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China and India in the Changing Global Economic Order

Paola Subacchi

Head, International Economics Programme
Chatham House

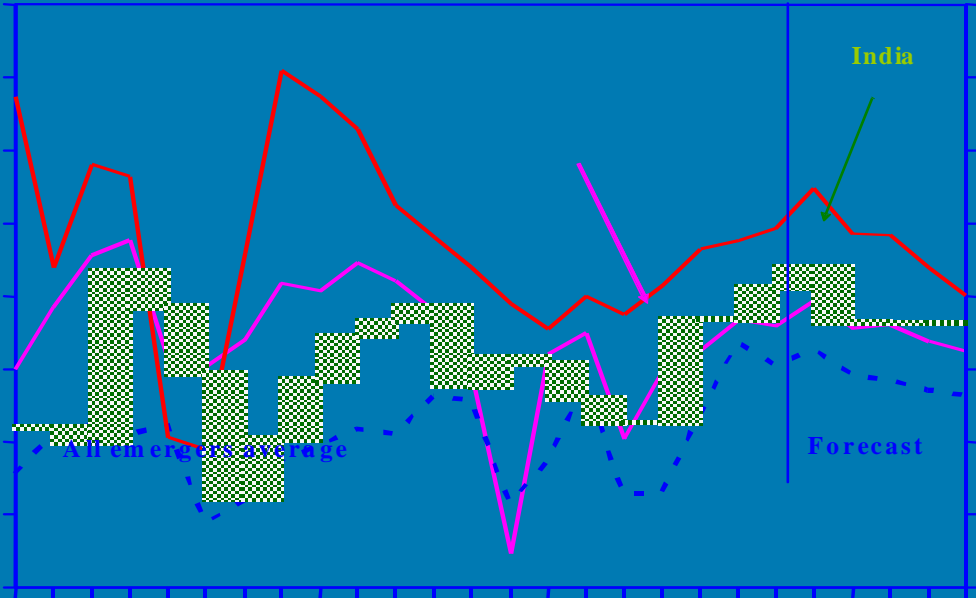
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Outline

- The Asia century?
- New poles in the global economic order: China and India
- Risks and points of pressure
- A new global balance of power?



