India-China and the future of the world trade:
“Chindia” or “China and India”, scenarii for 2015

by Jean-Joseph Boillot*

* *Financial Counsellor at the French Embassy (2003-2005). New Delhi – India. Author of "L'économie de l'Inde" (Edition La Decouverte- Paris 2006).*

Whilst the opening up and the dynamism of the Indian economy increasingly give rise to questions about the emergence of this «*new China*» in the world economy, it may be relevant to examine the emergence of China herself from India’s point of view since the 1980s.

Indeed, it has recently become fashionable to enter into the diplomatic fray between India and China and to repeat after the official speeches that the two Asian giants should become in a short span of time "strategic trade partners". This paper, diplomatically incorrect, takes a contrarian approach to study two different scenarii.

After describing an asymmetrical but dynamic opening up on the part of both partners, a first scenario envisages the possibility of an increasing expansion in bilateral trade between the two Asian powers. In a sense, this would reduce their joint pressure on the economy of the rest of the world. We calle it the “Chindia” scenario.

A second scenario, obviously more probable, assumes a combined “China *and* India” multiplying effect on the rest of the world in spite of the tightening of their trade links. As we will see, the persistence, indeed the strengthening of strong complementarities between the two economies, which present fairly similar factor endowments but well differentiated economic structures, tends to favour this scenario. The message for the West is that it becomes increasingly imperative to adapt to the emergence of these two Asian giants. From a geopolitical point of view, it has obvious implications.

I- In 25 years, China has far outdistanced Southern Asia in world trade

The volume of the total trade of China and Hong Kong (1) combined is today almost eight times greater than that of the whole of Southern Asia. US$1300 billion in 2003 against 185 and 130 for India alone, according to the latest available data from DoTS (Direction of Trade Statistics, IMF). This gap

is found both in the imports and the exports of the two countries. While the China-Hong Kong set represented nearly 8.6% of world trade, Southern Asia accounted for only 1.2% in 2003.

This gap is due in part to differences between the respective economic "mass" of the countries but it is actually far greater than the gap existing between the GDPs. Measured at purchasing power parity, the China-Hong-Kong set accounted for 13% of world GDP in 2003 (source IMF) against 7.1% for Southern Asia and 5.7% for India (the difference is the same at current exchange rates).

Two other reasons are therefore put forward to explain such a difference: the first one is the ten-year interval existing China's reforms and the Indian's ones. The second is that the countries took different paths to jack-up their economic development.

The ten-year gap in opening up trade

The 1980s were first marked by the takeoff of the Chinese economy under the impetus of a program of economic reforms which immediately emphasized foreign trade as an engine of economic catching up. The proportion of exports from China + Hong Kong (simply called *China* in the remainder of the paper) thus rose from 2 to 4.3% of world exports, whilst during the same period Southern Asia's share stood at 0.7%.

Next, in the 1990s, trade opening up policies in Southern Asia (SA), in India especially, linked with internal liberalisation policies brought about an acceleration of economic growth and a slow but uniform rise in the weight of SA from 0.7% to 1% of world trade in 2000. China nevertheless continued its rapid expansion with a share in world exports that rose from 4.3% to 7%. The relative gap between the two zones thus became wider.

Finally, the beginning of the 2000s was marked by an acceleration in the economic and trade weight of Southern Asia. Its share of world exports reached 1.13% in 2003. But with 8.8% for China, the relative gap continued to widen: nearly eightfold in 2003, against more than sixfold in 1990 and already fourfold in 1980. This gap will take decades to shrink, if it ever does (at least for goods and not for services). It confirms that GDP growth alone accounts for only a small part of the current gap between the weight of the two zones in world trade.

Table 1: World Export Share (%) of Southern Asia-China since 1980

	1980	1985	1990	1995	1996	1997	1998	1999	2000	2001	2002	2003
China + HK	2.1	3.1	4.3	6.4	6.3	6.7	6.6	6.5	7.1	7.4	8.2	8.8
Southern Asia	0.7	0.7	0.8	0.9	0.9	0.9	0.9	1.0	1.0	1.1	1.1	1.1

Source: DoTS, author's calculations

A more gradual and structurally different opening up in Southern Asia

The comparison between China and India's opening up process [Chauvin and Lemoine 2003] teaches us two things about their profound differences in their openness.

