IN THE NATIONAL INTEREST

China and India: Rise of the New Global Powerhouses

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For the last 15 years, the American economy has been the main driver of the world economy. From 1990 to 2000, 60 percent of total global growth originated in the United States. No wonder, then, that the falling U.S. growth rate has hit the world economy hard. Growth in the Eurozone and Japan has not taken up the slack. A semi-recession has cast its spell over the global economy.

China and India constitute the only bright spots with annual growth of about 7-8 percent for China and 5-6 percent for India, but separately these two economies have not been strong enough to pull the world economy out of the doldrums.

What we see emerging now is a closer Chinese-Indian economic relationship. It has been in the oven for some time but held back by traditional animosities in both countries, primarily India, bureaucratic opposition and sheer geographical distance visible by the Himalayas.

Chances are that, in the next decade, or two China and India will create an economic powerhouse of unprecedented magnitude and effectiveness. World politics and world economics will be forced to adjust with a speed and to a degree not seen before in human history. With 2.2 billion people, a fast growing middle class, rising purchasing power, confident political leadership and competitive world class enterprises these, two countries will dominate the world economy.

Measured in exchange rates, they together account for 12 percent of global GNP. The share is almost double if calculated on the basis of purchasing power parity (PPP), which for these countries is a better yardstick. Calculated in PPP, the Chinese economy is already the second biggest after the U.S. economy. India and China display high growth, a high savings rate, an entrepreneurial class, large population and an age pyramid supporting growth with 24.8 percent the population below 14 years in China and 33.1 percent in India. Both are quickly adjusting to the market economy even if the social fabric and political structure shelter some impediments to an open economy.

The figures, especially for China, are staggering. China now has more than 400 million television sets—imagine the market for replacement and upgrading- and about 470 million telephone subscribers, equally divided between mobile phones and fixed lines. It also has 18 million millionaires, equal to the population of Australia. As for India, mobile phones amount to 16 million; up 50 percent year-on-year and rising one million per month.

High-tech industries account for more than a fair share of this strong economic performance. China is second only to the U.S. with regard to mobile phones, has 75 million people having access to the internet and is the world's biggest producer of personal computers. India is among the leading software countries in the world, attracting foreign direct investment (FDI) not only in manufacturing, but also for research and development from high-tech leaders around the globe, including the United States.

If we look at the 200 largest companies among emerging economies, we find 11 from India and 18 from China. A study performed by Credit Lyonnais in 2000 ranks India sixth and China nineteenth among 25 emerging markets.

This augurs well for Chinese and Indian companies entering as newcomers in the global market place and, even more importantly, as true multinational companies. Some examples from China include China Mobile, China Telecom, Legend, and Sinopec, while from India there is Infosys, Wipro, Reliance, and Hindustan Lever.

However, China and India face one common challenge—the creation of a large number of new jobs every year to match the cohorts entering the labor market. If that challenge is not met, social unrest may start and, if so, the established political leadership will feel the ground slip from under their feet. This may be more acute and visible in China, albeit still characteristic for the situation in India. The political elite needs to justify their grip on power by creating jobs and the indispensable condition for that is economic growth. As the U.S., European and Japanese export markets do not any longer deliver new jobs, a drive for a combined Chinese/Indian market will emerge.

It is true that the two countries have traditionally nourished reciprocal suspicion and distrust. However, geopolitics after September 11, 2001 has changed that. Common political interests now overshadow this strange and defunct paranoia:

- They both want to be on friendly terms with the United States. but they do not want the U.S. to dominate Asia. By working together, they may curb rising U.S. influence without necessarily provoking a confrontation with the United States.

- China's power play--using Pakistan to irritate India--is out of date. Developments in the last two years have firmly established India's superiority on the Indian sub-continent. A more assertive and self-reliant India has managed to get sufficient room of manuever opening the door to a new relationship with China.

- They both face the threat of terrorism with roots in extreme Islamic thinking. India faces Pakistan, having to cope with the problem of Kashmir and more than 50 millions Muslims inside the country. China, with around 50 millions Muslims of its own in the western part of the country, is facing an autonomous movement in Xinjiang striving for an independent nation-state called East Turkestan.

Some people may fear that an Indian-Chinese entente might try to forcibly dominate the region. Maybe even worse, these two powers might go to war to eliminate the rival and establish supremacy in Asia. None of these scenarios are warranted if you analyze recent postures adopted by China and India. Neither are centralized empires. They are a conglomerate of individual nations, regions and ethnicities keeping their distance vis-à-vis the central government. SARS revealed many hitherto disregarded but known phenomena about China – one of them being that Beijing is not fully in control of the provinces. The central government is preoccupied with the task of keeping the nation together. Any distractions from domestic issues are most unwelcome. Risky foreign policy initiatives are simply not on the agenda.

The strong growth around these two countries will create stability and prosperity. A new kind of balance in Asia is coming to be sure, but it will not be one imposed upon the rest of the continent by military force or threats hereof. It will instead be a balance of power reflecting economic performance – an Asian system where all the siblings know their place in the family. If they adapt to this new hierarchy, stability will follow.

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