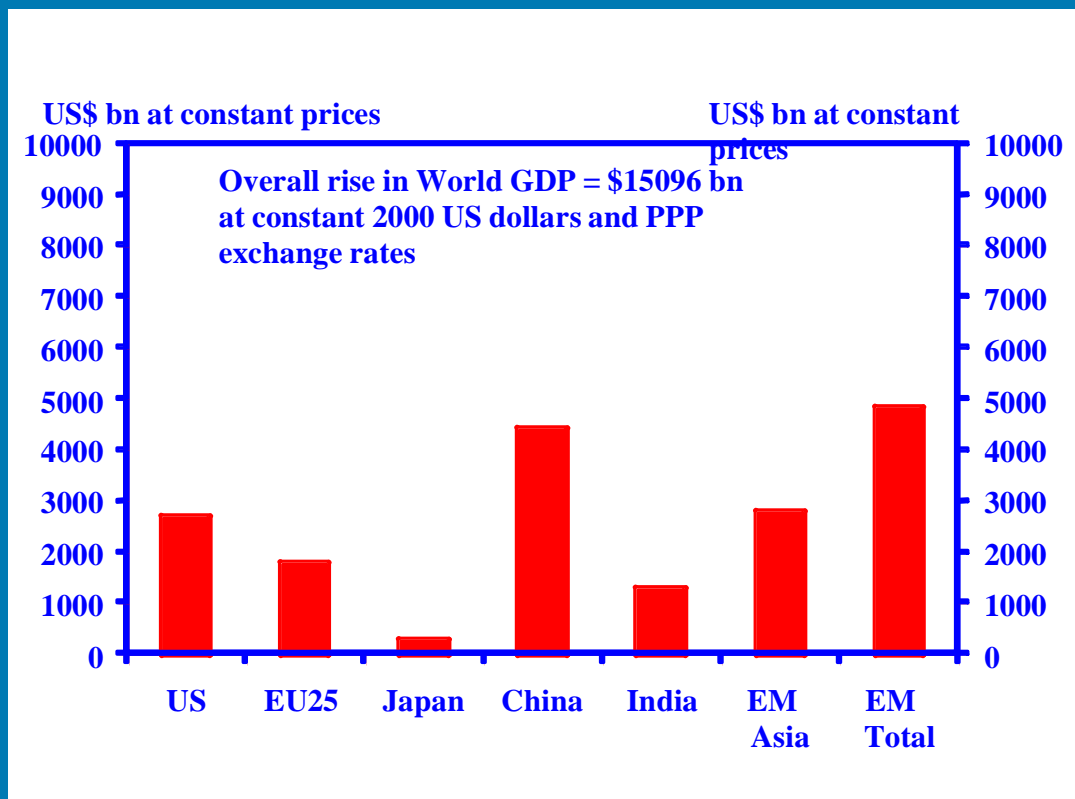
Emerging markets: GDP growth



Source: OEF



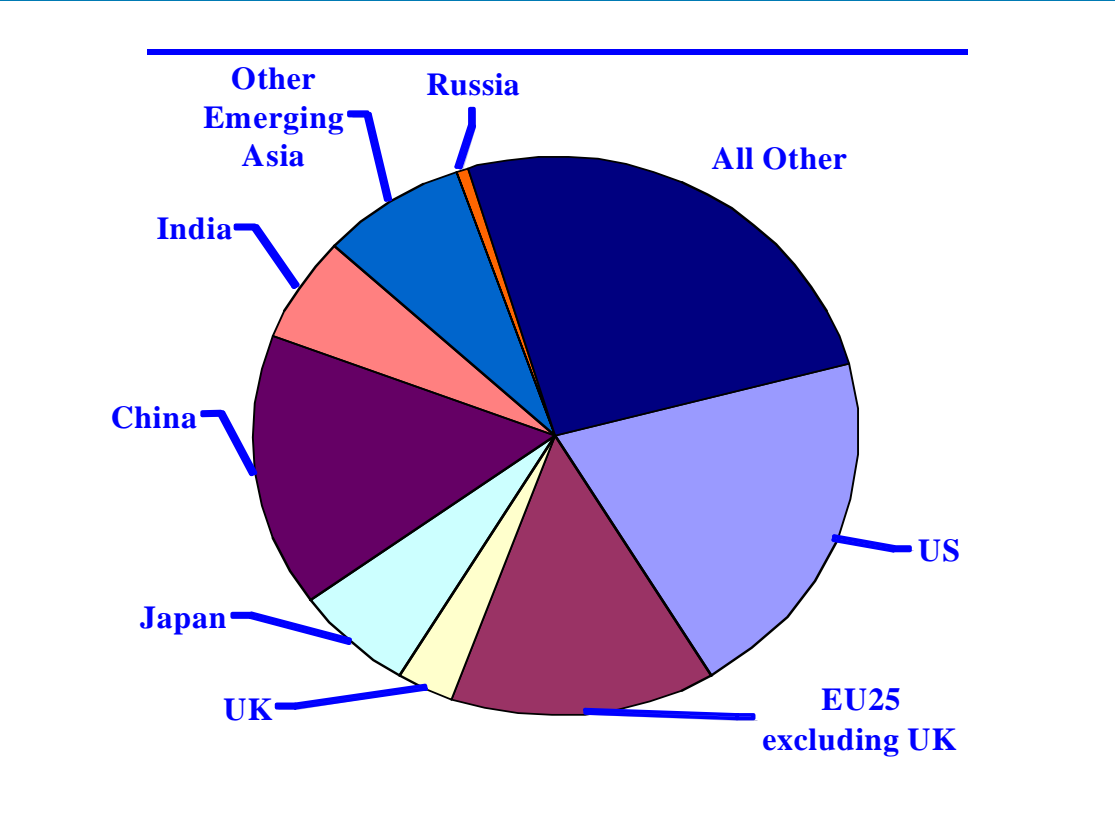
World GDP increase, 1996-2005, PPP terms