Firstly, the Indian trade regime remained notably more restrictive until 1999. The continuing reduction in the country's tariff rates over the last few years does not compensate for the persistence of non-tariff-barriers, as shown in a recent World Bank report on business conditions in the world [World Bank 2005].

The second major difference concerns the part played in GDP by foreign direct investment and domestic investment, even though, according to most experts [e.g. Srivastava 2003], the official data on FDI flows are overestimated for China and underestimated for India.

Table 2: ratio of openness (%) of China and Southern Asia since 1980

	1980	1985	1990	1995	1996	1997	1998	1999	2000	2001	2002	2003
China + HK	24	38	61	77	69	67	61	62	71	67	72	83
Southern Asia	17	14	17	22	22	22	22	23	24	25	26	25

Source: DoTS, authors' calculations

Both differences are the result of fairly deliberate political choices, notably revealing the weight of business lobbies in India. They are opposed to a too rapid exposure to foreign competition, while at microeconomic level they consider themselves able to pick up gradually the dual challenge of the domestic and foreign market. This was not China's option at the time of its opening in 1980. The result is a ratio of openness varying today from 1 to 4 between India and China against a somewhat similar ratio in 1980.

The issue is not one of an improbable race run on the world scene between two demographic giants. The real short term issue is rather the

estimation of a possible synergy between the two zones, with the recent affirmation of a potential positive sum game between the two partners and the increasing numbers of top-level official meetings taking place to promote a new “Look East” policy.

II- Bilateral Trade: asymmetry, spread effect and trade expansion

The asymmetry of commercial penetration reflects the degree of openness

From Southern Asia’s point of view, since the opening up of trade with SA in the 1990s and her progressive political normalisation with India, China is increasingly becoming the essential partner. Her share of Southern Asia’s total trade thus rose between 1990 and 2003 from 3% to 8.2%. Furthermore, the pace of progression seems to have been accelerating since the 2000s with an annual growth rate of 20% for China’s market share in SA.

A noteworthy fact is the parallel progression of exports and imports, which might at first appear surprising for a region which is not considered very competitive in relation to its Chinese rival. The dynamic of the opening up of the Chinese market seems to have given rise to a spread effect. As a result the Chinese market constitutes more and more the major trade outlet for SA, while exports of goods “Made in China” are also finding greater opportunities on the Southern Asian market. Hence, while SA trade with China jumped in absolute terms from US$390 million to US$2.4 billion between 1990 and 2003, the coverage of imports by exports rose from 65% to almost 75%.

Table 3: Share of Trade with China (%) in Southern Asia's trade since 1980

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Exports	2.8	3.0	3.0	4.7	4.5	5.2	5.3	5.8	5.4	6.0	6.1	6.5	6.8	7.5
Imports	3.0	3.6	4.2	5.0	5.6	5.7	5.6	6.0	5.8	5.9	6.6	7.2	8.1	8.7
Total Trade	2.9	3.3	3.7	4.9	5.1	5.5	5.5	5.9	5.6	6.0	6.4	6.9	7.5	8.2

Source: DoTS, authors’ calculations

The Chinese spread effect is nevertheless uneven within Southern Asia. A major factor is the rising power of India within the bloc. She now weighs more than 70% of the total China-Southern Asia bilateral trade, against 35% in the middle of the 1980s. As a result all the other economies of the subcontinent are registering a decline in their relative share of the trade, especially Pakistan, which was at parity with India in the 1980s. This evolution partly reflects the decline of a «politically ordered» trade within the region and the growing influence of strictly economic factors. It is also a result of fairly

differentiated growth dynamics within SA during the 1990s, to the benefit of India notably and to the detriment of Pakistan, which clearly experienced a «black decade» during the period.

If the weight of trade with China in each country's GDP has been increasing rapidly for all the countries and not just for India, the progression of the relative weight of India within Southern Asia is due to a better economic performance in relative terms. As the framework of her economy has been standardised and modernized, her GDP is now constantly growing at a faster pace than that of her neighbours: on average 5.9% of annual growth since 2000 versus 5.1% for SA (source IMF).

