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**China and India: Economic Performance,  
Competition and Cooperation An Update**

by

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## Introduction

In Srinivasan (2002), I described the development strategies of China and India prior to their breaking out of their deliberate insulation from the world economy and the ushering in of market-oriented economic reforms and liberalization. China began its external opening and economic reforms in 1978. India, which unlike China had always had a large private sector and functioning markets, began its reforms away from rigid state controls over the economy in the 1980s. These reforms, hesitant and piecemeal at first, became systemic and far broader after India experienced a severe macroeconomic and balance of payments crisis in 1991. I contrasted the political environments under which reforms were initiated and implemented in the two countries and their consequences. After recounting the differing rationales as well as the similarities and differences in the content of their reform agendas, I reviewed the achievements of reforms and remaining challenges, particularly regarding reforms of state-owned enterprises (SOEs). I concluded the paper with an analysis of the competition between China and India in world markets and the potential for their cooperation in the Doha Round of multilateral trade negotiations under the auspices of the World Trade Organization (WTO).

This note updates Srinivasan (2002). Section 2 is devoted to macroeconomic prospects and problems. Section 3 is concerned with external sector issues, in particular, the spectacular performance of China relative to India in their competition in world markets as well as the emerging perception in India of the opportunities in the large and rapidly growing Chinese markets. It also notes the protectionist backlash that China's growing dominance in world trade and India's success in Information Technology have induced in the US and Europe. Section 4 concludes with a discussion of the cooperation of China and India in the failed fifth ministerial

meeting of the WTO in Cancún, Mexico, in September 2003 and its importance for the resumption and successful conclusion of the Doha Round.

## 1. Macroeconomic Prospects and Problems

### 2.1 Sustainability of Growth

It is well known that China and India were the star performers in aggregate GDP growth in the 1980s and 1990s. China's average growth of 10% per year during 1990-2001 had slowed to a range of 7-8% per year during 1998-2002. It is projected to grow at 8% in 2003 (World Bank 2003a, Table 4.1; World Bank 2003b). In light of the facts that China was hit by the SARS epidemic in 2003, and economic growth in China's major markets in Europe and North American had slowed since 2000, its performance is remarkably good. Growth continues to be fueled by a rising ratio of fixed investment to GDP, which is expected to reach 42.2% in 2003. World Bank (2003b) notes that this rate of investment exceeded the levels reached in the early 1990s when the economy was believed to be overheating. Furthermore, much of the investment is apparently supported directly or indirectly by poorly monitored sub-national entities. Clearly, a rapid growth of such investment would erode its efficiency and could threaten future macroeconomic stability.<sup>1</sup>

In India, the annual rate of growth reached a peak of 7.8% in 1996-97 from the low of 1.3% in the crisis year of 1991-92. Since then, it has fluctuated between a low of 4.4% in 2002-03, a year in which the economy was affected by a serious drought to a high of 6.5% in 1998-99. With bountiful monsoon rains in 2003, growth is expected to revive to 7% or higher in 2003-04.

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<sup>1</sup> Going by the official data, the rate of inflation is low and the current account is in surplus. This means that at least there is no evidence of excess demand, a symptom of overheating. Besides, macroeconomic data on savings and investment are notoriously unreliable and in China, prima facie inconsistent with balance of payment data. Assuming a savings rate of 30% and a current account surplus of 3% would lead to a very modest investment rate of 27%, not much higher than India's (*Economist*, November 13, 2003).

Investment as a proportion of GDP has ranged between 23.1% to 27.7% of GDP since 1991-92 (RBI 2003a, Table 211).

Macroeconomic data in general, and savings and investment rates in particular, are subject to potential biases and significant measurement errors in both countries. One has to avoid reading too much from such data. Also, China is still not a market economy and prices in China may not have the same role and meaning as they do in a market economy. One cannot, therefore, lightly dismiss the argument of those who claim that measured Chinese growth may be overstated perhaps by as much as 2-3% per year<sup>2</sup>. They also claim that in contrast, the Indian statistical system, though not as biased as the Chinese, nonetheless does not cover all output, and this bias may be growing over time. This in turn would imply that Indian GDP, as well as its growth, may well be understated in official data. If these claims are conceded, the difference between the “true” Chinese and Indian growth rates could be insignificant. However, taking official data of both countries at face value, there is a difference of about 4.1% between Chinese and Indian growth rates during 1990-2001. Since Chinese fixed investment rates exceeded India’s by about 15% on average, one could argue that this difference in investment alone is enough to explain the difference in aggregate growth between the two countries. Indeed, using a simple, but crude, measure of the efficiency of investment, namely, the incremental capital output ratio(ICOR), Martin Wolf( Financial Times, December 16, 2003) argues that a rise in ICOR from 3 in 1980 to around 5 in 2003 in China shows a serious decline in the efficiency of investment. In his view the major reason for the decline is that a large part of investment financed by commercial banks had gone to inefficient State Owned Enterprises (SOEs). Not only had this investment performed poorly, but even more, contributed to the accumulation of Non-performing Loans (NPLs) by

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<sup>2</sup> On the other hand, it may be understated if national growth estimates are based on output and growth data supplied by provincial governments. The reason is that they may have an incentive to understate output and growth to the extent the central government’s share of taxes provinces collect depend on their reported output.

banks. He cites from a recent report of the International Monetary Fund (IMF) of declining Total Factor Productivity (TFP) growth in the mid-nineties. The reason that GDP growth rates have been sustained in spite of poor investment efficiency is that a component of investment, namely, Foreign Direct Investment (FDI) was very efficient and more than compensated for the poor efficiency of the rest. Thus investment in physical capital is not the only source of growth and may even be substituting for other factors. It is possible that other factors than capital might be contributing to growth to a greater extent. Indeed, growth in TFP according to some estimates was higher in India, in at least part of the 1980-2001 period.

In both countries, the issue of sustainability into the future (of say, the next two decades or so) of the current growth rates is important. Clearly, if the high rates of savings and investment are not sustainable, and the efficiency of investment is doubtful, then Chinese growth rates will decline. Indeed, with greater quality and a larger number of various consumer goods (including durables, such as passenger cars) becoming increasingly available in the market, Chinese households may consume more and save less out of their rising incomes than they are doing now. Also, the process of phasing out of state enterprises of various hues and ushering in of truly private enterprises that respond to market signals may not be smooth and could affect growth adversely. On the other hand, China's accession to the WTO and its further integration with the world economy could be expected to improve the efficiency of resource use through greater competition, inflow and adoption of better technology, and improvements in financial intermediation from the operation of foreign banks and other intermediaries could more than offset the effects of any decline in investment. In particular FDI in services such as wholesale and retail trade, if allowed to take place, would contribute significantly to growth through

efficiency gains. On balance, I do not foresee any significant decline in Chinese growth in the near to medium-term future.

