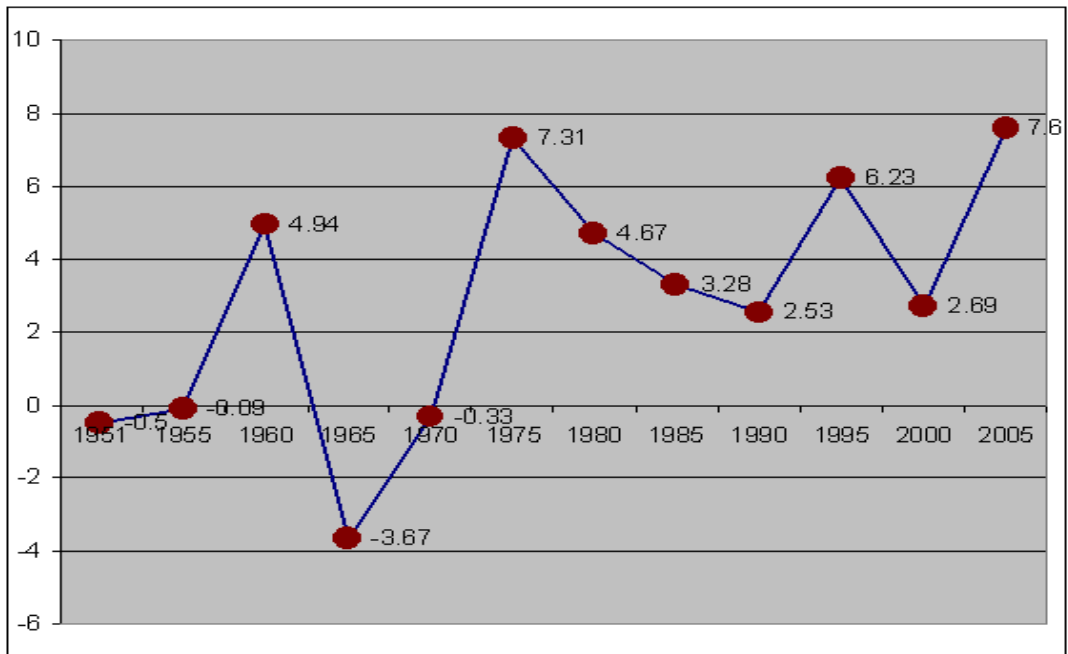
Source: Angus Maddison 04 and un.org

Figure 2: Chinese GDP during 1952 to 2005



Source: [http://en.wikipedia.org/wiki/Economic\\_history\\_of\\_the\\_People%27s\\_Republic\\_of\\_China](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](http://upload.wikimedia.org/wikipedia/en/9/9a/Indias_growth_rate_of_real_GDP_per_capita%281950-2006%29.png)

Figure 4: Different nations with different Endowment start at different times with different development.