Meanwhile, China took a decade to transform the traditional pattern of trade in Southern Asia. Her growing importance brought about a major readjustment of the trading relationships not only within the zone but with the external partners of the zone. In that respect, two major changes have been recorded:

1) the first one is that China pulled herself up in a few years as the main region's trading partner, overtaking in the process every industrialised countries. Leaving the EU aside as it is a bloc and not a country, in 2004 the China-HK bloc became the leading exporter to India. Elsewhere this economic bloc is in the top three whatever the SA country we look at.

2) Contrary to the assertion that an increase of the Indian trade would benefit the whole of Asia, the market shares of Japan, Korea and even Taiwan (2) have registered a strong decline in Southern Asia. For example, Korea's market share in India decreased from a peak of 8.6% in 1993 to 2.7% in 2002 despite a revival in 2003 widely linked to the breakthrough in India of the car manufacturer Hyundai (with the manufacturing of equipment and components for the priming phase). One interesting phenomenon is that the market share of the Asian industrialised countries within the foreign trade of China has in the same time period increased for China. Meanwhile, the decline of Japan in Indian trade has been spectacular with her market share going down from 23% in 1984 to less than 4% in 2003.

In fact the redistribution of trade in Southern Asia reflects the growing role of China as a "world factory". This is particularly true for the multinationals (Nokia, Motorola, LG etc.) whose products stamped "Made in China" made the bulk of the foreign trade of China. According to F. Lemoine

[2003], they accounted for nearly 60% of both China's imports and exports in 2004.

Nevertheless, from China's perspective, the asymmetry in the trade dynamics of the SA zone and the Chinese zone still shows that Southern Asia remains a fringe partner, even if its relative weight stopped decreasing after the 1980s to reverse itself into a slow increase since 1990. The imbalance remained in the 1990s in spite of the doubling of the Southern Asian market during the decade. And today SA exports are a mere 1.4% of the total Chinese exports while its market share in the domestic Chinese market is an insignificant 1%, 90% of which being Indian products.

China with about 9% of SA total trade registers a very asymmetrical and uneven weighting in her SA partners' trade balances, and a structural surplus in her SA trade balance. But before concluding that this imbalance could prove to be a stumbling bloc for further progress, it is advisable to verify whether, in spite of everything, the two zones are moving closer in trade.

Southern Asia is proving to be a growing relative outlet for China's products

Beyond the current asymmetry, the major fact to emerge since the 1990s is that China registers everywhere a 1 to 2% advantage over any other partner. This is so because the Chinese GDP is a lot more open to trade (60% against 25% for South Asia in 2003) than any of the other economies. As a result of this structural advantage, any relative progression of Southern Asia imports in China's imports is overshadowed by the rate of progression of the Chinese exports.

Notwithstanding, the share of both Southern Asia and India's trade in the Chinese GDP almost doubled over the last five years. The acceleration of India's growth and opening up, combined with a great potential to catch up over the next few decades, could make her a specific trade target should China be forced to diversify her focus to buoyant markets less sensitive than those of the developed countries, and, who are, as it happens in the case of India, complementary to its strong sectoral specialisations.

It is therefore not surprising that we witness an increasing number of operations carried out in the subcontinent by wholly owned Chinese companies, not to mention the increasing number of triangular establishments by large global companies in a number of sectors such as the pharmaceutical industry or IT.

Whether closer trade ties do or do not exist between two countries may be measured by means of a Trade Intensity Indicator (TII). TII measures the ratio between the bilateral trade flows of two partners and their respective weights in world trade.

From this point of view, SA and China seem to have moved rapidly closer in trade during the 1990s after a period of quasi-stagnation in the 1980s, Thus the SA-China relative TII in exports took off from 0.7 in 1990 to 0.9 in 1995 to reach 1 in 1999. The TII of India alone rose from 0.8 to 1.34 at the end of the period.

The new aggressive official target of US$20 billion of bilateral trade by 2008 (3) can be understood in that context. The target seems within reach. Owing to the geographic proximity of the two partners, the TII could actually easily converge towards 2 or 3. The same could be said about Eastern Asia. If it happens then it would mean that a true regional integration is taking place. India being more and more active in the region, it is thought that the India-China bilateral trade could easily double within the next few years.

