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China and India: Economic Growth and their Integration in the Global Economy

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Abstract

Purpose of this paper is to characterize the economic growth of China and India in the last three decades, focusing on their integration in the global economy. After a discussion of some stylized facts concerning (i) economic growth in a long run perspective, (ii) the most significant institutional reforms and (iii) the key structural features – highlighting similarities and peculiarities of development in each country – we analyse the main features of their integration in the world economy: trade dynamics, degree of openness, FDI flows, specialisation patterns.

The empirical investigations confirm that the recent impressive economic growth of China and India has been accompanied by increasing trade and openness, involving both merchandise trade and FDI. Concerning trade specialisation, both countries went beyond the initial industrialisation stage, reducing their specialisation in traditional manufacturing, such as textiles and clothing; China, in particular, is now specialised in many innovative manufacturing sectors, while India has leaned toward software production and (more generally) service activities. We have also estimated some econometric relations between economic growth and trade/openness, with the addition of control variables (such as the gross fixed capital formation). The econometric results show the dependence of economic growth on exports and "trade openness" indices; the link with FDI, flows and stocks, is positive but less robust.

In addition to the positive growth effects, for the two countries, of opening and integrating in the world economy, the extraordinary growth of these countries can sustain global economic growth. This is particularly useful during the current cyclical downturn, since China and India – despite being also hit (economically and socially) by the crisis – can help in pulling the world out of recession. Other policy relevant implications are discussed in the paper.

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Keywords: China and India, economic growth, trade opening, trade specialisation, trade and growth

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