

# Comments on Professor Panagariya's Paper on "India and China: Past Trade Liberalization and Future Challenges"

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# Major Economic Indicators of India versus China

	Unit, Period	China	India	India/China, %
Level of Economic Development				
Per Capita GDP	\$, 2005	1703	723	42.5
Human Development Index	Global Ranking, 2004	81	126	-
Economic Growth				
GDP Growth Rate	%, 1979-2005	9.7	5.5	56.7
GDP Growth Rate	%, 2001-2005	9.5	7.0	73.7
Market Size				
Population	billion, 2005	1.3	1.1	84.6
GDP	billion dollars, 2005	2200	800	36.4
Global Links				
Share of World Trade	%, 2005	6.7	1.1	16.4
Exports	billion dollars, 2005	762	95	12.5
Imports	billion dollars, 2005	660	135	20.5
FDI	billion dollars, 2005	72.4	6.6	9.1
Investment Climate				
Inward FDI Potential Index	Global Ranking, 2004	33	82	-

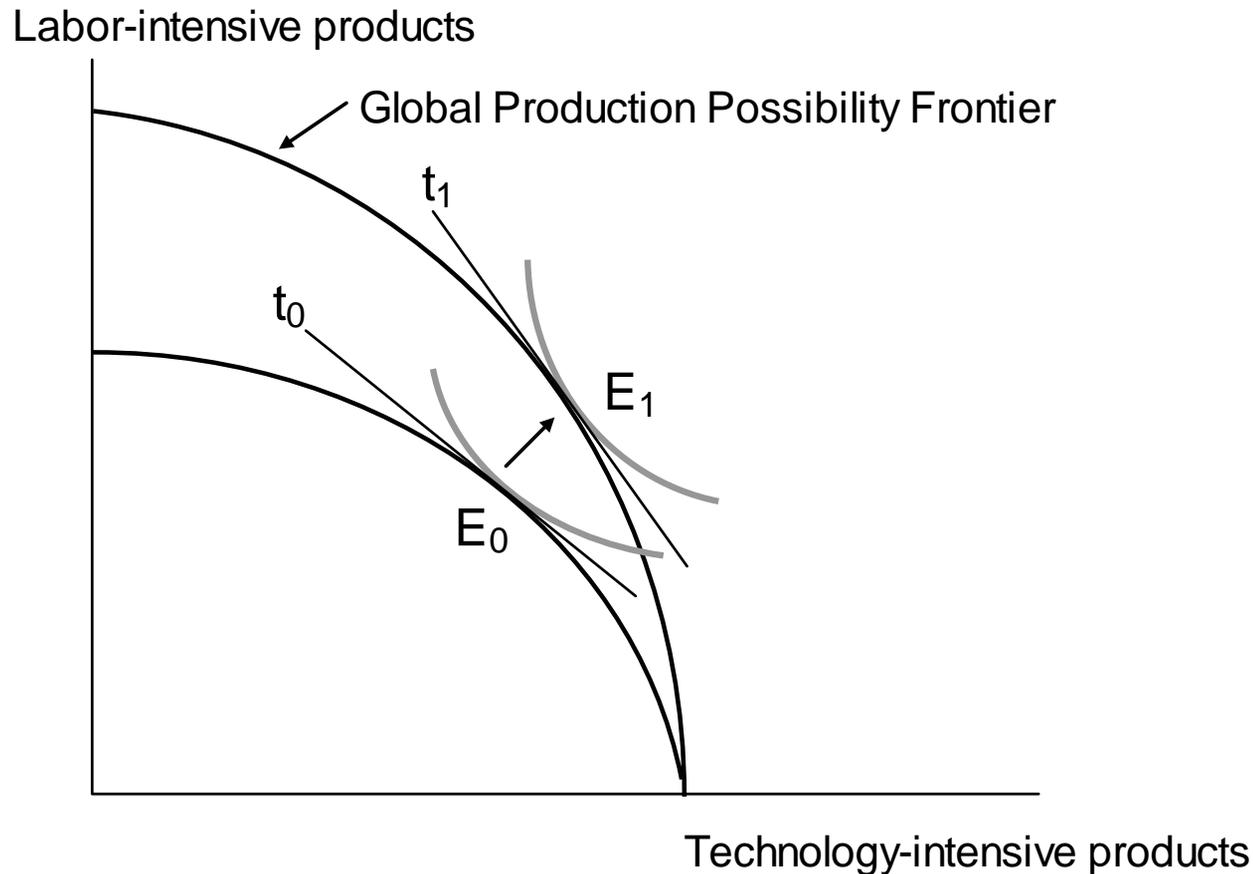
Sources: Official statistics of China and India, UNDP (human development index), WTO (share of world trade, exports and imports), UNCTAD (FDI, inward FDI potential index)



# Pro-comparative Advantage versus Anti-comparative Advantage Strategy

- Difference in strategy explains
  - Why China has outperformed India
  - Why economic growth in India has accelerated in recent years
  - Why economic growth in China has been much higher in the post-reform period
- Like India, China pursued an anti-comparative advantage strategy until the late 1970s
- China turned to a pro-comparative advantage strategy since the late 1970s
- Reform: Integration of China into the global economy according to comparative advantage (*The China Miracle: Development Strategy and Economic Reform*, Professor Justin Lin, Peking University)
  - Liberalization of trade and FDI
  - From plan to market