In India, the official Tenth Five-Year Plan (2002-07) projects an 8% average rate of growth for the plan period of 2002-07. Given the slower average growth of 5.5% per year in the recent past (1997-88 – 2001-02), legitimate queries have been raised about the feasibility of attaining and sustaining an 8% or more average annual rate of growth in the next couple of decades. Of course, failure to do so would doom the prospects of any substantial reduction in mass poverty. However, there are reasons to be optimistic. First of all, India has farther to go in integrating its economy with the world economy and in attracting foreign direct investment than China (more on this in Section 3), and both could have growth augmenting effects. India's domestic reform process, after having slowed down since the late nineties, is gathering momentum. Clearly, with an augmentation of the forces of competition (domestic and international) and acceleration of the pace, broadening and deepening of reforms, the target of 8% annual rate of growth could be easily attained and exceeded. Whether these necessary steps would come about is an issue: for example, the overall fiscal deficit of all levels of government taken together, and not including the losses of SOEs, was 10.4% of GDP in 2002-03 and is projected to be 9.8% in 2003-04. These exceed the 9.3% reached in 1990-91 on the eve of the macroeconomic crisis. Unless the fiscal deficit is brought down significantly, the prospects of sustaining an 8% annual growth are virtually nil.

Progress in some vital aspects of reforms, such as privatization, liberalization of restrictive labour and bankruptcy laws, reform of electricity generation, transmission and distribution has been chequered—with steps forward as well as setbacks. Hopefully, after the next general elections, due no later than October 2004, a government will come to power with credible

commitment to reforms (i.e., with a willingness to enact reforms) and a parliamentary majority to pass needed legislation (i.e., with the ability to enact reforms), without watering it down for achieving a political accommodation with conflicting interests.

## 2.2 Fiscal Situation

China appears to be in a much better fiscal position as compared to India, with a very modest fiscal deficit of 3.3% of GDP and a debt/GDP ratio of only 26.3% in 2002 (World Bank 2003b)<sup>3</sup>. In fact, China achieved a remarkable feat of raising fiscal revenues by 7% of GDP in a short span of five years. (Nicholas Hope, private communication). This shows that in contrast to the Indian government, the Chinese recognized the need to improve the fiscal situation and acted on it. The central government's fiscal deficit in India in 2002-03 was 5.9% of GDP with the deficits of states adding another 4.6% of GDP. The overall debt/GDP ratio was 75.3% (RBI 2003a, Tables 223 and 224). However, World Bank (2003b) points out that a costly reform agenda lies ahead for China that includes pension/social security reforms and dealing with accumulated non-performing loans (NPLs) of the four largest publicly owned banks. Although NPL to assets ratio had declined to 26% by the end of 2002, this is believed to be the outcome of large increases in new loans rather than a contraction of old NPLs through better collections. The sterilization of the enormous inflows of foreign capital through the issue of ad hoc bills by the central bank at interest rates exceeding the rates earned on foreign assets of the bank in effect adds to the fiscal deficit, if it is properly treated in budget accounting. Although the current level of budget deficit could be sustained indefinitely by restricting expenditures to 22% - 23% of GDP, the costs of future reforms might require a combination of policies on the tax and expenditure sides.

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<sup>3</sup> Bahl and Martinez-Vazquez (2003) argue that China's governance is much less decentralized than indicated by the large share of sub-national governments, which have little by way of formal revenue raising powers. In their view, the present system is probably not sustainable. It is hard to predict the effect of greater decentralization on China's future fiscal health.

The potential budgetary impact of addressing the NPL of state-owned banks in India is more serious than in the case of China because of the better fiscal health of China, as noted earlier. This is so even though the ratio of gross NPL to total gross assets of commercial banks was at 4.8% at the end of 2001-02 (RBI 2003b, Chart VI.I) compared to the reported figure of 26% for China. The reason is that first of all, the Indian norms for recognition of NPLs is more liberal compared to international norms and the practice of “ever-greening,” i.e., of rolling over loans so that they are not deemed non-performing, is said to be significant. Battacharya and Patel (2002) note that the Indian banking system suffers from a large and increasing role of the government in the financial sector, high regulatory forbearance and the absence of efficient bankruptcy procedures. With the dominance of larger public sector banks in the financial sector, the “too big to be allowed to fail” syndrome is very much evident. For example, one of the government-owned banks has been recapitalized three times in the last decade! Clearly cleaning up NPLs of banks, whether in China or in India, is a pointless exercise unless there is credible commitment not to undertake repeated clean-ups and, moreover, the cleaned up banks are able to stand on their own.

With the rupee not convertible for capital account transactions and with controls on capital outflows continuing, the threat of a speculative attack on the rupee is diminished. This in turn means that the pressure to clean up the NPLs of the banking system from the exchange rate side is not there. However, the fact that NPLs of public sector banks represent contingent liabilities of the government is in part reflected in the rating of India’s sovereign debt by international credit rating agencies. Clearly, sooner or later the NPL problem has to be faced if the Indian rupee is to be made convertible on capital account.

### 2.3 Trends in Poverty

Finally, the fact that poverty has declined significantly in both countries since the 1980s after both experienced substantial acceleration in their growth of per capita GDP is widely noted. However, in India, because of changes in design of the household expenditure survey in the 1990s, a problem of potential non-comparability of poverty estimates over surveys emerged. This has led to research on alternative ways to check on the seriousness of non-comparability and to adjust for it to provide comparable estimates. In addition, there were issues relating to the price indices used to update poverty lines. Needless to say, some strong assumptions have to be made in all such exercises, and researchers naturally differed in their assumptions and methodologies and reached varying conclusions about the decline in poverty. It is fair to say that all of them agree that the poverty ratio did not increase in the 1990s, and differ only on whether it declined, and if so, whether the decline was faster in the 1990s than in the 1980s, when growth started to accelerate and poverty began to decline. Official estimates (GOI 2003, Table 10.6) show that the proportion of poor in the population (using national poverty lines) declined from 45.7% in 1983 to 27.1% in 1999-2000 in rural areas, and from 40.8% to 23.6% during the same period in urban areas. For the country as a whole, poverty declined from 44.5% to 26.1%. Sundaram and Tendulkar (2003) estimate the decline to have been from 49% to 29% in rural areas, from 38% to 23% in urban areas, and from 46% to 27% in the country as a whole. Deaton's (2003) calculations show that rural (urban) poverty declined from 37.3% in 1993-94 to 30.2% in 1999-2000 and from 32.2% to 24.7% in urban areas. Sen and Himanshu (2003) dispute some of the assumptions underlying the estimates of Sundaram and Tendulkar (2003) and Deaton (2003). Their own exercise relying on recalculation of unit-level sample survey data for 1987-88, 1993-94 and 1999-2000, and making as few assumptions as possible, lead them to

conclude that although the proportion of poor did probably decline, the reduction was no higher during 1994-2000 than it was during 1987-94, and the absolute number of poor did not decline.