Source: OEF



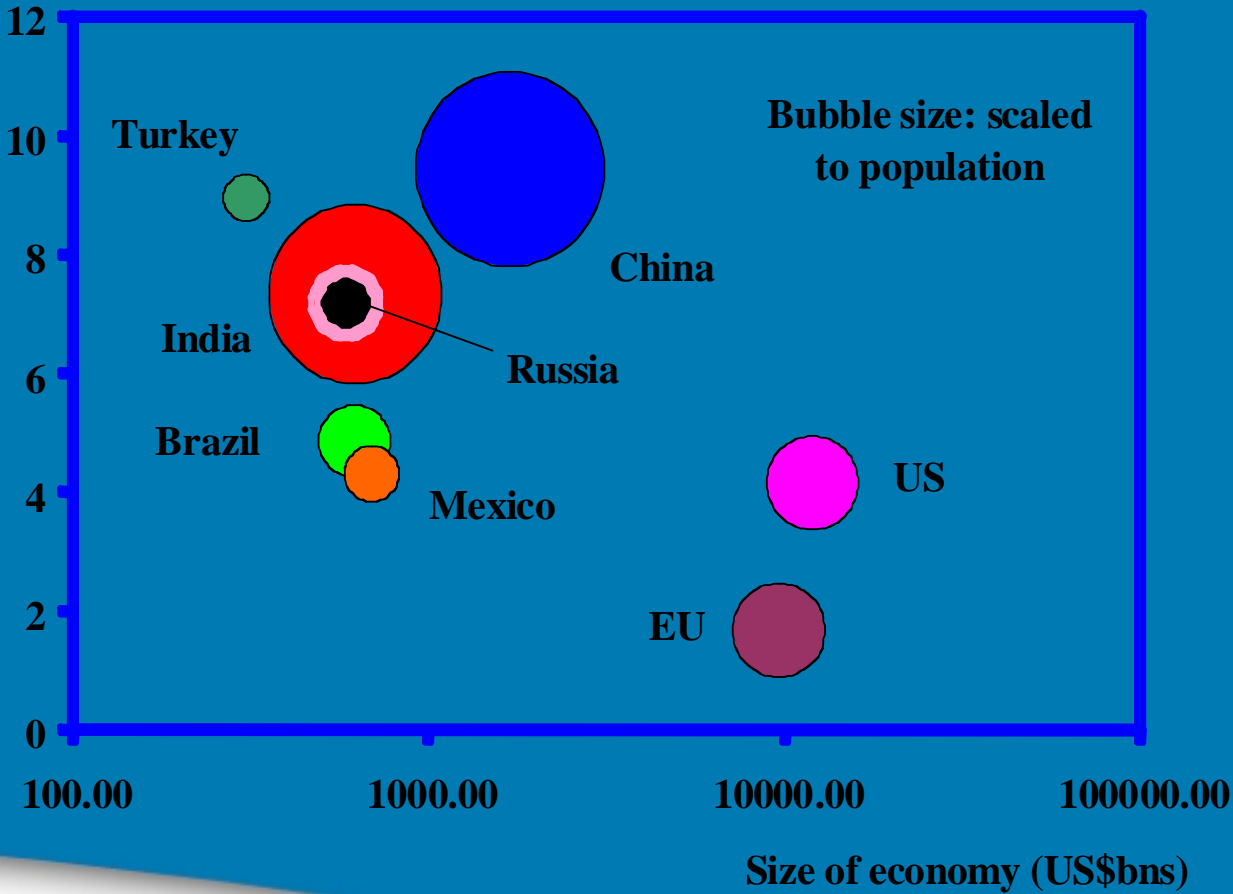
Global GDP at PPP, 2005



Source: OEF



World Growth League



Source: OEF

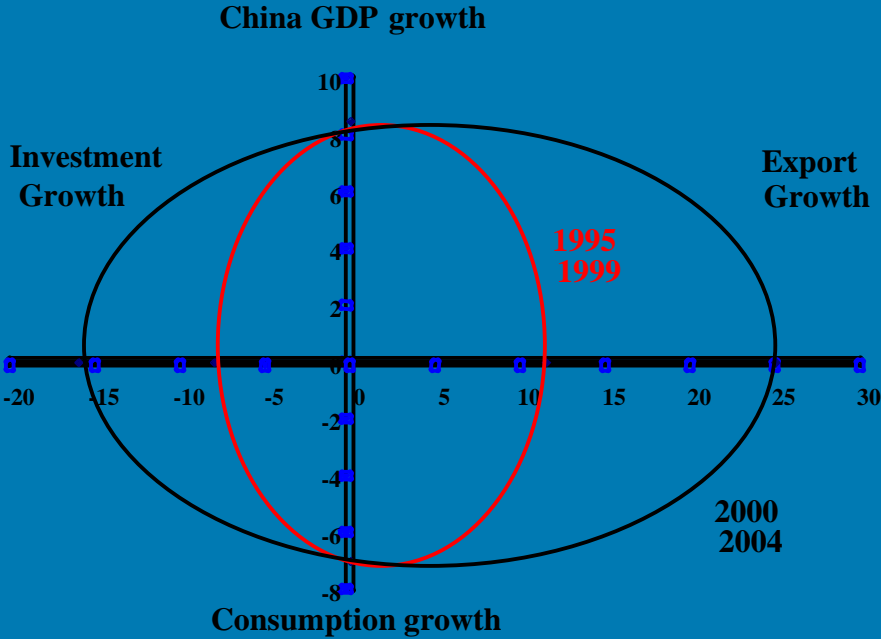


China, India and the rest of Asia

<i>US\$ per cap</i>	<i>1980</i>	<i>2004</i>
India	245	600
China	310	1275
Thailand	700	2600
Korea	1620	14000
Taiwan	2650	13500
Japan	9150	36500
<i>US</i>	<i>12250</i>	<i>39900</i>



