

**USAID ECONOMIC GROWTH OFFICERS CONFERENCE  
OCTOBER 15-19, 2007  
WASHINGTON, D.C.**

Session Title: Impact of Rapid Growth in China and India on Other Developing Countries

Date and Time: October 15, 2007, 2:30pm – 3:45 p.m.

Type of Session: Breakout

Speaker(s): Prof. Carl Dahlman, Georgetown University

Moderator: Don Sillers

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**Overview of Session:**

The rise of China and India as economic powers, their paths to economic growth and increasing geopolitical influence is changing and will continue to change the consensus about how economic development can and should best be attained. Both countries will begin to affect the thinking of other development countries about models and approaches to development that are likely to test the Washington consensus. But, while both countries present new models to development, they both remain very poor countries and face and pose important challenges along with the opportunities they present to the rest of the world. Prof Dahlman presented the parallels and differences between these two emerging economic and political giants, contrasted their strengths and challenges, and discussed the challenges and opportunities both presented to the rest of the world. He made projections, particularly of where China would be in the ranking of economic powers within the next 5-10 years, and identified lessons from both the Chinese and Indian experiences. He completed his presentation with a discussion of four development policy challenges arising from these two countries.

**Speaker's Remarks:**

A key parallel between China's and India's economic development is that both missed the Industrial Revolution and both have had a history of difficult relationships with the West. They differ, though, in the type of government, their strategies for development, and the focus on industry in China versus services in India. China has had a savings and investment orientation. India has had a consumption orientation. India has had a long history of closure to trade, while China has recently been open to trade. India focuses on higher education, while China has emphasized basic education.

China's strengths include the following: Poverty has been declining, there has been a long growth period and it is deeply integrated (supply chains) into the global economy. Its challenges are primarily that it is resource poor, it has huge problems with pollution and water supply as well as desertification and increasing inequality. The dependence of China's employment growth on trade is another challenge for China's continued economic well-being.

India's primary strength, economically, is its strong service sector in an era where services are becoming increasingly important. Its challenges include very poor infrastructure of all kinds, high inequality, political stresses and weak basic education, which compounds the inequality that is inherent in its caste system. India's economy is prone to manipulation and being captured by vested interests.



Professor Dahlman addresses workshop attendees. Photo by Paul Goodman.

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The rise of India and China present opportunities and pose challenges to the rest of the world (ROW). The principal challenges are how these two economic giants will handle their growing economic weight, what kind of pressure they will place on trade adjustments, changes they are likely to cause as a result of their geopolitical clout in the battle for “hearts and minds,” and their ever-increasing environmental footprints. The opportunities that China and India afford the rest of the world include the impact of their growth on demand for products from the ROW, the fact that they represent new dynamic economic engines. Both provide sources of innovation and competition that other producers can learn from and use to improve their own productivity and competitiveness. They also reinforce a multi-polar world.

Both countries are already providing lessons to developing countries seeking to accelerate their economic growth and development. Lessons from China include the importance of foreign direct investment (FDI) (60% of China’s exports are produced by multi-national corporations), emphasis on education, research and development and reverse engineering to understand and replicate new technologies, a focus on IT to reduce transactions costs, and very, very strong logistics to meet the increasingly demanding world supply chains. China has also implemented its reforms slowly, in “bits and pieces,” it has emphasized high labor intensity initially and then a move up the value chain.

India has seen a payoff in places like Bangalore to early investment in higher education. ICT was able to take off as dramatically as it did because it was new and one of the few sectors that was not over-regulated. The recent opening up of the economy to FDI and other foreign investment has continued the ICT development boom, and entrepreneurship, which was long repressed, is being increasingly embraced.

**Key Points Discussed During Question & Answer Segment:**

Q. What about human rights? The Chinese model seems to avoid the issue of human rights

A. True that Chinese model does not emphasize human rights. They are going to promote their national interest, right now focusing on growth and employment. They also seek, however, stability, which will affect ultimately how they deal with human rights issues.

Q. What about sheer size of these countries in terms of population and economies? Does that make it more difficult to deal with human rights issues?

A. Yes, size matters. China is too big to “push around.”

Q. Both India and China have used their military industrial complexes to generate much of the technology that supports their growth and development. Is that a good model?

A. The military is not the only way to improve and gain new technology

Q. Is the benefit of India’s growth trickling down to the “lower half” (or greater) of India’s socioeconomy?

A. No, it is not. Note also that only 10% of labor force is in the “organized sector.” 90% is in the informal sector and often engaging in subsistence activities

Q. How will China’s 250 million “reserve army of labor” affect wages in China?

A. There is upward pressure on wages in China, but the “gigantic reserve army” will keep wages down

Q. Chinese growing influence and involvement in Africa is bringing about some amount of de-linking and competition to the Euro- focus that has predominated in Africa. How should this be seen?

A. It is increasing competition in Africa for commodities and for winning the hearts and minds

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Q. How is China likely to play its economic leverage with US deficits, given its huge investments in US government bonds

A. The relationship is interdependent. China is “the ATM for US”. Its exchange rate policy will be to devalue slowly, gradually. Also it has established a mammoth investment fund that will soon be on a buying spree

**General Remarks or Comments Worth Noting:**

- Education models in India and China have been dramatically different. China has invested heavily in basic education while India has invested primarily in elite higher education. India has, consequently, a poor primary education system.
- Inequality in both India and China is growing. China’s gini coefficient has gone from .33 to .47 and India’s gini is 0.33
- China’s economy will surpass Japan by 2018 (measured by constant \$)
- China’s economy will surpass US by 2010 (measured by purchasing power parity)
- China will be the largest merchandise exporter by 2010
- 60% of China’s merchandise exports are produced by multinational corporations