Historically, the Indian statistical system led the world in measurement of poverty. Large-scale sample surveys were pioneered by Processor P. C. Mahalanobis at the Indian Statistical Institute in the 1940s, and it was but natural that after independence in 1947 steps were taken to undertake large-scale household expenditure surveys, initially to supplement national accounts statistics and later to measure trends in levels of living. India also has a distinguished tradition of attempts to cross-check estimates from various sources of data and debate about, as well as experiments with, alternative methodologies (Srinivasan and Bardhan 1974; Deaton and Kozel 2003). In China, household surveys and poverty estimates based on them, as well as a debate on the statistical system, are fairly recent (Park and Wang, 2001). This has to be kept in mind in interpreting the data. Hu, Hu and Chang (2003, Appendix Table 1) report that, according to official data, the proportion of poor in the rural population of China fell steadily from 33.1% in 1978 to as low as 3.7% in 1999. World Bank estimates (using a different poverty line) suggest that the poverty proportion was stable at around 32.5% during 1990-93 and fell rapidly to 14.3% in 1998. Nicholas Hope, in his private communication, suggests that although official data suggest a far lower urban poverty in China than in India, one reason for this difference is the non-recognition in official data of the existence of urban poverty in China, until it became no longer possible to do so with increasing lay-offs from the government and SOEs. A more important reason is the Houkou system which severely restricted rural-urban migration. In India there is no such system preventing migration.

#### 2.4 Widening Regional Disparities

In both China and India, there were significant and widening regional disparities in growth and poverty reduction. As is evident from Table 2, rural China and western regions lag far behind urban China and coastal regions. Table 3 on India shows that poverty ratios in 1999-2000 in high poverty states are three to four times that in low poverty states. Interestingly, the association between poverty and growth is more nuanced. In two of the five low poverty states (Haryana and Punjab) growth has slowed after 1990-91. However, two of the high poverty states (Bihar and Orissa) were among the five low growth states before and after 1990-91, and two (Madhya Pradesh and Uttar Pradesh) were in one of the two periods. Only Maharashtra, which is a high-growth state in both periods, is among the high poverty five. In the Chinese case, the deliberate policy choice of the government to concentrate reforms and external opening to coastal cities and special economic zones contributed to their growing faster and moving ahead of the other regions, particularly in the West. In India, there was no such deliberate policy choice. However, as is to be expected and natural, those individuals, groups and states that were initially better placed in terms of their infrastructure and human capital grew faster than others not so well placed. To a considerable extent, this is also true of China. The real issue is not so much the widening disparity but whether there are forces and policies in place that would enable the lagging regions to catch up with the leading ones over time. On this, the evidence is mixed, if one goes by the empirical findings of several cross-regional growth regressions as reported in Srinivasan (2003). Clearly, if there are no prospects of relatively rapid convergence, the stability of India's federal democracy and the control of the Communist Party in China could be put in doubt.

### 3. External Sector: Trade in Goods and Services

China continues to outpace India in global integration. In 2002, it was the world's fifth largest exporter of merchandise, with a share of 5% of world exports (WTO 2003a, Table 1.5). China is tenth in commercial service exports, with a share of 2.5% (ibid, Table 1.7). Its growth in the share of merchandise exports is phenomenal, more than quadrupling during 1983-2002 (ibid, Table II.5). India is a distant 30<sup>th</sup> in world merchandise trade, with a share of 0.8% in 2002, which represents a growth of only 60% during 1983-2002. A more disaggregated picture in terms of the changes in the shares of India and China of several labour-intensive exports in the world as well as in the major markets of North America (Canada and the US) and the European Union reveals China's success relative to India's even more starkly. This is shown in Table 1 (reproduced from Srinivasan 2003). In almost every commodity and market, China's share has grown rapidly since 1978, whereas India's share has grown much less, if at all. Bottelier (2003) point out that in exports of commercial services, India lags less behind China, being the 19<sup>th</sup> largest exporter, with a share of 1.5%. Although growth of China's service and merchandise exports far outpace average growth world exports, its merchandise exports grew much faster than service exports, so that the share of service exports in total exports has fallen to one of the lowest such ratios for any major country. He notes that, in contrast, India's service exports are growing at about double the rate of its merchandise exports, and if current trends continue, the share of service exports in total will exceed 50% in a decade.

There is one service sector, viz. Information Technology (IT), in which India has notably outstripped China. Last year (2002), India's IT exports were almost \$10 billion, compared with \$1.5 billion from China. Interestingly and tellingly, 40% of China's IT exports involved Indian IT companies based in China, according to a report by consultants Gartner (Luce and Kyngé 2003). The same authors quote the Chief Financial Office of Infosys, the Indian IT giant that has

won contracts with China's financial sector, as saying that India is five to seven years ahead of China in the software sector, primarily because of the lack of facility with the English language among Chinese and the absence of experienced project managers in China. However, he expects that China will catch up with India very quickly.

India is also ahead of China in pharmaceuticals. Luce and Kyngé (2003) point out that the United Nations buys more than half of its vaccines from a private Indian company, Serum Institute. Much of China's vaccine production does not meet international standards. Recently, two Indian pharmaceutical companies, along with a South African company, have entered into a contract with the Clinton Foundation to supply generic anti-retroviral drugs to treat AIDS at a much lower cost than Western companies. The fact that in both software and pharmaceuticals it is India's highly educated who are the driving force raises the possibility that: "If India can turn into a fast-growth economy, it will be the first developing nation that used its brainpower, not natural resources or the raw muscle of factory labor, as the catalyst" (Kripalani and Engardio, 2003, p. 70). Clearly, successful use of brain power by India, with service exports as our engine of growth, would be in sharp contrast to China, whose growth acceleration was driving by manufactured exports that exploited its cheap labour.