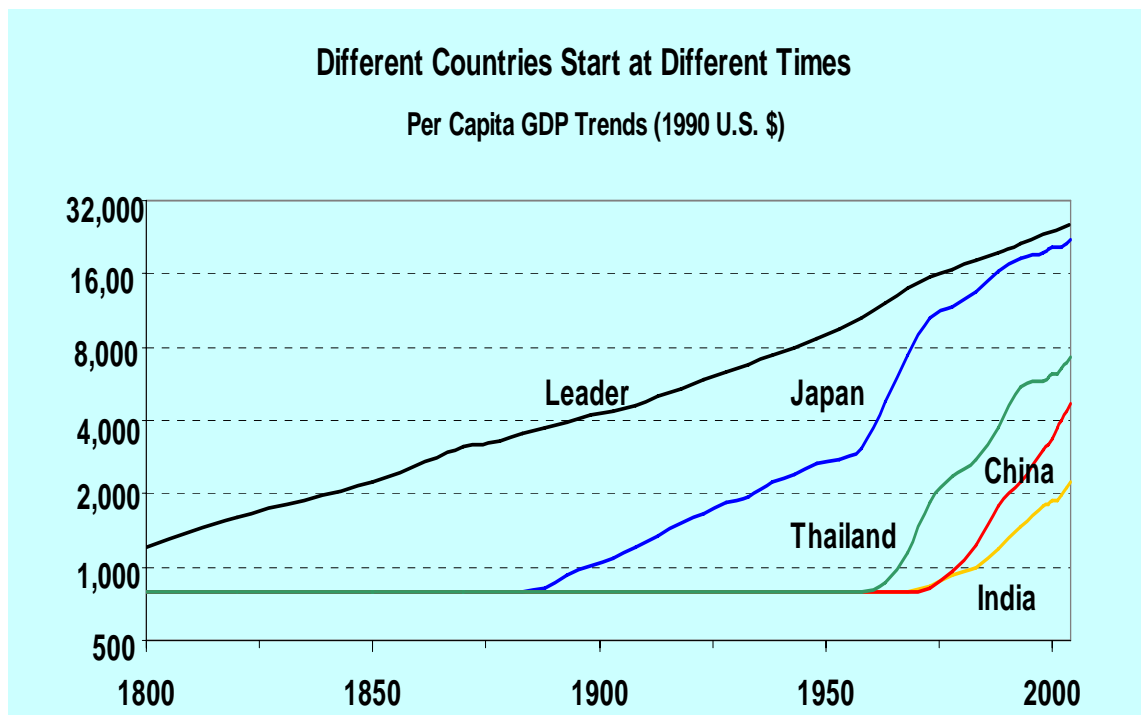
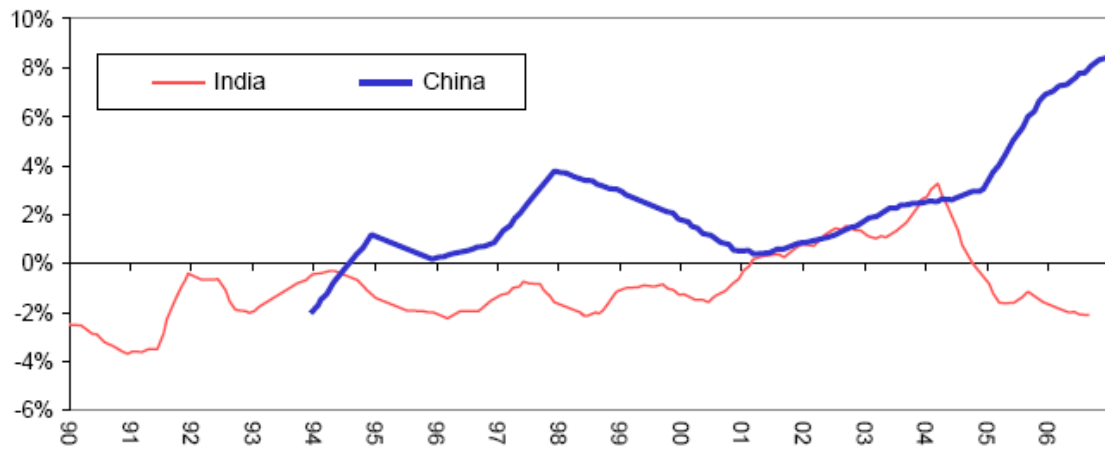
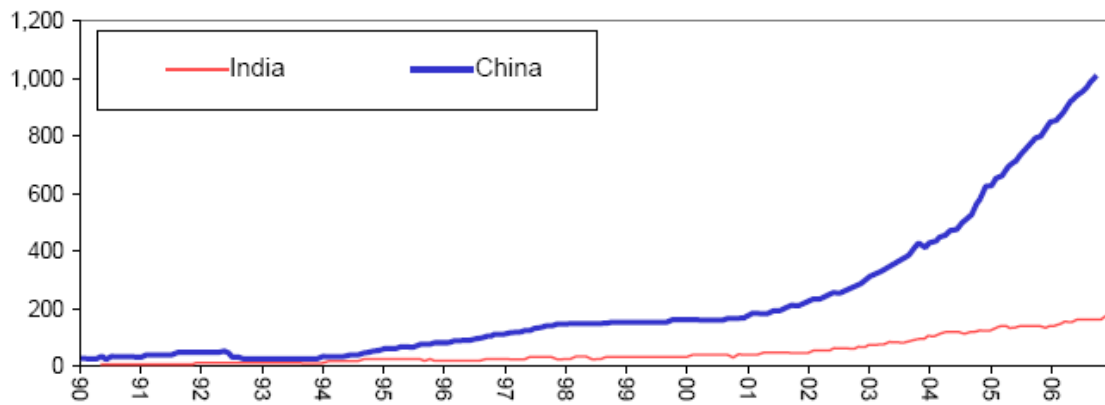


Figure 5a : Current Account % GDP



Source: Bridgewater (2007)

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



Source: Bridgewater (2007)

Fig. 6a: Population living on less than 1 USD per day by Wikipedia.com (May 07)