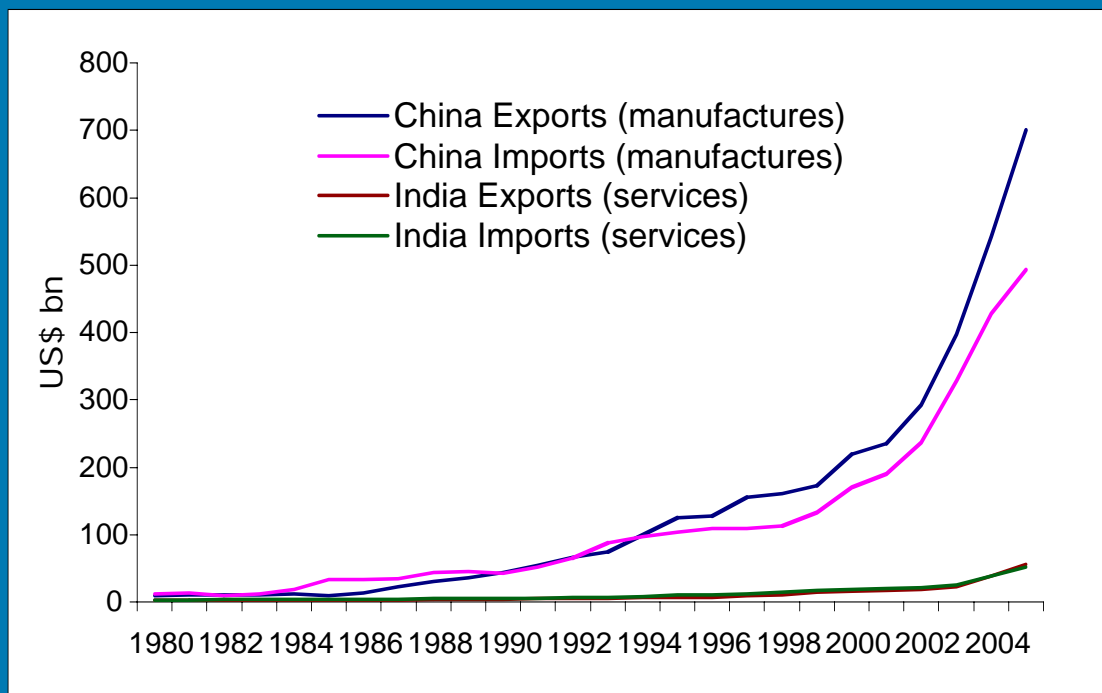
China's growth path



Source: OEF



China and India trade with the world



Source: WTO

Trade flows, EU25, China and India

	€bn	
	2000	2005
EU25 exports to China	25.7	51.8
EU25 imports from China	74.3	157.9
Trade balance	-48.6	-106.1
EU25 exports to India	13.6	21.1
EU25 imports from India	12.8	18.9
Trade balance	0.8	2.2
EU25 total exports	857.8	1070.8
EU25 total imports	995.9	1176.5
Trade balance	-138.1	-105.7

Source: Eurostat

Why concern over China trade?

- Most of China's gains in US and EU markets have been at the expense of the rest of Asia
- Asia's share of world trade (about 30%) has hardly changed in 15-20 years
- Asia's share in US and EU imports has hardly changed – in the US it even fell slightly (under 40%) after Asian crisis due to lower prices
- China dominates some sectors but this implies such exports cannot grow faster than total global demand