### 3.1 Fear of Chinese Competitiveness

I noted in Srinivasan (2002) that the competition from lower priced imports of manufactures from China elicited a defensive response from Indian industrialists to seek protection, and the government granted it through the levy of antidumping duties on China's imports. Recently, Indian entrepreneurs have joined their counterparts in the industrialized countries in viewing the huge and growing Chinese markets as commercial opportunity. Luce and Kyngé (2003) quote K. K. Modi, the head of an Indian manufacturing company that exports specialty chemicals to

China's leather industry as saying that, "nobody fears the Chinese market any more—everybody just wants a piece of it." Mr. Modi is not alone—many Indian executives, including those in India's IT sector, are seeking to boost their presence in China. Some of the exporters to China are exploiting the relatively lower cost of IT professionals and engineers in India. This cost advantage in India has been recognized, not only by IT companies in the US and Europe, but also by Chinese manufacturers. Luce and Kynge cite the case of Huawei, a Chinese telecom equipment maker, which is planning to invest \$100m to develop software in India's software capital of Bangalore. The perception of China as offering rapidly growing opportunities for Indian exporters is reflected in rapid growth of bilateral trade, which doubled in the last two years and is expected to reach \$7.5 billion at the end of 2003. In the three years 1999-2000 to 2002-03, India's exports to China increased at an average of 50.2% per year, and imports from China at 26.6% per year (RBI 2003c, Box VI.7).

The infamous Multifibre Arrangement (MFA), under which quotas on various items of textiles and apparel are bilaterally negotiated between exporting (mostly developing countries) and importing (mostly industrialized countries) had governed textiles and apparel trade since 1974. In the Uruguay Round of multilateral trade negotiations, an agreement was reached by the members of the WTO to eliminate the quotas of MFA in a phased manner, starting from January 1, 1995, and concluding by January 1, 2005. With several products already free of quotas, China has been able to capture an increasing share of world trade in such products. As seen in Table 1, during 1998-2000, China's share in world exports of garments was 20.45% and of fabrics 9.36%. India's shares were a modest 5.27% and 2.42%, respectively. Fritsch (2003) refers to an estimate from a World Bank study that, after the complete phase out of MFA quotas in 2005, China's exports will grow even more and capture nearly half of the world's clothing exports by

2010. He correctly points out that without the assured markets of bilateral quotas, many developing countries have to compete with more efficient producers, such as China. In Bangladesh, which is the focus of Fritsch's article, there is apprehension that such competition could devastate a garment industry that currently anchors the economy, sustains millions of families and employs mostly women. It is an open question whether the Indian textile and apparel industry is, or could become, competitive enough to thrive and grow a quota-free market. Among other things, restrictions limiting production of garments to small-scale producers have only recently been removed. If more efficient producers who can bring costs down by exploiting scale economies enter the market, India would become competitive. It is too soon to tell whether such entry is taking place to any significant extent.

### 3.2 Protectionist Backlash Against China and India

Periods of recessions, such as 2001-03, are breeding grounds for protectionist pressures. The phenomenal growth of China's exports, particularly during a recession, and the threat it poses to less competitive industries, particularly in industrialized countries, is generating a protectionist backlash directed against it. Taking advantage of the special safeguards provision in China's agreement with it as part of its accession to the WTO as a member, the US decided to begin a three-month negotiation on temporary quotas to limit imports of bras, bathrobes and some other apparel<sup>4</sup>. Earlier, the US had increased, temporarily, tariffs on steel imports from the rest of the world, including China, on the grounds that a surge in imports was materially injuring its domestic steel industry. This US action was contested in the WTO's dispute settlement system whose Appellate Body ruled that the US action was in violation of WTO rules, thus opening the

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<sup>4</sup> In fact, China's accession protocol allows for invoking by its trading partners of transitional product specific safeguards without any procedural protection at all, and for the continued use of "non-market economy" status for anti-dumping investigations. The criteria for demonstrating material injury are very weak. I owe Will Martin for this observation and for bringing Messerlin (2003) to my attention.

door for retaliatory action by its trading partners. China has threatened such action. However, the fact that China has little to gain, and much to lose, in a trade war with its most important trading partner, the US. This being the case, the threat might be no more than a way of expressing China's concern over the damage that rising protectionism in the US and elsewhere would inflict on it.

India is also facing a backlash from its success in the IT sector. It is no surprise that with unemployment rates stubbornly resisting to come down despite recent signs of recovery in the US, many in the US view outsourcing of IT jobs as exacerbating, if not causing, a jobless recovery. Service sector activities, even those involving high technical skills, are being outsourced by the US and European companies to India (and China). According to the *Financial Times* (March 1, 2003), "India has been on the front line of outsourcing for a decade, and roughly half of the world's largest 500 companies and many government agencies now contract out IT and business process work to India." A less prosaic and more dramatic illustration of the nature of outsourcing to India was provided by the well-known columnist and writer, Thomas Friedman:

If you lose your luggage on British Airways, the techies who track it down are here in India. If your Dell computer has a problem, the techie who walks you through it is in Bangalore, India's Silicon Valley. Ernst & Young may be doing your company's tax returns here with Indian accountants. Indian software giants in Bangalore, like Wipro, Infosys and MindTree, now manage back-room operations—accounting, inventory management, billing, accounts receivable, payrolls, credit card approvals—for global firms like Nortel Networks, Reebok, Sony, American Express, HSBC and GE Capital. ... GE's biggest research center outside the US is in Bangalore, with 1,700 Indian engineers and scientists. The brain chip for every Nokia cellphone is designed in Bangalore. Renting a car from Avis online? It's managed here.

A somewhat hysterical, though not entirely untypical reaction, is of Clive Thompson (2001):

"Eventually the United States won't make any hard goods, won't do the cerebral stuff and won't

fulfill the orders. Then, what's left? Brand building? Business development? Shopping? Would you like fries with that, sir?" Bills have been introduced in several state legislatures in the US with the aim of outlawing outsourcing of public sector service activities. Although such a bill in the state of Indiana was withdrawn, still the state cancelled a \$15 million contract with India's Tata Consulting.

### 3.3 China and India as Drivers of Regional Growth

There is little doubt that China's rapidly growing exports to countries outside of Asia-Pacific in Asia has generated equally rapid growth in imports by China from other Asian and Pacific countries, not just from its neighbors in East Asia but also from Australia, India and Indonesia. According to Perlez (2003), Japan's current "recovery is being driven by a surge in exports to China. Australia's healthy economy is being kept that way by Chinese investments in liquid natural gas products. China is now South Korea's largest trading partner . . . In Indonesia, Malaysia and the Philippines (and to a lesser extent in Thailand) . . . China's main interest is to scoop up what it can for its modernization. Indonesians call this new relationship with Beijing as 'feeding the dragon.'" Although India is by far the largest (and rapidly growing) market in South Asia, it is yet to have a major impact on the trade of its neighbours in South Asia in spite of the creation of the South Asian Preferential Trade Area (SAPTA) in 1997. To a significant extent, this reflects the hostile relations between India and the next largest market in South Asia, viz. Pakistan. Pakistan has not yet granted a most favoured nation status to India. Unless the relations between the two normalize, the prospects of SAPTA are not bright. However, India-Sri Lanka bilateral trade and investment have grown rapidly since the conclusion of a free trade agreement between the two became operational in March 2000. Recent signs of a warming of

Indo-Pakistani relations lead me to hope that India can act as a motor of growth for South Asia, thus emulating China's role in the Asia-Pacific region.