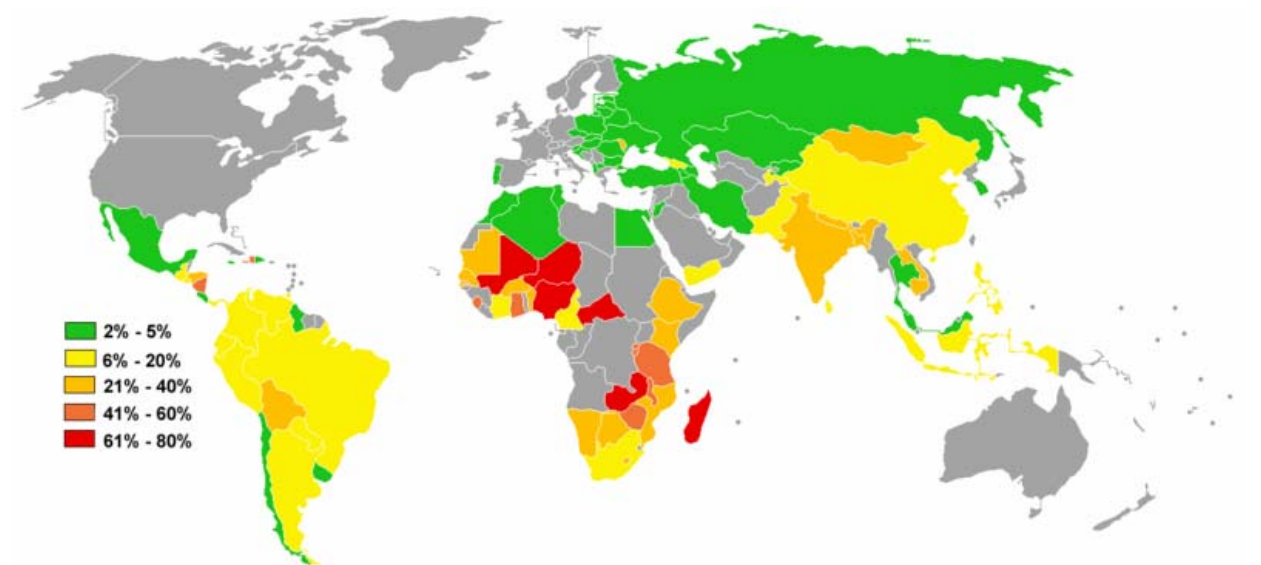


Fig. 6b: World Gini Coefficient Index by Wikipedia.com (June 07)

