

China and India: The odd couple?

China has been in the news for the last week in both international and domestic media: internationally because of the hugely successful initial public offering of *Alibaba*, the giant Chinese e-commerce firm; and, in India, because of the visit of President Xi Jinping. After the IPO, *Alibaba*'s market capitalization is of the order of \$ 230 bn, more than that of Amazon and eBay combined – and almost equal to the aggregate of the four largest listed Indian companies. *Alibaba* also evidences how rapidly China is coming up in information technology which has been one of the few Indian success stories in the global market.

Similarities

There are many similarities between the two Asian giants – both are ancient civilizations, which were perhaps the world's most advanced until the middle of the second millennium in the Christian Era; both suffered humiliations for a couple of centuries before 1950 – we were colonized and China was forced to sign highly unequal treaties with western imperial powers after the so-called “opium wars”. While China was not formally a colony, the Emperor was no more “independent” than, say, the Nizam of Hyderabad during the colonial era. Both countries embraced globalization in recent decades – and have territorial disputes with most of their neighbours, including with each other. Both are also large importers of commodities.

Contrasts

Chinese growth has been much more consistent and higher than India's for the last 35 years. The result is that China's GDP, which was less than India's then, is now five times larger: in purchasing power parity terms, China's output is the world's largest, even larger than of the US. It is the world's largest exporter, while our share is too small. China is our largest trading partner, but the pattern of trade is, in effect, “colonial”: we

export raw materials, and import manufactured goods. The bilateral trade balance is significantly in China's favour.

China has become a global economic superpower. Its reserves are of the order of \$ 4 trillion; ours not even 10% of that. Qualitatively, the contrast is even starker, given that we have a large negative net international investment position, while China's is hugely positive. This is what has allowed it to become the main supplier of external funding for resource-rich countries/regions like Russia, Africa and Latin America (the US's backyard); recently it is trying to replicate that in south Asia as well, in Sri Lanka, Myanmar, Bangladesh and Pakistan.

China's current account surplus had reached as high as 10% of GDP in 2007, and it was under great pressure from the western countries, as also the International Monetary Fund, to let the yuan float. The expectation was that the yuan would appreciate and bring Chinese surpluses down; China resisted the pressures but has succeeded in bringing the surplus down to 2% of GDP by hiking domestic wages and consumption. It continues to manage the exchange rate: its undervaluation for decades helped growth of manufacturing; the industrial sector contributes just 13% to our GDP; 32% to China's. Chinese manufacturing is increasingly becoming technology intensive: it is the largest buyer of robots in the world. It has become a global leader in areas from solar panels to storage batteries and high speed trains: technology firms like Lenovo, Xiaomi (smart phones), Huawei, ZTE, etc. are rapidly gaining market share.

There is also a major difference between the two countries in terms of capital flows: most of our capital inflows are in the form of portfolio investments; much of the capital coming in China is in the form of foreign direct investment and that too on a far larger scale than in India. It is bizarre that we encourage portfolio inflows by easing norms and not taxing the gains, even while discouraging foreign direct investment through tax

disputes, regulatory obstructions, etc.: we forget that it is the latter which adds to output and employment, which should be our priorities, and helps reduce poverty. The rise in China's wages and the recent crackdown on many large foreign investors for corruption, price fixing by cartelization, patent violations, etc. create a great opportunity for us for a rapid growth in labour-intensive manufacturing; this will require a more competitive exchange rate and a hassle-free business environment if "Make in India" is not to remain just a slogan.

Two centuries back Napoleon is supposed to have prophesied: "Let China sleep, for, when she wakes up, the world will tremble". That prophesy is rapidly coming true. It is perhaps high time that we start learning more from the Beijing-headquartered superpower rather than the Washington-headquartered one. After all, saluting the rising sun is an old Indian custom!

The United Kingdom

After the referendum in Scotland, the UK remains united. Two points for us in India to ponder over

- ⇒ The peaceful and democratic way in which the Scots (less than 10% of the UK population) were given the choice to break a 300 year old union;
- ⇒ The fact that Scottish disaffection with Britain started more than 20 years back with Mrs. Thatcher's poll tax – and the strong currency policy to curb inflation which she followed. It devastated much of British manufacturing and employment, historically centered in northern Britain and Scotland. (The exchange rate was unsustainable and later led to the pound's ignominious exit from the exchange rate mechanism of the European Union – then the European Economic Community.)

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