Table 4: Southern Asia-China and India-China Relative TII in Exports since 1990

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
India-China TII	0,82	0,82	0,80	1,07	1,01	1,09	1,14	1,20	1,21	1,34	1,19	1,15	1,13	1,15
SA-China TII	0,72	0,66	0,57	0,74	0,70	0,82	0,84	0,93	0,92	1,01	0,92	0,93	0,90	0,91

Source: DoTS, author's calculations

Yet, since the beginning of the 2000s, their TII has registered a surprising downward trend, and this in spite of rapid growth rates. The reason is that ultimately their bilateral trade remains less vibrant than the dynamics underpinning the total trade of the two zones. What is therefore the potential reality of «Look East»?

III- Projection for 2015: "Chindia" or "China and India".

Our first scenario (the "Chindia" scenario) was looking at an increasing expansion in bilateral trade between the two Asian powers to be. In a sense, this phenomenon would reduce their joint pressure onto the rest of the world economy. This scenario is in line with the logic of recent political declarations about an existing synergy between the two countries that would make them a new global centre of gravity [Ramesh, 2005].

There are, however, serious arguments that also plead that the two economies have respectively more complementarities with the rest of the world economy than with each other. Therefore a “India *and* China” scenario rather than a "Chindia bloc" has to be considered. If valid, it would warrant a slowdown in the growth of their TII in the next decade.

We shall first put forward the arguments supporting the second scenario, before giving a quantitative assessment of the two scenarii for bilateral and world trade at the horizon of 2015.

The markers of the “India *and* China” model.

Our hypothesis is that at both micro and macro economic levels India and China are following rather different specialisation and industrial transformation paths. As far as India is concerned, those differences seem to favour a North-South trade expansion rather than a South-South one. Furthermore the issue of the sustainability of the Indian trade deficit with China cannot be discarded as irrelevant. A structural trade deficit may lead to policies that would favour a limitation of "*made in China*" products in India.

Early globalisation of Indian firms and impact on India’s specialisation

Indian policy-makers facing well known structural constraints particularly in the infrastructure sector and the labour market [see for example Debroy 2005] while enjoying an historic enterpreneurial culture and a large skilled labour force (4), led them to focus on a few niche technologies and to choose economies of range rather than of scale. A good example is the chemical and pharmaceutical sector, which took full advantage of favourable legislation on patents, a highly skilled labour force and its integration into the world networks. India has thus evolved into the world’s leading exporter of generic medicines. Currently the pharmaceutical sector accounts for nearly 80% of India’s high-tech exports. Its annual growth rate is over 30% on average.

The so-called IT model (5) has in fact progressively spread among most of the industrial sectors confronted in the 1990s by the economic opening up of the country. For example the family engineering groups Bharat Forge and Kirloskar, both traditional foundry and engineering firms with a conglomerate structure entirely focused on the internal market, were restructured smoothly into specialised subcontractors and suppliers of larger global groups such as Caterpillar, Toyota, Ford and even FAW (China). In a few years, the export growth rate of both firms jumped from 15-20% to more than 50%.

Meanwhile, China too is following a pattern of integration into the global chain of production, gambling on added value upgrades taking full benefit of labour market regulations and a regional development policy conducive to economies of scale (mass production) and in which the role of multinational companies is essential. In 2002, processing activities thus accounted for 55% of Chinese exports, of which the majority came from multinational companies who have set up factories in China (the share of foreign firms in high-tech exports rose to 78% in 2002) [Chauvin and Lemoine, 2003].

Except for strategic raw materials, the recently observed globalisation of Chinese firms is due to the spread of this model within the whole Chinese economy. Nevertheless the ratio of total FDI outflows from China to its total trade is smaller than in India (ratio of 1 to 0.8 for the FDI against 1 to 6.5 for total trade) (6). A noteworthy fact is that for strategic as well as economical reasons, in India there is a strong resistance to the penetration of Chinese firms, while the reverse is favoured by Chinese authorities, well aware of the possible impact of the current but above all the future trade imbalance.