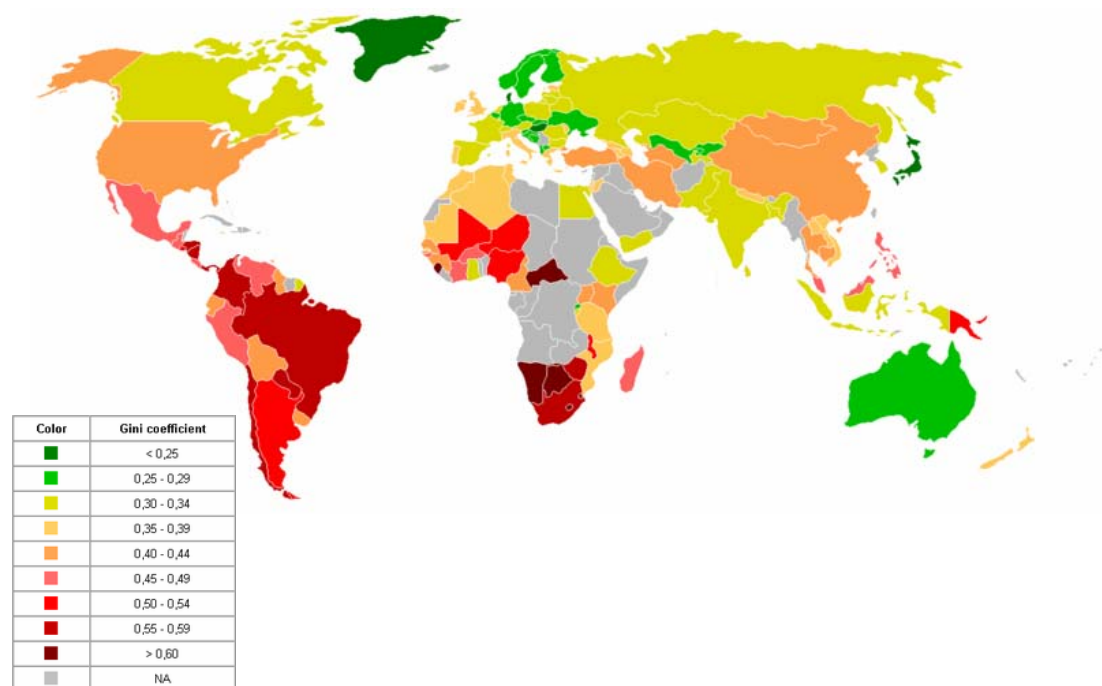


Figure 7 a: China poverty map - China

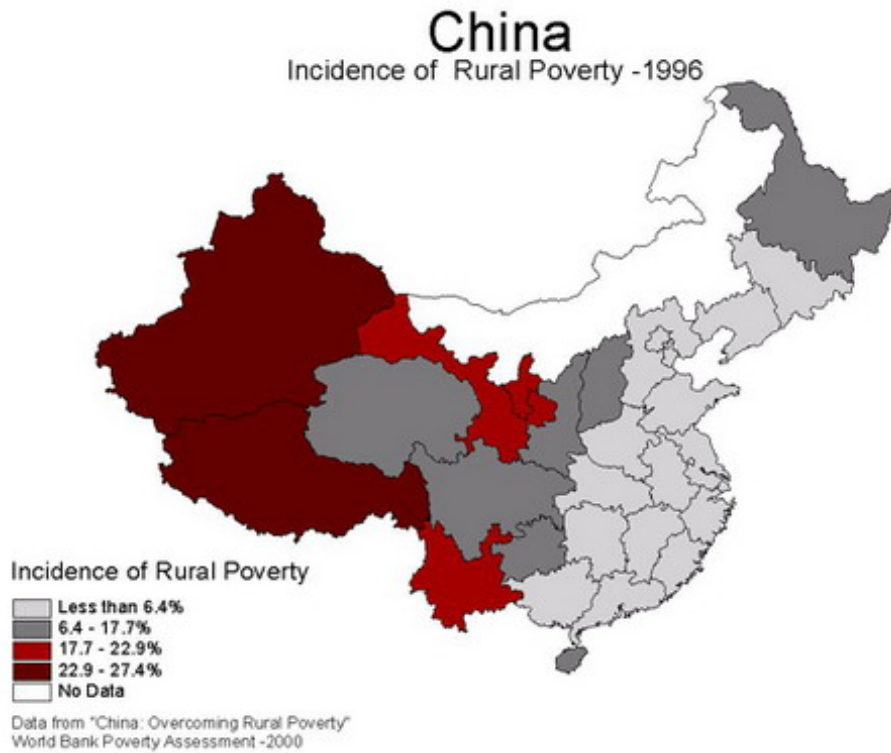


Figure 7b: India poverty map - India

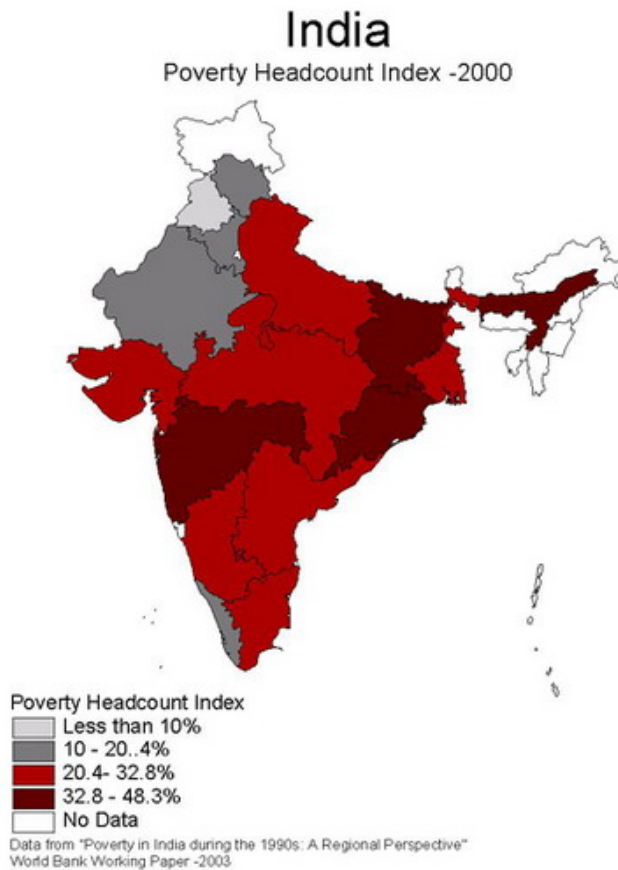


Figure 7c: China Human Development Index

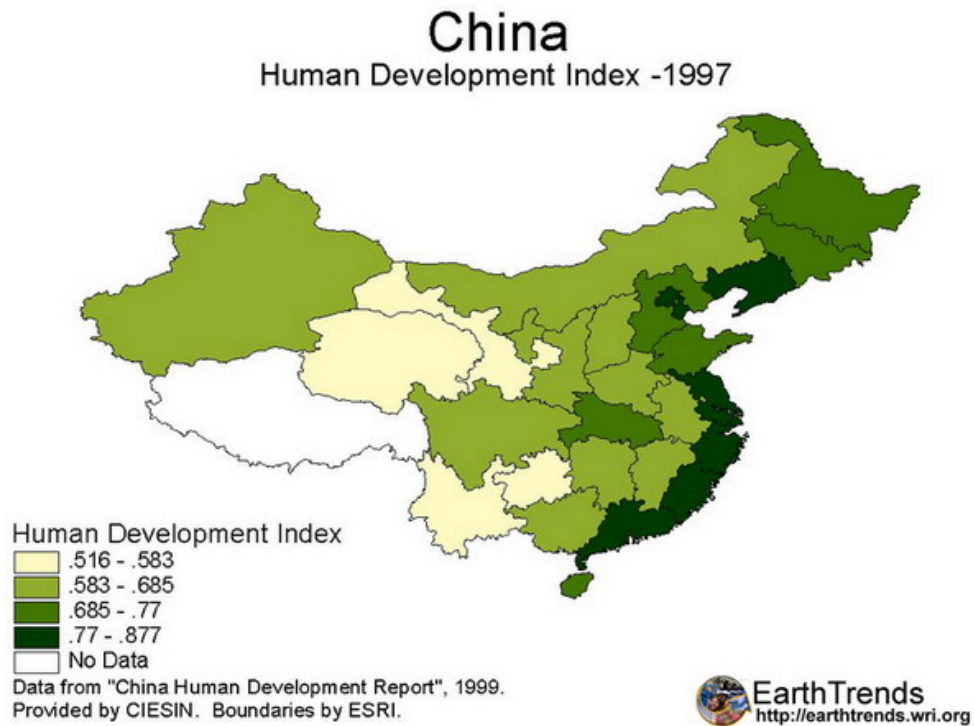


Figure 7d: India Human Development Index

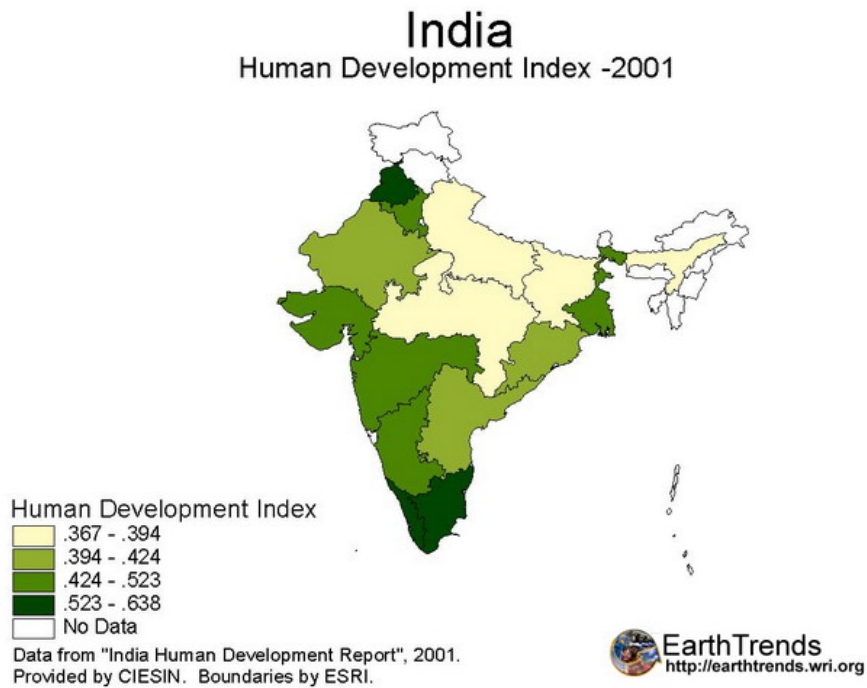
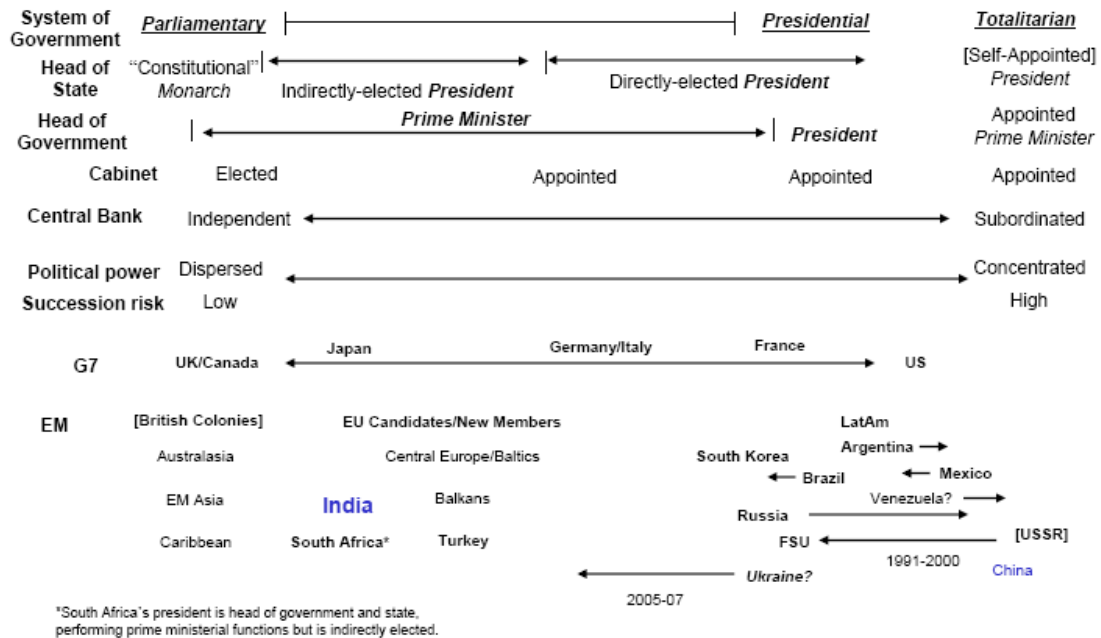