### 3.4 Foreign Direct Investment

China receives a much larger flow of net foreign direct investment (projected at \$57 billion in 2003) than India's (under \$4 billion in 2001-02). In Srinivasan (2002), I discussed some of the reasons for this difference. In short, as Luce and Kynge (2003) succinctly point out, "whether it is China's cheaper, more reliable power supply or the more rapid turn around at its ports, China remains an incalculably better environment for most manufacturing than India, which is slowly working up to this." This environment and the bureaucratic obstacles at all levels of government in India in large part explain the huge flow of FDI to China relative to India. The Indian government has recognized FDI as key for achieving the Tenth Plan target of 8% annual growth and appointed a steering committee on FDI in 2001. It reported in 2002 with several recommendations for making India more attractive as a destination for FDI.

The opponents of outsourcing, who are increasingly vocal, are the more recent entrants to the anti-globalization movement. The latter, which organized violent street demonstrations on the occasion of the Third Ministerial meeting of the WTO in Seattle in December 1999, has since repeated it, though not so violently, at every annual meeting of the World Bank and IMF, and most recently, at the Fifth Ministerial of the WTO at Cancún, Mexico, in September 2003. At the governmental level, the demand by the US and the EU that a "social clause" be instituted in the WTO to permit the use of trade sanctions to enforce labour standards is also a protectionist response to competition from low wage, developing countries such as China and India. Such a clause is already part of every regional trade agreement to which the US is a party, since the North American Free Trade Agreement. In fact, the then-President Clinton's embrace of the

demand on the eve of the Seattle Ministerial of the WTO in 1999 significantly contributed to its collapse. It is clear that China and India have a common and vital interest in diffusing protectionist threats. Their cooperation in the Cancún Ministerial of the WTO, to which I return in the concluding section, is a welcome sign in this regard.

#### 4. External Sector: Exchange Rates and Foreign Reserves

Let me turn to exchange rate issues. China's trade surplus with the United States has been growing. Its overall trade surplus is modest since it is running a growing trade deficit with Asia-Pacific countries that offsets in large part its trade surplus with the US. Although only a country's overall trade and current account balances have economic significance and not its bilateral balances with any one or a subset of its trading partners, this economic logic has never been understood by politicians anywhere, and in particular, in the US. As Japanese trade surpluses created an anti-Japan backlash in the eighties, it is now China's turn to be at the receiving end of US pressure.

China has accumulated a substantial (exceeding \$400 billion by the end of 2003) foreign exchange reserves, exceeding its annual imports. India has done the same—its reserves, around \$100 billion at the end of 2003, exceed by a substantial margin the likely imports of \$60 billion. This is not the occasion to delve into the complex issue of the appropriate level of reserves, and whether both countries have accumulated far too much relative to what would be needed to smooth volatility in export earnings and import expenditures and to contain any potential financial crisis like the one experienced by East Asia in 1997<sup>5</sup>. Since neither the renminbi nor

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<sup>5</sup> There are some who claim that the unification renminbi-dollar exchange rate in 1994, prior to the Asian crisis, was in fact a devaluation of the renminbi. At that time, the exchange rates of other East Asian countries were fixed relative to the dollar and hence appreciated relative to the renminbi, and this appreciation contributed to the East Asia crisis. I am not entirely persuaded by this claim. Clearly the effective devaluation of the renminbi was small, given China's earlier high inflation rates and in fact, there may even have been a small appreciation relative the US dollar.

the rupee is convertible on capital account and capital controls are in place in both countries, prima facie the probability of an exchange rate crisis of the type experienced countries with open capital account and fully convertible currencies is very low. This is not to say, of course, that a balance of payments crisis (BOP) that makes the prevailing exchange rate unsustainable cannot arise—after all, despite capital controls and an inconvertible (on capital account) rupee, India experienced a severe BOP crisis in 1991, which resulted in the devaluation of the rupee and other policy changes. Still, given that partial insurance from other sources of external funds (e.g., from the IMF) is in principle available, should self-insurance through reserves be pushed as far as the current level of reserves in China and India seem to have done?

Any attempt to determine the appropriate level of reserves has to be based on an analysis of the appropriate exchange rate regime for either country, and the related issue of whether the benefits from integration with the global financial markets outweigh the costs. I have not undertaken such an analysis. In China a significant part of the dollar assets are held outside the People's Bank of China by enterprises and commercial banks. Any significant revaluation of the Renminbi would create serious adjustment problems for them. However, let me quote from a recent lecture by Professor Kenneth Rogoff of Harvard, the former Economic Councillor and Director, Research Department of the IMF. He said:

My interpretation of the evidence not just from Asia but from the whole world, from Europe's experience, from floating rates, from the Bretton Woods system, is that policy makers vastly overrate the risks of having volatile exchange rates and vastly underrate the indirect costs that can come from all the policies that they have to try to suppress them. Certainly I wouldn't say that India has gone too far at the moment in accumulating reserves, it has a very strong position but I think all the countries in Asia are reaching a point when they have to start asking the question how much is enough, that basically a lot of the reserves that the Asian economies are accumulating—even outside of Japan—we are talking about close to a trillion dollars, are basically low interest rate loans from the emerging markets to United States and Europe, and this is very costly. There are opportunity costs to the domestic economy. How much is enough and at what point should one risk letting the exchange rate appreciate. Knowing the multilateral aspects of

it, I realize that there are some outside the IMF who call for greater flexibility in Asian currencies in order to strengthen demand from the rest of the world. I think that is an issue worth considering but it is not the one I want to focus on. From the Asian economies' own perspective, and this is true for India, it is true for China, it is true for virtually all the countries in the region, moving to a regime of greater flexibility would be something that is advisable, would not bring the cost many policy makers fear, and in fact would allow the economies to reduce the level of recession and that would have many positive growth effects (Rogoff 2003).

Does Rogoff's conclusion mean that US pressures on China to revalue the renminbi was justified and that India should also let its rupee appreciate? I do not think so, for the reason that he is only arguing for greater flexibility in exchange rates. The Indian exchange rate regime is one of managed float (although Rogoff prefers to characterize it as a crawling peg), and it does allow flexibility. It is possible to argue that the Indian central bank (i.e., Reserve Bank of India) has inappropriately intervened to prevent the rupee from appreciating, and this has cost the Indian economy in terms of foregone growth. But this is an argument that the flexibility inherent in the managed float regime has not been utilized appropriately. It is not the same as arguing that India should now make the rupee fully convertible and adopt a regime of clean float. The latter argument is not persuasive for the simple reason that domestic financial sector reforms are incomplete, and it is risky to open the capital account under the circumstances. In any case, there is no country in the world, developed or developing, that allows a clean float of its currency. However, by credibly committing to removal of capital controls and a convertible rupee for capital account transitions at a not too distant and specified future date, the pressure to complete the financial sector reforms by that date would become significant.

