Welcome Competition Between China & India

By Hatakeyama Noboru

The Japan Economic Foundation conducted a joint study with two American think tanks, including the Chicago Council on Global Affairs, regarding the rise of China and India and its impact upon Japan and the United States. The fundamental findings of this study can be summarized as follows. "The high economic growth rate of China or India is not a threat to Japan or the United States. Rather, the slowdown of their economic growth will be a threat to us." In the 1990s, the US economy prospered, taking advantage of inexpensive Chinese goods and Indian services. Had it not been for those imports or outsourcings, the United States could not have enjoyed such a high growth rate for a long time without inflation. Japan also enjoyed inexpensive Chinese goods through imports and direct investments in China although Japan has not been able to make full use of outsourcings to India. Inexpensive Chinese goods greatly helped to reduce the cost of living and production in Japan.

Of course, there were some closures of local factories in Japan due to the surge of imported Chinese goods and some layoffs of white-collar workers in the United States due to increased outsourcings to India. However, it was a plus-sum game overall.

Therefore, what matters for Japan and the United States is the sustained high growth of the Chinese and Indian economies. There are many risks or problems down the road both for China and India.

Since there are so many risks for the Chinese economy, I assigned them letters alphabetically because otherwise I cannot remember them. "A" is appreciation risk of the *renminbi,* the Chinese currency. "B" is bad loans possessed by Chinese banks. "C" is corruption. "D" is democratization. "E" is energy and environment. "F" is farmers' riots. "G" is the gap between rich and poor and between coastal areas and rural areas. For the sake of space let me stop here regarding China's risks.

India has at least three problems. The first problem is the excessive protection of workers. Companies there cannot lay off workers without obtaining approval from the Indian government, even when they are operating with big losses.

The second problem is electricity shortage. More than 30% of electricity supply is stolen nowadays in India. In addition, tariffs on electricity are grossly distorted by populist politicians. For example, tariffs for farmers are one-tenth those for manufacturing. Therefore there are no incentives for new participants to enter the electricity business or for existing companies to make investments to increase their supply capacity.

The third problem is lack of industrial infrastructure such as roads and ports due to huge fiscal deficits of central and local governments.

These three problems have been preventing India from becoming a big manufacturing country. Instead, India has focused on the service industry, especially computer software. In 2004, the weight of the manufacturing industry to the total GDP of China was 53% and that of India was only 24% while the equivalent weight of the service industry of India was 53%.

Probably it is desirable for the Indian people that India becomes a big manufacturing country as well. But will it also be good for other people, including us ? I think it will be better for us too. China and India will be economic giants within the next 20 years. If we can see competition between China and India both in terms of the manufacturing and service industries, it will be in the interest of the rest of the world.

At the same time, however, what we should take into consideration is the impact of a fierce competition between China and India upon the market mechanism and the global environment. They may compete trying to acquire as many resources as possible. As long as such competition is conducted based on the market mechanism, it should not be blamed. However, if the government of either country or both support or participate in the competition, it will distort the markets for natural resources, including oil and ores. In addition, we must at least watch very carefully the possible contamination of the globe as a result of this competition. If per capita possession of passenger cars in China and India and their utilization were to be equal to those in Japan as of now, the two countries would consume as many as 1,130 million kiloliters of gasoline per year, according to my most simple calculations, although this is not a realistic hypothesis at all. In other words, this much gasoline consumption will lead to annual CO_2 emissions almost equal to the current level of CO_2 emissions caused by worldwide gasoline consumption.

In this regard, it is important for us to come up with an ambitious idea to address this environmental issue as well in the context of post-Kyoto Protocol response and inclusion of China and India therein. JS

Editor's Note:

In the PUBLISHER'S NOTE for the March-April issue, the original draft included the following description in italic letters. Incidentally, however, the italic portion has been omitted in the editing process. We regret the error.

You have to fill the blank spaces with single-digit numbers so that every vertical and horizontal line *as well as every set of nine (3 x 3) small squares* consists of nine distinct numbers – one to nine.

COMING UP

In the next issue, we will feature the annual "White Paper on Trade" for 2007 "fresh from the oven" – made available to you days after Cabinet endorsement of the report in early July – thanks to METI. We will also delve into the delicacy of *sake* and the charm of a small Japanese island attracting an increasing number of tourists from all over the world.