Figure 8a: Evolving EM political systems and their colonial progenitors/G7 models

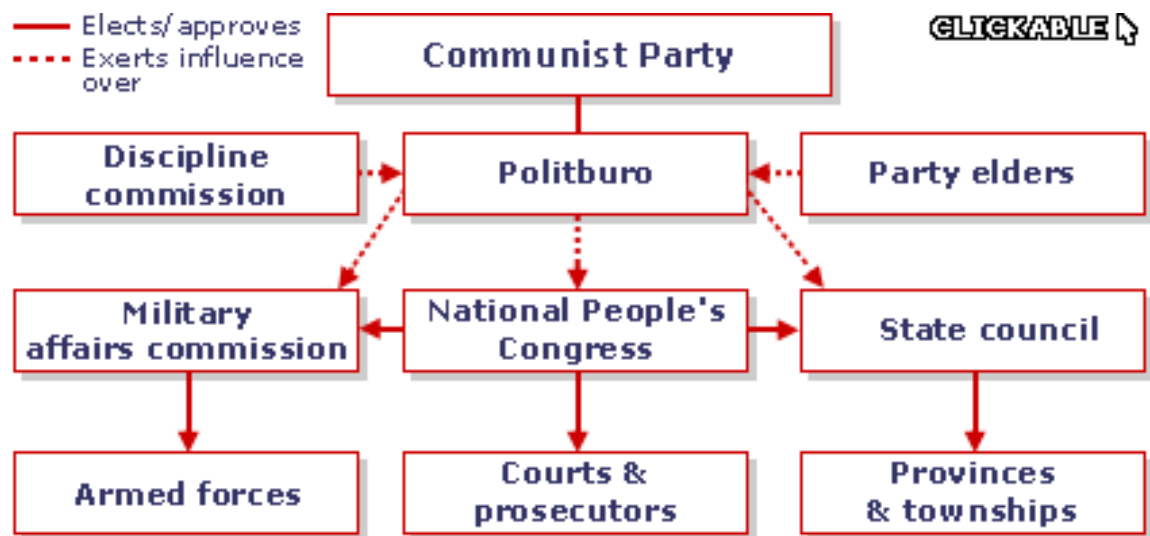


Source: Dresdner Kleintwort 2007

Figure 8b: A Typology of Democratic Regimes

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

Figure 9: How China is ruled



Source: BBC.co.uk (Sept. 04)

Figure 10: Joseph Schumpeter (1883–1950)



Different Setting for less Developed nation.