The sensitive issue of the sustainability of India's trade deficit

Whilst the authorities in both countries openly congratulate themselves on India's official trade surplus with China over the past two last years, everyone is perfectly aware that should Hong Kong and other indirect trade be included in the equation, the picture would be very different. There is now no medium-sized town in India without its "Chinese bazaar", usually located on the high street.

Notwithstanding, for a considerable section of India's political and economic actors, China is seen as a threat to India's security as well as to its economy (7). It is therefore not surprising to discover that China is actually the first victim of the anti-dumping measures taken by India over the last few years (400 measures implemented in 2005, of which about 20% were against China products).

As for India's service exports, even if they experienced an annual growth rate of 17% during the 1990s, and are currently 30% of the US$20 billion foreign trade of India, it is hard to predict how far they will go to alter the current imbalance of trade with China.

Furthermore, Indian IT firms are showing a keen interest in China where in the space of two years they are reported to have set up more than thirty dual-purpose facilities. Among them, Infosys has established its second world offshore unit (India being its first). The Chinese market is one of the most promising IT domestic markets of the world already grossing US$ 25 billion per year and with an annual growth rate of 30%.

Linguistic and even administrative barriers, as well as China's intention to focus more and more actively on the service sector, could limit trade in services between the two countries and even make them competitors in world markets. Estimates made by the Gartner consultancy show that Chinese exports of offshore services could rise from US$2 billion in 2004 (US$17 billion for India) to 27 billion in 2007, while the official target in India is US$50 billion in 2008. China's political will to move into this sector is symbolised by its implementation of a vast English language teaching programme that could challenge one of India's decisive advantages. Notwithstanding, one of the features of outsourcing in China is the dominance of Asian companies (from Japan and Korea) while Western groups are more present in India, doubtless due to cultural and geographic proximity.

Meanwhile, India IT's exports are buttressing her balance of payment in the tune of US20 billion a year, and to that we can add a further US$8 billion repatriated by the Indian expatriate community. Altogether, it is almost US$30 billion that supplement each year the Indian balance of payments, enabling the country to shore up the inevitable deterioration in its sole trade balance.

Two markers in favour of the "India and China" scenario

The specialisation and industrial transformation methods described earlier plead first in favour of the emergence of two zones trading in different segments with the developed countries. These specialisation methods could at the same time lead to a more and more asymmetric trade relationship between India still clamouring for cheap Chinese goods, whilst its own specialised products have difficulty entering the Chinese market. In this scenario, India would continue to focus on specialised niches servicing developed countries with an upgrading in the added value of her goods.

This is indeed what India is already doing in some sectors: the development of small commercial vehicles, exports of which have doubled between 2004 and 2005, car accessories, electrical switchgear, power equipment and industrial consumables (electrodes), biotechnology. On the other

hand, China is bound to continue to mass produce, but with the inclusion of a greater technological content.

In view of the lessons given by the dismantling of the Multifibre agreement in 2005, this scenario is quite plausible, for at the time, while both India's and China's exports benefited from this measure, they both continued to progress quickly in the European Union and in the United States markets. There was no shift in the pattern of trade, as had been wrongly speculated, because, despite the predominant weight of the Chinese giant, both countries were in fact concentrating their efforts on very different segments: mass production for China and specialised textiles, especially in the furnishing business, for India.

A second marker in favour of trade sharing rather than infighting concerns the evolution of FDIs, that find a growing interest in India, even though admittedly she still has difficulty convincing investors of the quality of her business and legal environment. But two factors here weight heavily. First, the obvious attractiveness of an ever greater solvent market underpinned by promising demographic perspectives. Such a factor encourages direct investment in mass production sectors and/or in sectors with high transport costs (Dunning effect). Secondly the necessary diversification in order to balance the China risk. Multinational corporations, which have set up early in China in order to re-export (auto components…), are already overinvested in the country. Diversification is needed.

The inflows of FDI in India henceforth stand at US$6-8 billion per year against US$100 million at the beginning of the 1990s. Interestingly, the adjusted data of Srivastava (9) [2003] show a ratio of FDIs to GDP of 1.7% for India against 2% for China. In that respect, the official target of US$150 billion for FDI inflows by 2010 no longer appears completely illusory.