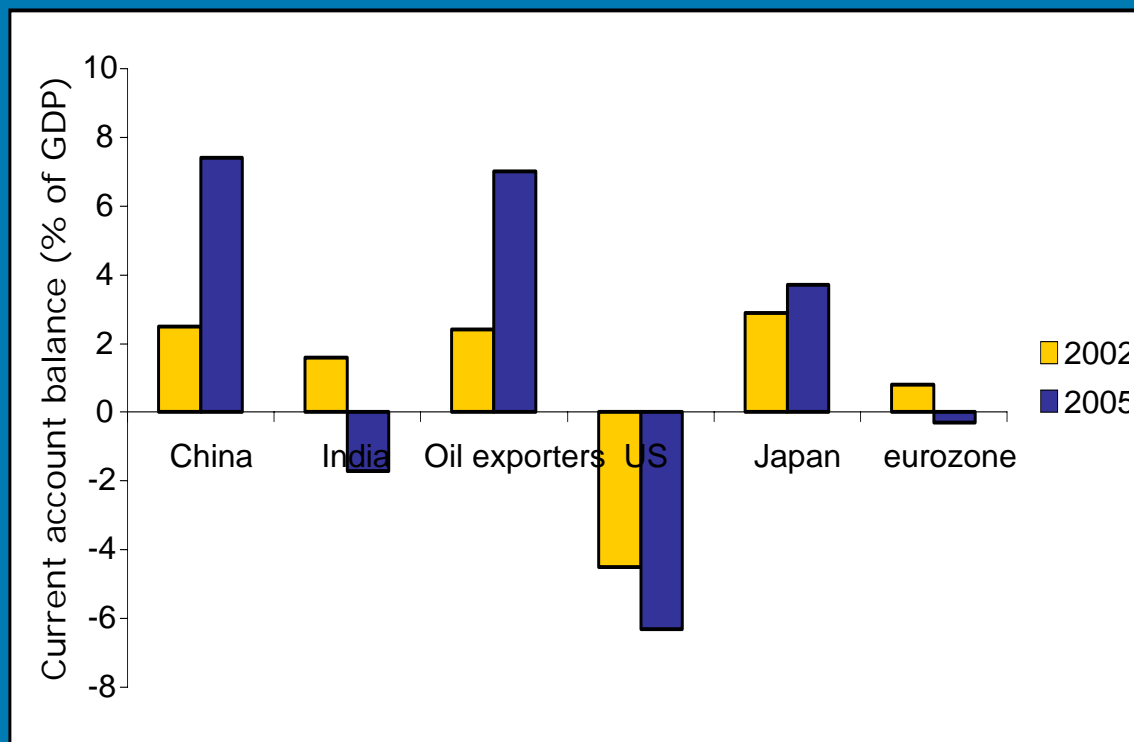


Not a zero-sum game

- Although China has gained share in the US and EU markets chiefly at the expense of the rest of Asia – its trade surplus with the US and EU has risen
- Asian exporters and raw material suppliers have gained most from China's rising imports
- EU has done better than US in exporting to China - and US has also lost share in the EU market
- China's trade pattern implies benefits for developing countries, including OPEC