- 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.**

Figure 11a: Chinese Petroleum Subsidy and West Texas Oil Price from 1998 to 2007

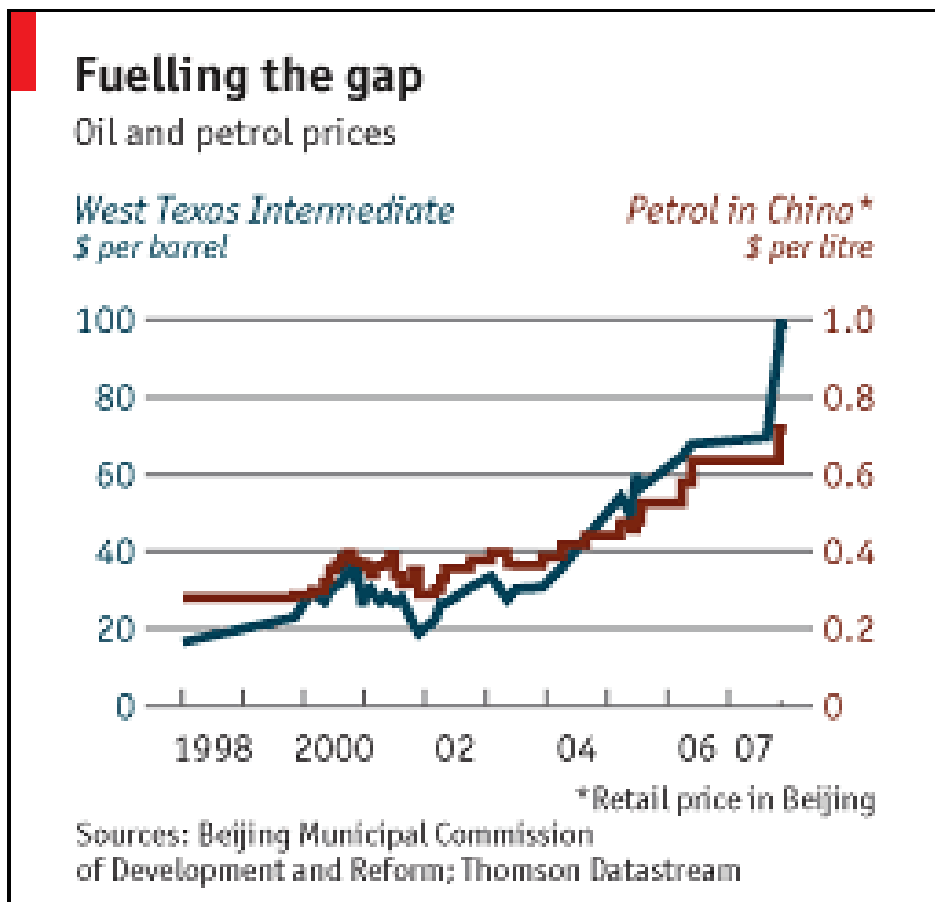