Indeed, since the beginning of 2006, press releases by multinational companies about acquisition in India have steadily increased (Wal Mart, Nokia, Motorola…). Some projects promise to be significant, like that of the Korean company POSCO (US$12 billion). These projects target both the internal market and reexports of specialised products to the developed countries. This is the case with Nokia, which in 2005 set up a production and R&D unit in India. Chinese firms too are not behind, some such as TCL (electronics), Huawei (computer software) and Zhongxing Telecom launching operations in India worth a total of US$ 210 million for the first two companies. Their objective is clearly for both of them to circumvent custom barriers and to gain a direct access to a new and untapped mass market.

<u>*The consequences for India of China's entry into the WTO.*</u>

The "India and China" scenario finds a somewhat solid support in a recent research made by Valerie Cerra *and alii* [2005]. The research attempts to evaluate the impact of China's entry into the WTO on India's trade by 2010, using a computable general-equilibrium trade model.

On a global scale, Cerra observes that:

a) In sectors challenged by China (in general, textiles and mass produced goods) a decrease in India's market share in the United States and the European Union might ensue. De facto, the gap between India and China on world markets would increase, but that diversion would or could result in a slow-down at the bilateral level

b) India could partly compensate the lost trade by an increase in India's market share in her niche sectors (technology and IT niches).

On the bilateral scale, Cerra shows that the entry of China into the WTO should not induce a strong expansion of India-China bilateral trade, by reason, notably, of a decrease in China's imports in important sectors (agricultural products for example).

Quantitative assessment of the two scenarii by 2015

To quantify the two scenarii, we have assumed the following:

a) The (foreign) trade elasticity of GDP remains constant for both India and China.

b) The growth projections of GDP at current exchange rates come from Goldman Sachs [2003].

c) World trade growth pursues a linear trend over the next 5 years.

d) In the "Chindia" scenario, we assumed that the bilateral trade continue to move at the current pace. The growth rate of bilateral trade is thus assumed constant y/o/y until 2015 and equal to the current average rate (+30% per year) (9).

e) In the "India and China" scenario, we assumed that the bilateral trade growth is only function of their respective GDP growth.

Results

Table 9: Trade flows (in US$ billion) in 2015

	GDP		Total Trade		Of which : India-China bilateral trade			Trade to the rest of the world		
	2003	2015	2003	2015	2003	2015		2003	2015	
						Sc 1	*Sc 2*		*Sc 1*	*Sc 2*
India	580	1411	131	617	6	39	116	124	578	501
China	1412	4754	851	3 079	6	39	116	845	3 040	2 963
India + China	1992	6165	982	3 695				969	3 617	3 464

Scenario 1: "India and China". Scenario 2: "Chindia"
Source: DoTS IMF, authors' calculations

Table 10: Changes in world trade in 2015

Share of India-China bilateral trade in each country's trade (%)				Share in world trade (apart India-China bilateral trade)			
	2003	**2015**			**2003**	**2015**	
		Sc 1	*Sc 2*			*Sc 1*	*Sc 2*
India	4.9%	6.3%	18.7%	India	0.8%	2.4%	2.1%
China	0.8%	1.3%	3.8%	China	5.5%	12.8%	12.4%
India + China				India + China	6.3%	15.2%	14.5%

Scenario 1: "India and China". Scenario 2: "Chindia"
Source : DoTS IMF, authors' calculations

<u>On the bilateral trade</u>

The simulated calculation shows that

a) in the "India and China" scenario, the India-China bilateral trade grow to US$38 billion in 2015. This is respectively 6.3% of India's trade and 1.3% for China (see tables 9 &10).

b) In the "Chindia" scenario, the India-China bilateral trade could reach 115 US$ billion in 2015. That is respectively 18.7% of India's trade and 3.8% of China's trade.

<u>On trade flows from India and China towards the rest of the world</u>

The simulated calculation shows that

a) the asymmetry between India and China increases in both scenarios: China would represent about 13% of world trade in 2015 against 2.5%

for India. While the relative gap would stabilize in absolute it would increase considerably.
b) The joint weight of India and China trade in the world, excluding their bilateral trade, would only slightly differ: 15.2% of world trade in the "India and China" scenario against 14.5% in the "Chindia" scenario.