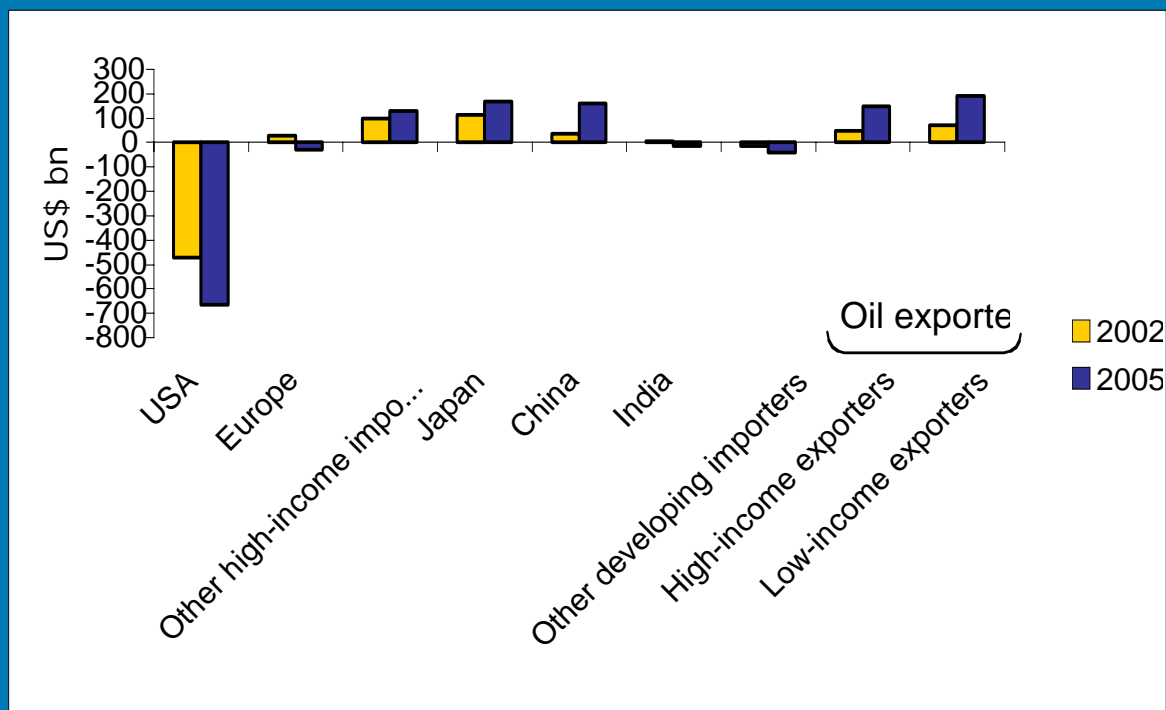


Current account balance as % of GDP



Source: OEF database

Current account balance, US\$bn

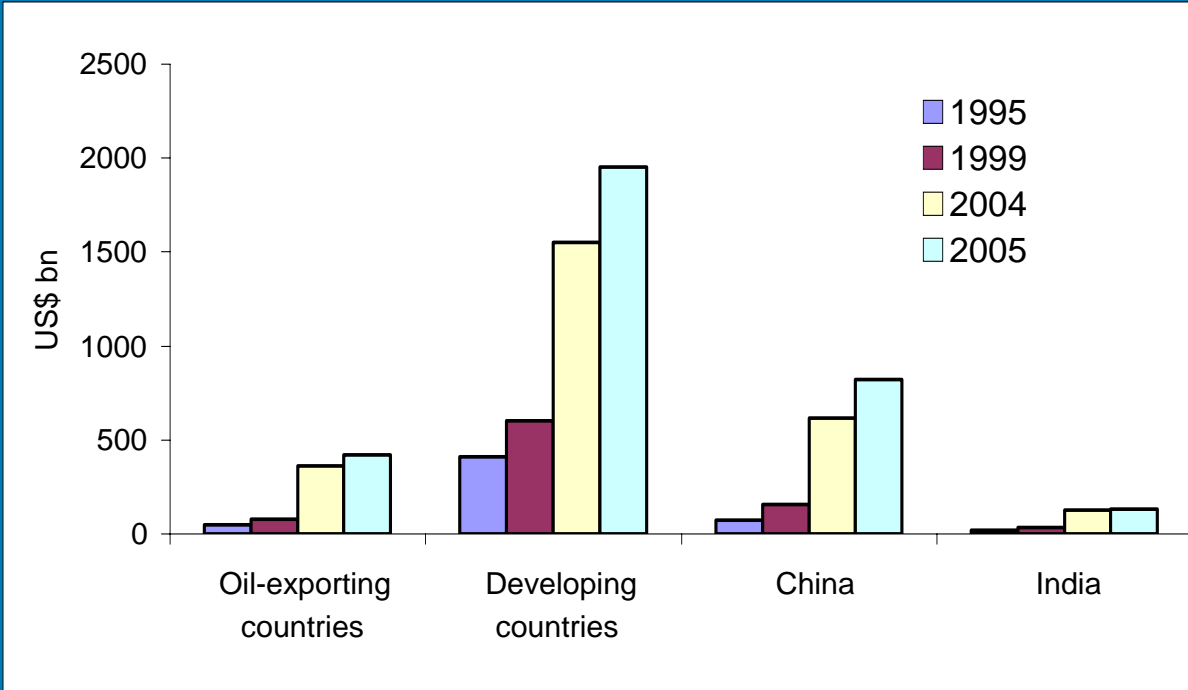


Source: World Bank

Capital flows yet to come

- So far the issue has been rising FX reserves
- But China needs to reduce the risks caused by high domestic savings being bottled up in local deposit accounts – fuelling investment bubbles
- Prospect of private capital flows
- But where will these go?
- Some FDI flows may go to developing countries – but portfolio flows are likely to focus on major markets