Figure 11b: India Subsidies for Food, Fertilizer and Petroleum from 1993 to 2008

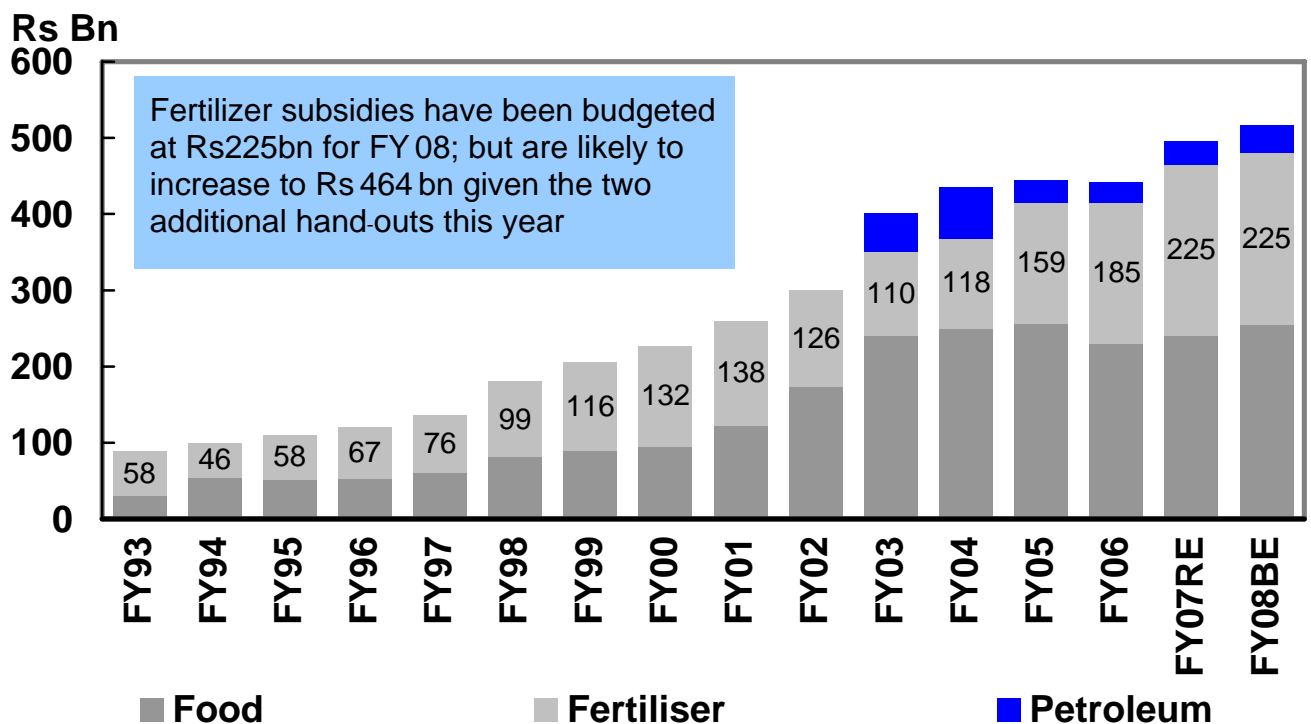
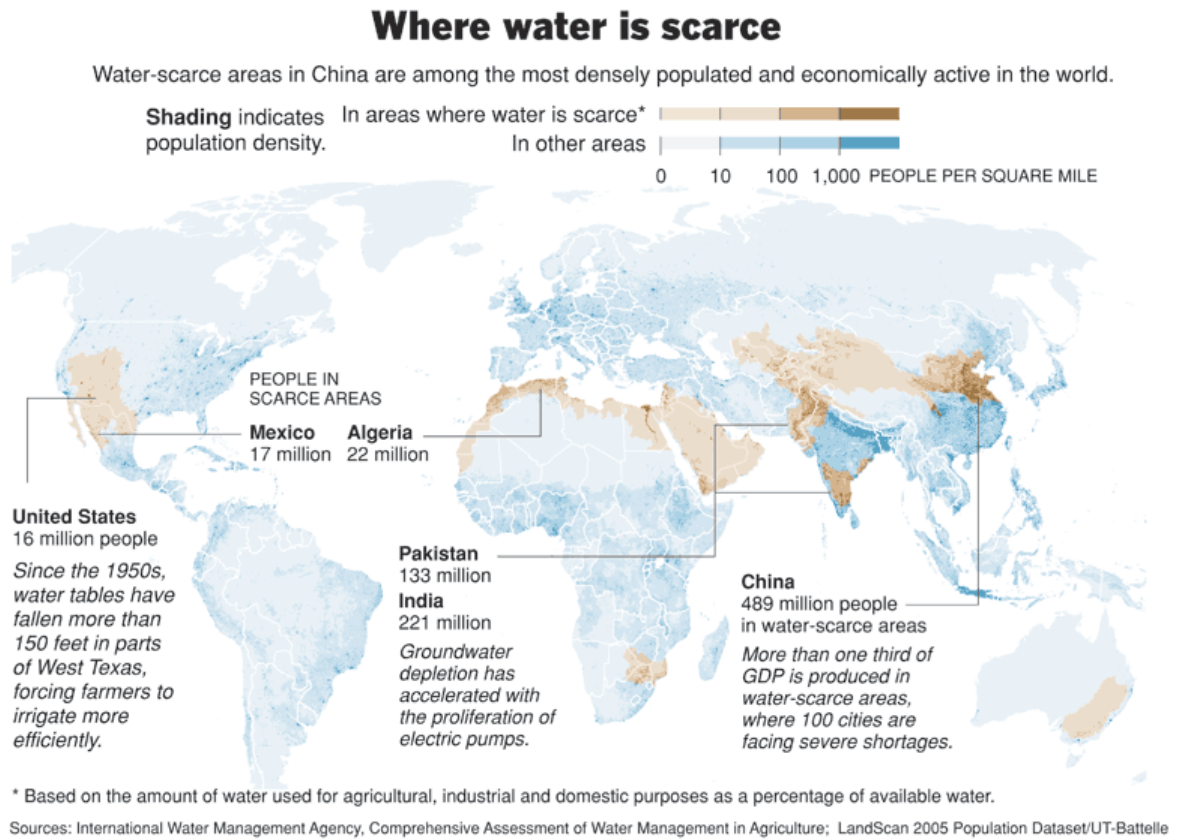
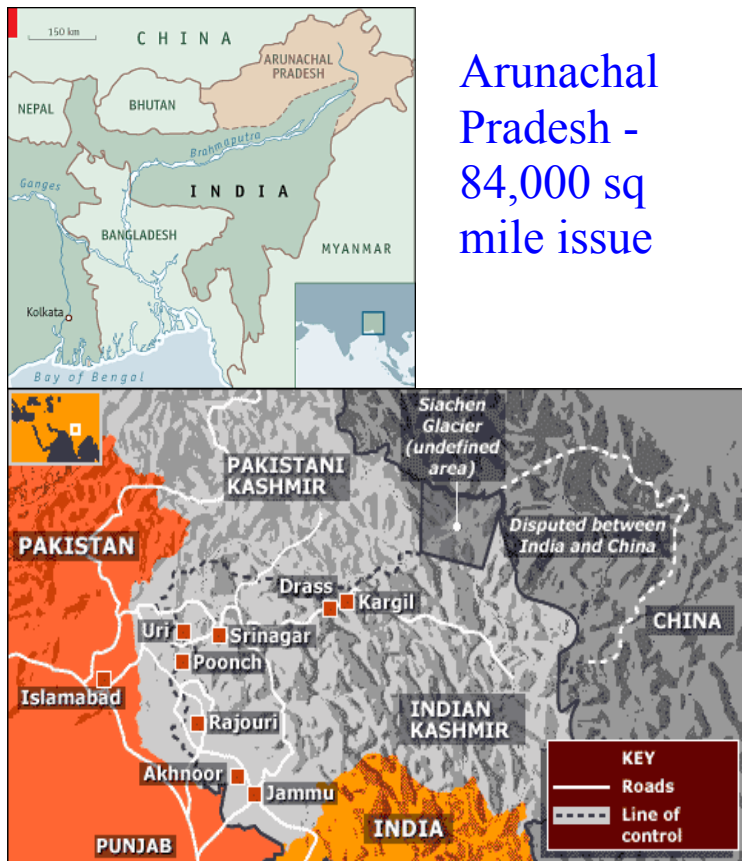