# Changes in Production and Relative Prices Resulting from the Rise of China

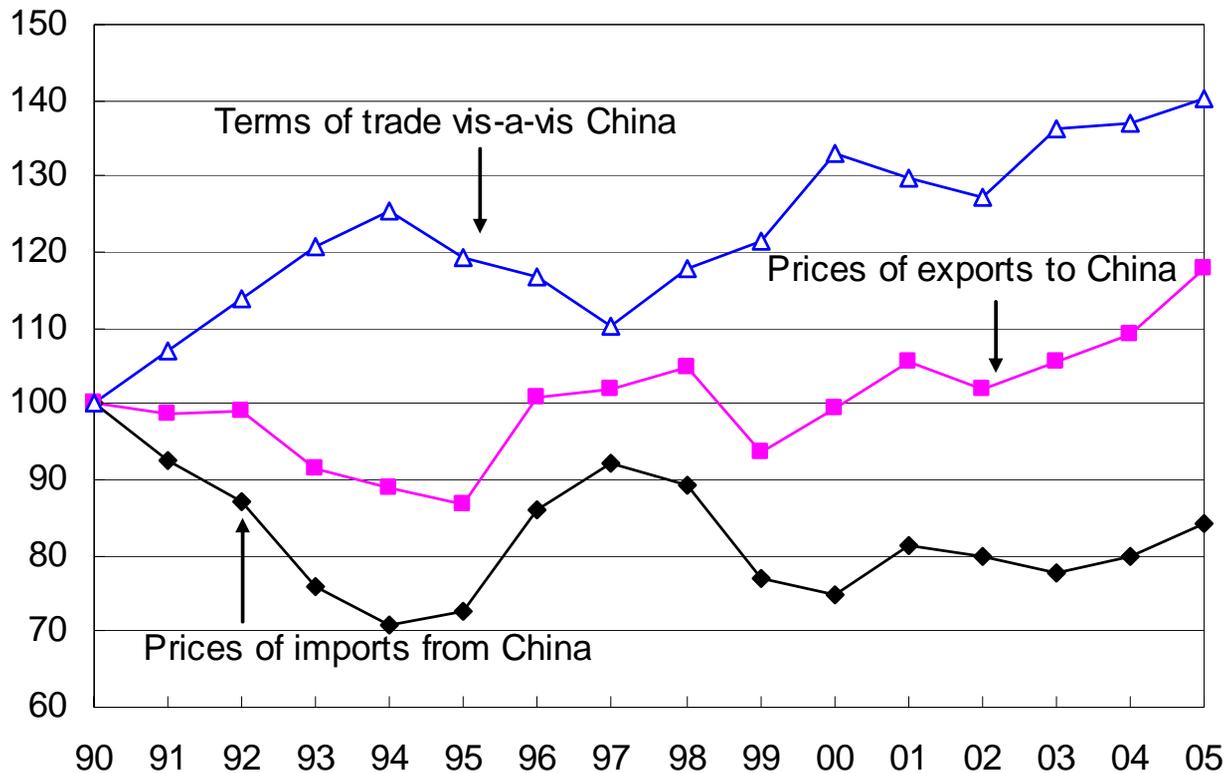


# Immiserizing Growth?

- Whatever China buys becomes more and more expensive
- Whatever China sells becomes cheaper and cheaper
- Deterioration in China's terms of trade (real exchange rate)
  - Slow growth in real wage and sharp depreciation of the RMB in real terms, despite rapid economic growth (absence of Balassa-Samuelson effect)
  - Japan's terms of trade versus China have improved sharply over time
- Should China introduce an “optimal tariff” to maximize its gain from trade?

# The Improvement in Japan's Terms of Trade vis-a-vis China

(1990 = 100)



Source: Japan Tariff Association.



# Criticism of FDI Policy by “New Left”- Latin Americanization of China?

- Exploitation of Chinese labor – China as the sweat shop of the world
- Exploitation of Chinese consumers -- Monopoly pricing by foreign firms
- Exploitation of China’s environment – China as a pollution haven
- Swapping market for technology or losing market without gaining technology?
- Automobile – South Korean model versus Brazilian model
- Foreign companies pay lower corporate tax rates than Chinese companies and enjoy tax holidays
- Chinese companies demanding national treatment in their home market
- China is ready to reduce preferences (tax preferences) granted to foreign companies
  - Differential tax rates applicable to domestic and foreign firm will soon be unified

# China-India FTA?

- Chinese perspective
  - China is a major trading partner of India (second largest trading partner, 7.8% of total trade)
  - But India is not a major trading partner of China (accounting for only 1.3% of total trade)
- Better for China to form FTA with Japan
  - Japan is China's third largest trading partner after US and EU, accounting for 13.0% of total trade
  - China is Japan's second largest trading partner after the US, accounting for 17.0% of total trade
  - Strong complementarity between the two countries favors trade-creation
  - China and Japan together account for more than 80% of East Asia' GDP
  - China-Japan FTA should pave the way for a pan-East Asian FTA
- Domestic FTA
  - Unified domestic market for goods and services, labor and capital
  - Reforming the household register system to enhance labor mobility
  - Promotes efficiency and reduces regional income disparity