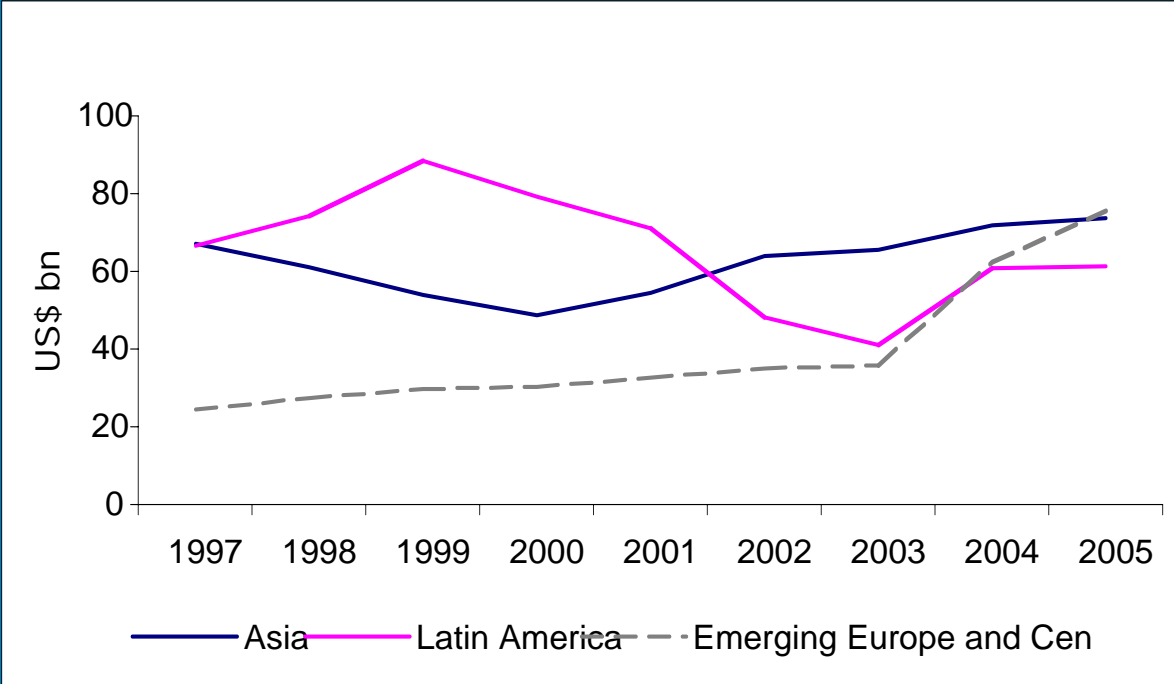
Foreign exchange reserves by region, US\$bn