What about China? Again, the problems in the financial sector, particularly the overhang of NPLs are serious, and an immediate revaluation might worsen the problem. Besides, it has not been established by anyone, least of all by the US Treasury, that the current renminbi-dollar

exchange rate is too far from a long-run equilibrium rate. If it is not, and China moves to a floating regime, that US Treasury might find, to its surprise, that the exchange rate does not move from its current level!

It is not unlikely that if India's reserves continue to climb, and outsourcing gathers further momentum, there would be charges of "currency manipulation" against Indian authorities, as the Chinese are currently being charged with. China and India should cooperate in resisting such accusations and pressures and decide on their exchange rate policies in their own interests. Finally, as Rogoff rightly points out, by continuing to accumulate reserves in terms of US dollar assets, China, India and other Asian countries are financing US current account deficits. As Alan Beattie (2003) points out: "In theory, Asians' role in financing the US current account deficit could give them enormous economic or even political leverage, since a sudden shortfall in capital inflows would spark a slide in the dollar and possibly a sharp rise in interest rates." But he rightly concludes that: "A wholesale flight from the dollar, if it drove up interest rates and forced the US into a rapid tightening of consumers' belts, would also hurt one of the principle buyers of Asia's exports." Chinese and Indian policy makers are sophisticated enough to realize this and can be expected to slow the accumulation of reserves, if appropriate, and allow greater exchange rate flexibility in due course.

#### 4. China, India and the Doha Round of Multilateral Trade Negotiations Post-Cancún

The Fifth Ministerial Meeting of the World Trade Organization (WTO) was held at Cancún, Mexico during September 10-14, 2003. It was expected to review the status of multilateral negotiations (MTNs) launched at the fourth meeting in Doha, Qatar in November 2001. In particular, it was to set the negotiations back on track after the setbacks of having

missed several crucial deadlines set at Doha, and deciding on modalities<sup>6</sup> by explicit consensus of members for negotiations in certain areas, such as, for example, the so-called “Singapore issues” of investment, competition policy, government procurement and trade facilitation. The meeting ended with no agreement on any of these.

Leading developing countries (DCs), namely, Brazil, India, China, and South Africa, formed a group of twenty (G-20) plus members (Appendix I) to articulate and negotiate for the DCs at the meeting. In the ministerial at Punta del Este in 1986, which launched the Uruguay Round, there was also a group of ten DCs led by Brazil and India. But this group in effect disintegrated at the meeting. At Cancún, G-20 stuck to its positions until the end. There is no doubt that the fact that the world’s fifth largest exporter and sixth largest importer, namely China, was a member of G-20 has a lot to do with why G-20 was taken far more seriously at Cancún than the G-10 was in Punta del Este in 1986. Since China and India have a vital interest in ensuring that the failures of Cancún get reversed and the Doha Round of negotiations resumed, their continued cooperation in the forthcoming December 2003 meeting of WTO’s Council in Geneva is very important.

Robert Zoellick, the head of the US delegation at Cancún, petulantly reacted to the failure of the multilateral process at the Cancún ministerial railed against the developing countries and asserted that the US will pursue with renewed vigor bilateral and regional preferential trade agreements. Since the US was pursuing this option already with maximum vigor, it is not obvious that Zoellick’s threat to go regional and bilateral has become more credible with the collapse of the Cancún meeting. Nonetheless, the fact that a proliferation of preferential trade liberalization is much less beneficial than multilateral trade liberalization suggests that if the US

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<sup>6</sup> The “modalities” are targets (including numerical targets) for achieving the objectives of negotiations, as well as issues related to rules ([www.wto.org/english/tratop\\_e/negoti\\_mod1stdraft\\_3.htm](http://www.wto.org/english/tratop_e/negoti_mod1stdraft_3.htm)).

indeed succeeds in concluding regional agreements, those outside of such agreements, such as China and India, stand to lose significantly.

Regardless of Zoellick's threat to go bilateral and regional, preferential trade agreements (PTAs) are proliferating. India is a member of SAPTA and has free trade agreements with Nepal and Sri Lanka and is vying to become a member of ASEAN. Until recently, China was virtually alone among members of the WTO in not being a part to any PTA. Unfortunately, it is now heavily engaged in negotiating a PTA with Thailand and promoting an Asian Free Trade Area. I argued forcefully in Srinivasan (2002) that PTAs are inferior to multilateral trade liberalization. In fact, the Most Favoured Nation principle was formulated in the 19<sup>th</sup> century in response to the chaos created by overlapping bilateral and plurilateral PTAs with different levels of preferences. There is no reason to unlearn the lessons learned long ago and reembrace PTAs.

Unfortunately, some Asian leaders, President Roh Moo-Hyun of South Korea and Singapore's Prime Minister Goh Chok Tong, held up the European Union as a possible model for Asian Economic Integration (Mallet 2003). Professor Manoranjan Dutta has long been advocating an Asian community modeled after the European Union (EU). I am afraid this is fundamentally misguided. It confuses economic integration with political integration, to acquire a credible voice in decision making on global issues, i.e., to move to a multipolar world in which unified positions would be articulated by credible groups of countries (say EU, Russia and possibly the Commonwealth of Independent States, one or more groups from Africa, Asia and Latin America) and act as a check on the currently dominant US in a unified world. Economic integration in the sense of preferential trade and investment arrangements, short of a common market and monetary union, is neither necessary nor sufficient to bring about political integration.

It is worth recalling that the EU evolved from the European Coal and Steel Community (ECSC) to European Community (EC) and eventually to the EU. The origins of ECSC were fundamentally political, namely, a desire to prevent yet another European war between France and Germany that inevitably escalates into a world war. Trade preferences, which came later as it became the EC, were only incidental to its creation. There is as yet no evidence of a desire to have closer political integration in Asia. Concluding a PTA does not necessarily change this, as is evident from the conclusion of the South Asian Preferential Trade Agreement (SAPTA)—it has not improved Indo-Pakistani relations.

