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CHINA AND INDIA IN INTERNATIONAL TRADE: FROM LAGGARDS TO LEADERS?

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NON-TECHNICAL SUMMARY

The economic rise of China and India has aroused a wave of economic literature focused on the consequences for the world economy of the emergence of these new economic powers. The present paper addresses this question by investigating the following points: what are the specific features of China and India in comparison with other large emerging economies (Brazil, Mexico, Russia)? What are the similarities and differences between India and China in the way they are integrating with the world economy? How have they, up to now, impacted world trade both as exporters and importers? What are the prospects for their catching-up?

The following conclusions stand out:

Whatever the definition of what is an "emerging economy", China and India are unmistakably large emerging economies. They are demographic giants which have become big economic powers before getting rich. They have a lower income per capita than Brazil, Mexico or Russia, but have registered higher and steadier growth rates, which put them on a on a clear catch-up trajectory. Beyond these common features, China and India show sharp contrasts in economic structures which cannot be ascribed only to the lower level of development of India, but also to different strategies. India is much less open and less present in international trade but the gap may be, at least partly, a question of time lag.

Their rise in international trade has created two symmetric shocks, on the supply and the demand sides. Over the last decade, the two countries taken together trebled their share in world exports of manufactured products as well as their share in world imports of primary products (from around 3% to about 10%). China's supply of manufactured goods at low prices combined with China's and India's demand of raw material and energy have contributed to a change in relative world prices which has had an adverse effect on both countries.

China and India have kept similar traditional specialisation (textiles) and both have developed new outward-oriented sectors linked to new technology. Foreign firms, through their offshoring and outsourcing strategy, have played a critical part in turning China into a global export platform for electronic products, and India into a global centre for computer and IT services. As low-cost suppliers of manufactured products and services, they now epitomise the threat of globalisation for rich countries. Their growing merchandise trade is associated with widening deficits in related services (i.e. transport, insurance and royalties).

A crucial question for China and India now lies in the pace of their technological catch-up. The paper argues that despite their rapid progress, they still stand far behind developed economies, and that closing the gap will take time. Moreover, beyond the question of technological catch-up, the challenge is now also the quality upgrading of exports, especially for China. China has acquired a comparative advantage in high-tech products but records an increasing disadvantage in high-price/quality products and its terms of trade have deteriorated much faster than India's. India has followed a strategy aimed at supplying higher price/quality goods and "customized" products and services.

China and India have based their high economic growth on very different production structures and export specialisation. According to most long-term scenarios, the two countries are expected to continue to grow at an above-average pace. This leaves open the question of the strategy they should follow to make economic growth sustainable in the long run. In the two countries there is a debate about the necessary changes in their respective growth process. Can India short-circuit the industrialisation phase? Will China be able to rebalance its growth pattern? The crucial questions are how to reduce social inequality and make the most of their huge human resources and large potential domestic markets. Over the last decades, their successful integration in international trade has not solved the problem of their oversupply of labour, but has accentuated the specific shortage of highly-skilled personnel.

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