Conclusion

It appears that even the favourable "Chindia" scenario, which calls for a reinforced cooperation between the two Asian giants, would not affect much their joint weight on the rest of the world. Actually in this scenario, it is the Chinese pressure on the Indian market that would appear unsustainable from India's domestic point of view.

Thus, the "India and China" scenario appears more realistic. In that scenario, the share of bilateral trade in each partner's trade would reach a plateau relatively quickly (in China's favour) once the catch up process started during the 1990s wanes. Meanwhile, the combined weight of the two countries on world markets would be slightly increased but applying in quite different segments, it would not matter much. In any case, it is the weight of China's trade that would clearly remain predominant.

Whatever the scenario, the developed countries will have to adapt. To create the basis for a positive sum game, it presupposes among other things a more consistent targeting of these two countries' domestic demand, which should grow rapidly over the next few years.

Jean-Joseph Boillot's notes

1. Throughout this paper we have used the DoTS database (Direction of Trade Statistics, IMF). This has the advantage of providing consolidated data that are considered more reliable than those from national sources alone. For statistical reasons, the location of the big trade masses will be between China and Hong Kong on the one hand and Southern Asia (composed of India, Pakistan, Bangladesh, Nepal, Sri Lanka and the Maldives) on the other hand. Those regional groupings address two issues:
   First, there is an extensive informal/illegal trade in Southern Asia. For reasons of selective protectionism but also to avoid customs duties, some countries are used as platforms for the reexport of China's products to India.
   Secondly, it appears essential to consider Hong Kong and continental China together if we are to take account of the true volume exported by the Chinese group to SA. One of the signs of China's eagerness to limit awareness of her commercial penetration in SA is precisely the systematic omission of Hong Kong in the official statistics of its exports to SA. A quick investigation into the case of India shows that the proportion of reexports from HK not originating in China is actually very small, even though the proportion of reexports in HK's exports to India is more than 95%. We have chosen not to include Taiwan's trade with that of «Big China» even though the latter exports increasingly to Southern Asia, especially electronic goods.
2. We are also beginning to observe this phenomenon in the case of Hong Kong, whose role as an export platform for Southern China is progressively disappearing, to the benefit of new ports built in Mainland China.
3. Announced jointly during the visit of the Chinese Prime Minister Wen Jiabao in New Delhi in April 2005.
4. Between 1995 and 2005, the number of students in India increased from 6.1 to 10.3 million, with about 5 million graduates per annum against 1 to 2 million in China.
5. The story dates back to the beginning of the 1980s with the creation of the current giants Infosys and Wipro by engineers who had spent several years in the United States. Their return to India benefited from political support thanks to NASSCOM and the various technical ministries concerned which created Software Technology Parks (STP) around the Indian Institutes of Technology and the public research centres. Those STP benefited from numerous tax advantages such as duty free imports of the most modern equipment. Attracted by this first dynamic base, companies from all over the world began to invest directly or to subcontracted in India their software activities, progressively adding other services such as distance accounting or customer service centres (call centres) but also research centres. Altogether, India receives nearly 40% of all IT projects located in the developing countries, far ahead of China (19%) and Singapore (11%) where the Indian presence is significant. Thus, India's computer service exports increased from US$ 0.5 billion to almost 18 billion between 1999 and 2004.
6. In 2004, FDI outflows were US$ 2.2 billion for India against 1.8 billion for continental China. Source: UNCTAD, 'World Investment Report', New York, September 2005.
7. See the paper by Nalapat MR. D., 'China misses its chance with India', *Business Standard*, May 2, 2005.

8. The author adjusts the FDIs flow according to a redefinition of FDI, since, on the one hand, India does not include in FDIs more than 10% of the reinvested earnings and equity investments while tChina includes the FDIs coming from Hong Kong, which now is a part of the country
9. A high hypothesis that assumes that India's trade will account for 3.5% of world trade in 2015 (official target) and a low hypothesis based on the linear trend of the last 5 years were also tested, but they give results that appear unrealistic.

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