Just weeks before the summit of the South Asian Association for Regional Cooperation (SAARC) in early January 2004, Prime Minister Vajpayee of India gave a remarkable keynote address at the Hindustan Times Leadership Initiative. In the edited text of his address (Hindustan Times, New Delhi, December 15, 2003), Vajpayee noted the tremendous potential of the South Asian region represented by “our inherent advantages, common interests and complementary strengths”. He listed eight of them:

- (i) The region’s rich and varied human resources, as evident from the impact the technical, financial and managerial expertise of the emigrants from the region has made around the globe;
- (ii) The relatively young age structure of the regional population with a larger share in the working ages compared to developed countries;
- (iii) Contributions of the region’s technological strengths have placed at the vanguard of the contemporary knowledge economy;
- (iv) The large size of the region’s market offers opportunities for exploitation of economies of scale;

- (v) Synergies within the region, if efficiently exploited, would expand intra-regional trade significantly;
- (vi) The region's massive, yet untapped, energy resources including fossil fuels and hydroelectric potential;
- (vii) Rich diversity of the region's bio resources; and
- (viii) The great leverage in a multi-polar world the region could, if it exercised its combined political weight.

Vajpayee recognized that intra-regional trade was currently very limited at less than 5% of its total trade, while at the same time noting that bilateral trade increased significantly after the conclusion of Indo-Nepal and Indo-Sri Lanka Free Trade Agreements. The thrust of his address was focused on the potentially large benefits of South Asian Integration. His proposal for mutually enriching partnership in exploiting the region's energy resources has great merit. He did not note, though he should have, that there is no need to depart from the process of multilateral trade liberalization for achieving greater integration of the region. Indeed liberalizing trade in a non-discriminatory most favoured nation basis would certainly bring about regional integration precisely because of the regions eight strengths listed by him. The problem in the region is not trade barriers that need to be reduced preferentially, but the utter lack of mutual trust and confidence, as exemplified by Indo-Pakistan relations during the five decades since the independence of the two countries.

Fortunately, India and Pakistan have just begun to implement confidence building measures, and much more than SAPTA, the grant of MFN status to India by Pakistan will help in improving confidence. Chinese-Indian relations are also getting better, with India formally recognizing China's sovereignty over Tibet and China recognizing de facto India's sovereignty

over Sikkim and both agreeing to continue to negotiate their border dispute to resolve it peacefully. Certainly, the rapid growth of bilateral trade and mutual interest in seeing it grow further helped. But the essential point is that neither past growth nor the expected future growth is based on trade preferences granted by either to the other.

The role of PTAs promoting intra-regional trade is exaggerated. Mallet (2003) quotes from a study by Francis Ng and Alexander Yeats of the World Bank: ““Since the mid-1980s, east Asian intra-trade [excluding Japan] has been growing at a rate roughly double that of world trade and at a rate far higher than the intra-trade of Nafta or the European Union.”” What is more, East Asian integration was not driven by governments as the European one was. In fact, Mallet (2003) points out: “The one area that has tried to push ahead with a formal free trade zone—the 10-member Association of South East Asian Nations (Asean)—has little internal trade compared with the rest of East Asia.” Instead of making any futile attempt to forge economic ties on a preferential basis, Asian nations would best concentrate their efforts in ensuring that the multilateral process of trade liberalization that ran into a road block in Cancún is resumed. Clearly, joint action by China and India in this regard would be very important.

The multilateralism of the WTO is incompatible with the preferential trading arrangement of any sort. Many such agreements, though called “free trade” agreements, have little to do with free trade, and their complex rules of origin (ROOS) for availing of preferential treatment are mind boggling. For example, the free trade agreement (FTA) between the US and Singapore apparently includes 203 pages of text on ROOS! ROOSs provide great opportunities to trade lawyers to create non-transparent and opaque protectionist measures by manipulating them. This being the case, China and India should propose a repeal of Article XXIV of GATT/WTO on Customs Unions and FTAs and replace it with one which ensures that trade

preferences of any regional or other agreements are extended to all members of the WTO on a MFN basis within a specified (say, five years) period after the conclusion of such agreements. The rationale for this is that the primary driving force behind most regional agreements, as argued earlier, is political. The political benefits of such agreements ought to be adequate to prevent defection even if the incentives of trade preference is limited, to minimize the damage they inflict on non-members, to a specified period.

In the resumed negotiations, both countries should continue to insist that first, issues that are not trade related, such as labour standards, should not be in the mandate of the WTO. Second, both should resist giving direct representation to non-governmental entities in the WTO. The reason is that since national and international policies relating to trade would be the means for implementing any decisions in the WTO, it has to remain an inter-governmental organization. Clearly, the so-called “civil society,” national and multi-national, naturally should be heard—but the fora for the hearing have to be primarily the national political arena. Through influencing the positions of national governments through a participatory process they will indirectly influencing the decisions at the WTO. Giving them a direct representation formally in some form, such as observer status, would be counterproductive. The deeper problem of the possible undemocratic and non-participatory character of some national polities such as China’s, and hence their denial of hearing to their civil societies does indeed arise—but a sustainable solution to absence of democracy does not lie in giving representation to civil society in an inter-governmental organization. The notion of democracy in its decision-making process has no meaning, but transparency certainly has.

Third, the dispute settlement system of the WTO is ultra-legalistic in contrast to the political system of GATT. There are pros and cons for either system. However, an effective

access to a legalistic system depends on being able to hire expensive legal expertise, which poor members may not be able to do without assistance. Also, the quality of the jurisprudence of the system would be compromised if it is overloaded with too many disputes, as seems likely. One unfortunate consequence has been the clamour to bring into the ambit of WTO, based on the successful inclusion of TRIPS, other issues such as labour standards, environment, etc., not because of their trade relatedness, but only because of the availability of WTO's dispute settlement system to enforce disciplines through trade sanctions. China and India should explore and propose better alternatives to the present system.

It is well known that the only economic rationale for dumping, namely predation, is no longer plausible, if it ever was. Still, ADMs have been the preferred instruments of protection for various reasons (Srinivasan 2002). The US and EU have long been frequent users of ADMs, and developing countries such as India have now begun to use them extensively. India is now a major user, in particular against imports from China. For example, during 2001-02 (July-June), in all 309 ADM investigations were initiated, of which as many as 76 were by India, followed by the US (58), Argentina (26), and the EU (23). China initiated none in this period but was the affected exporter in 46 of the investigations. At the end of 30 June 2002, there were in all 1,189 ADM measures in force, of which 150 were accounted for by India and only 17 by China. The US alone accounted for the largest number, 264, followed by EU's 219 (WTO 2003b, Tables III.5 and III.6). ADMs are the most distortionary and discriminatory among protectionist instruments. Messerlin (2003) provides a comprehensive and thorough discussion of ADMs from the perspective of China's options in the WTO. Since other less distortionary means, such as safeguards measures, are allowed by WTO rules, ADMs are neither necessary nor desirable. China and India should propose repealing the articles of WTO dealing with ADMs.