Source: World Bank, OEF database

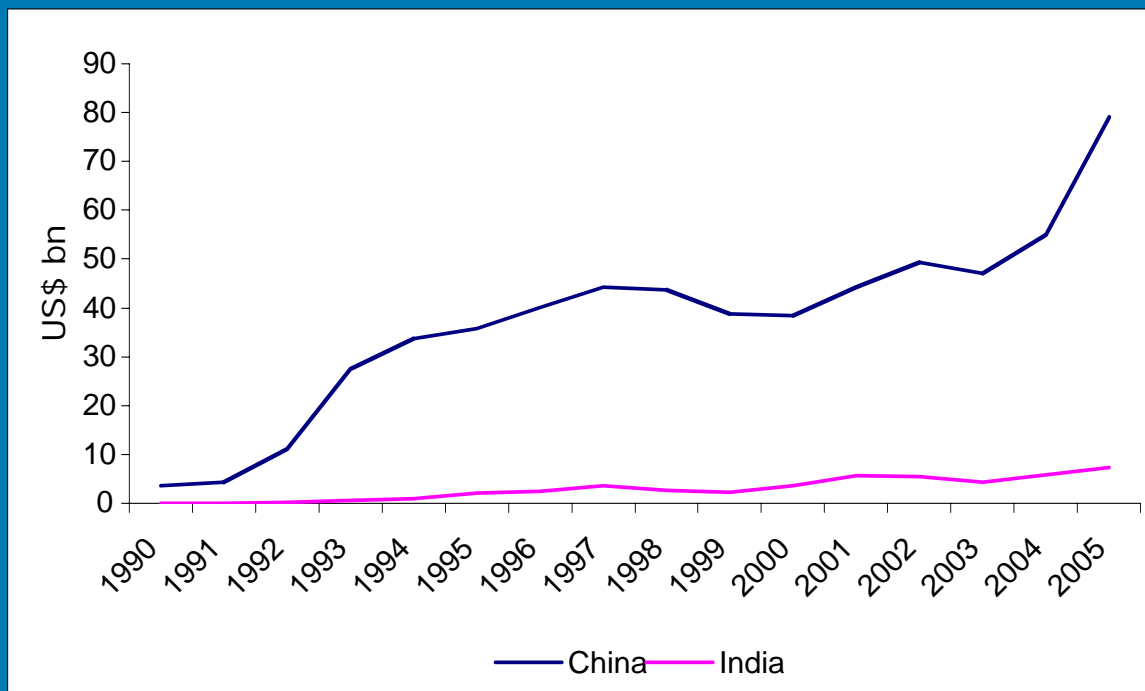


FDI inflows by region, US\$bn



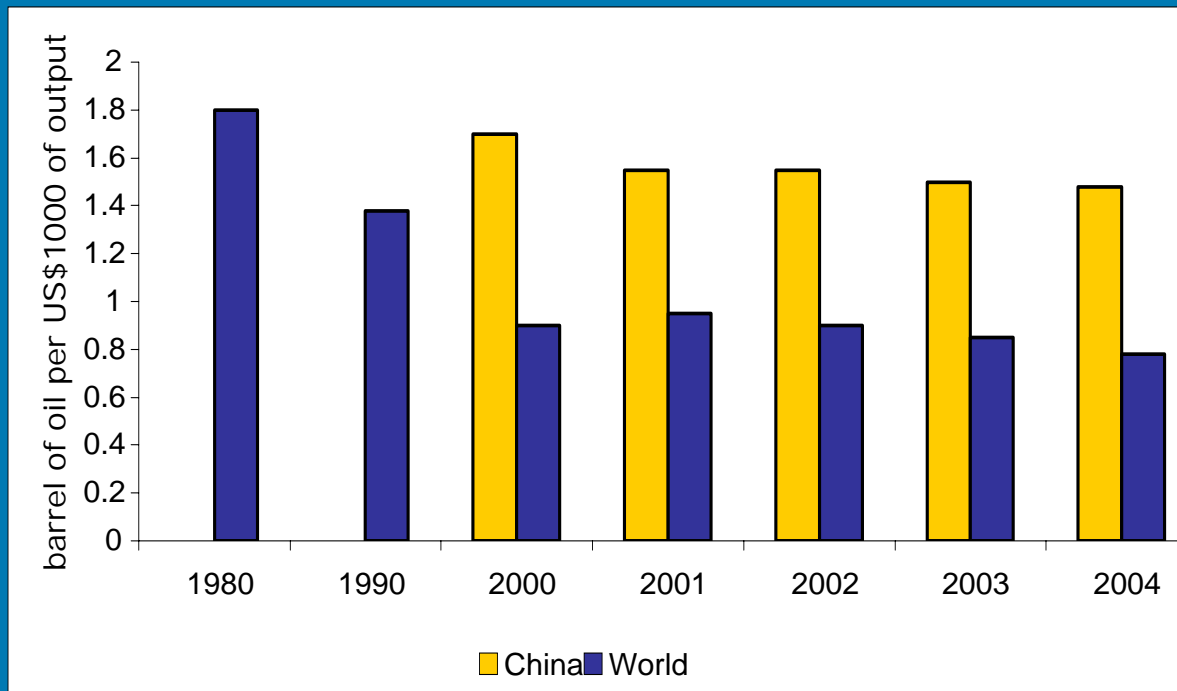
Source: World Bank, OEF database

China and India: net inward FDI, US\$bn



Source: OEF database

Oil intensity, China and the world



Source: Shell

China's commodity demand

Chinese demand as a % of world output

	1996	2000	2004	2008	2012	2015
Cars	0.9	1.8	6.5	9.9	15.8	22.2
Steel	13.1	16.1	30.0	38.2	45.5	50.7
Iron ore	16.9	27.3	39.0	51.7	59.1	64.1
Aluminum	11.6	17.1	26.8	32.8	37.3	40.2
Copper	7.3	16.4	22.0	24.8	28.7	32.0
Cotton	21.9	23.1	32.4	37.7	43.4	47.6
Oil	5.0	6.2	8.0	9.4	10.6	11.9
GDP (MER)	2.8	3.3	4.2	5.0	5.8	6.4
GDP (PPP)	11.1	13.0	15.7	18.2	20.3	21.9

Source: OEF

Military power and economic power

	Estimated military expenditure, 2004, US\$ bn	% of global GDP, 2004
China	35	4.0
India	15	1.7
Indonesia	4	0.6
Japan	42	11.3
Pakistan	4	0.2
Russia	19	1.2
Turkey	10	0.7
United Kingdom	47	5.2
United States	455	28.5

Source: World Bank

China's role in Asia

- China more aware of Asia
- Intra-regional trade in emerging Asia doubled to about 41% of total trade in the last two decades
- The average total trade growth due to intra-industry trade growth rose from 42.5% in 1986-90 to 75% in 1996-2000
- Exports to China from Asia have risen dramatically, reaching 35% of total intraregional exports in 2004
- China is emerging as a regional assembly hub
- Unchanged reliance on demand from US, Europe and Japan
- China's size and growth have an impact on the region's demand



Thank you

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