Figure 12: Where water is scarce



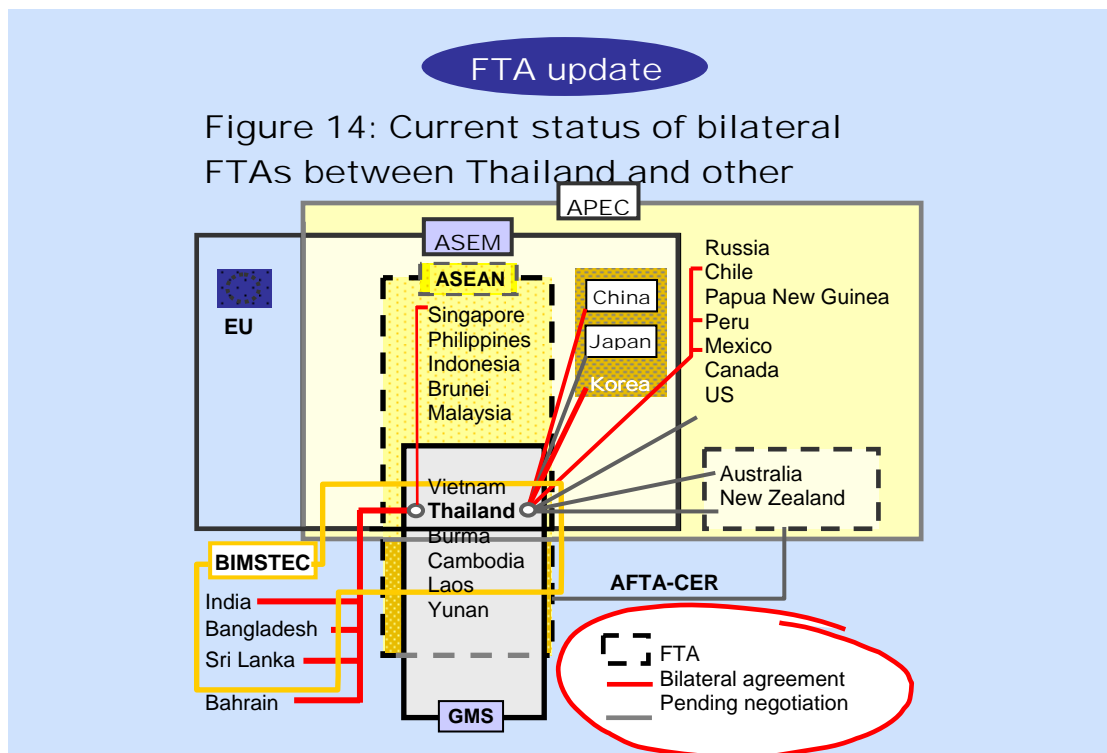
Source : International Water Management Agency reported on Sept. 27, 07 by [http://www.iht.com/articles/2007/09/27/asia/water.php?page=3#end\\_main](http://www.iht.com/articles/2007/09/27/asia/water.php?page=3#end_main)

Fig. 13 China & India's Uneasy friendship



- Tension is high along the **Line of Control**, where hundreds of thousands of troops have been positioned by Pakistan and India.
- India long standing critic of **Chinese policy on Tibet**
- Current **Water** concern by Chinese plan to divert the course of Brahmaputra, Tibet
- **Nuclear testing** by India in May'98
- **Bloody War** in 1962

Source:BBC.co.uk April 03; The Economist, June 07



Source: BangkokPost April 2005

Tables for  
**The Rise of China and India:  
Asean Regional Implications**

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Presented at  
Graduate Institute of Development Studies, Geneva  
On Dec. 1, 2007

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 2: 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
- 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 Various Macro and Micro 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)