Let me conclude. China and India have a lot to gain, both from trading with each other and cooperating in the WTO. Each can learn from the other's policies, their successes and failures. In this paper, I have confined myself to a subset of economic issues without touching on other common concerns, such as privatization of SOEs, reforms of the labour market (e.g., dealing with the "hokou" system in China and labour laws in India), financial sector reforms and, above all, political reforms. At the risk of sounding chauvinistic and naive, I would argue that, from the functioning of a vibrant, but somewhat chaotic, participatory democracy in India, China can learn a lot. After all, as the Chinese become richer and economically free, they are likely to demand personal and political freedoms. Hopefully, the Communist Party of China will anticipate and accommodate such demands, as it seems to have started doing.

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**Table 1**  
**China's and India's Participation in World and Major Export Markets**

<b>World Markets</b>								
		1978– 1981	1982– 1984	1985– 1987	1988– 1991	1992– 1994	1995– 1997	1998– 2000
<b>China</b>	Garments	3.93	6.93	8.74	14.95	18.78	19.70	20.45
	Fabrics	5.15	7.48	8.28	8.25	7.87	8.87	9.36
	Leather and leather manufactures	0.41	0.61	0.75	2.55	2.94	4.07	4.82
	Jewelry	1.13	1.05	1.36	2.69	5.97	7.14	9.48
	Others	1.07	1.93	3.27	7.73	14.6	16.9	18.1
<b>India</b>	Garments	3.95	3.43	3.46	3.82	4.40	4.97	5.27
	Fabrics	2.04	1.38	1.45	1.43	1.99	2.10	2.42
	Leather and leather manufactures	8.85	7.45	7.13	5.52	4.03	3.42	3.44
	Jewelry	0.61	1.02	1.40	2.18	2.21	2.97	4.61
	Others	0.31	0.24	0.20	0.25	0.29	0.30	0.31
<b>North American Markets</b>								
		1978– 1981	1982– 1984	1985– 1987	1988– 1991	1992– 1994	1995– 1997	1998– 2000
<b>China</b>	Garments	3.73	8.00	8.81	13.19	21.30	21.42	20.59
	Fabrics	3.73	5.31	5.61	5.66	6.25	5.84	6.52
	Leather and leather manufactures	0.14	0.45	0.49	2.57	6.67	7.65	8.44
	Jewelry	0.50	0.42	0.25	1.77	3.99	5.51	8.13
	Others	0.72	1.51	2.98	9.92	20.89	25.62	26.57
<b>India</b>	Garments	4.89	4.14	4.12	4.60	5.80	5.56	5.34
	Fabrics	6.02	2.64	2.69	2.98	4.62	5.93	5.73
	Leather and leather manufactures	9.38	8.89	6.51	4.09	3.05	2.33	2.05
	Jewelry	0.39	0.83	1.34	2.46	4.57	7.01	9.60
	Others	0.19	0.11	0.14	0.22	1.28	1.09	1.01

<b>Table 2 European Markets</b>								
		1978– 1981	1982– 1984	1985– 1987	1988– 1991	1992– 1994	1995– 1997	1998– 2000
<b>China</b>	Garments	1.84	2.40	3.15	6.25	10.04	10.34	11.80
	Fabrics	1.54	2.15	2.08	1.78	1.70	2.05	2.92
	Leather and leather manufactures	0.33	0.37	0.31	0.86	1.14	1.27	1.89
	Jewelry	0.47	0.26	0.51	1.41	3.07	4.08	5.97
	Others	0.40	0.71	1.22	2.94	6.41	6.76	7.99
<b>India</b>	Garments	3.90	3.47	3.61	4.26	5.39	6.00	4.65
	Fabrics	1.54	1.18	1.30	1.60	1.99	2.28	2.26
	Leather and leather manufactures	9.90	8.51	8.26	7.65	7.45	7.09	6.12
	Jewelry	0.88	1.23	1.59	1.91	2.60	3.39	4.28
	Others	0.33	0.27	0.22	0.29	0.86	0.87	0.71

Sources: United Nations, Comtrade Data Base (New York: United Nations Statistical Office, 2001). “Garments” refers to the three-digit SITC categories 843, 844, 848; “Fabrics” to 652, 653, 654, 657; “Leather” to 611 and 612; Jewelry to 897; and “Others” to categories 764, 778, 842, 847, 851, 893, 894. I thank Francis Ng of the World Bank for providing the data.

**Table 3**

**Regional Disparities of Income Per Capita: China  
(at current prices in US dollars)**

	<b>1990</b>	<b>2002</b>
<b>Urban</b>	316	930
<b>Rural</b>	144	299
<b>Rural Income as a percent of urban</b>	45	32
<b>Coastal Region</b>	481	1857
<b>Shanghai</b>	1184	4020
<b>Western Region</b>	240	596
<b>Guizhou</b>	167	373

Source: IMF (2003), page 354

**Table 4**

**Regional Disparities in Growth and Poverty: India**

<b>High Poverty</b>		<b>Low Growth</b>			
<b>1999-2000</b>		<b>1980-81 – 1990-91</b>		<b>1991-92 – 1998-99</b>	
Orissa	41.4	Madhya Pradesh	2.08	Bihar	1.27
Madhya Pradesh	37.9	Kerala	2.19	Uttar Pradesh	1.28
Bihar	33.8	Orissa	2.38	Orissa	2.08
Uttar Pradesh	30.4	West Bengal	2.39	Haryana	2.85
Maharashtra	28.1	Bihar	2.49	Punjab	2.93
<b>Low Poverty</b>		<b>High Growth</b>			
<b>1999-2000</b>		<b>1980-81 – 1990-91</b>		<b>1991-92 – 1998-99</b>	
Himachal Pradesh	4.5	Rajasthan	3.96	Gujarat	6.73
Punjab	6.3	Tamil Nadu	3.87	Maharashtra	6.19
Delhi	6.5	Haryana	3.86	Tamil Nadu	4.78
Assam	8.3	Maharashtra	3.58	Kerala	4.35
Haryana	9.5	Andhra Pradesh	3.34	Karnataka	4.08

Sources: Poverty Estimates: Deaton (2003), Table 2, 55<sup>th</sup> Round Adjusted Estimates  
 Growth Estimates: Ahluwalia (2002), Table 3.2

## Appendix I

### MEMBERSHIP OF THE G-20

#### Pre-Cancún

Argentina	Guatemala
Bolivia	India
Brazil	Mexico
Chile	Pakistan
China	Paraguay
Colombia	Peru
Costa Rica	Philippines
Cuba	South Africa
Ecuador	Thailand
El Salvador	Venezuela
Egypt*	Kenya*

\* not formally members, but supportive of G-20 text