

Emerging Giants: Perspectives on China and India

Cletus Coughlin, Senior Vice President
November 13, 2012



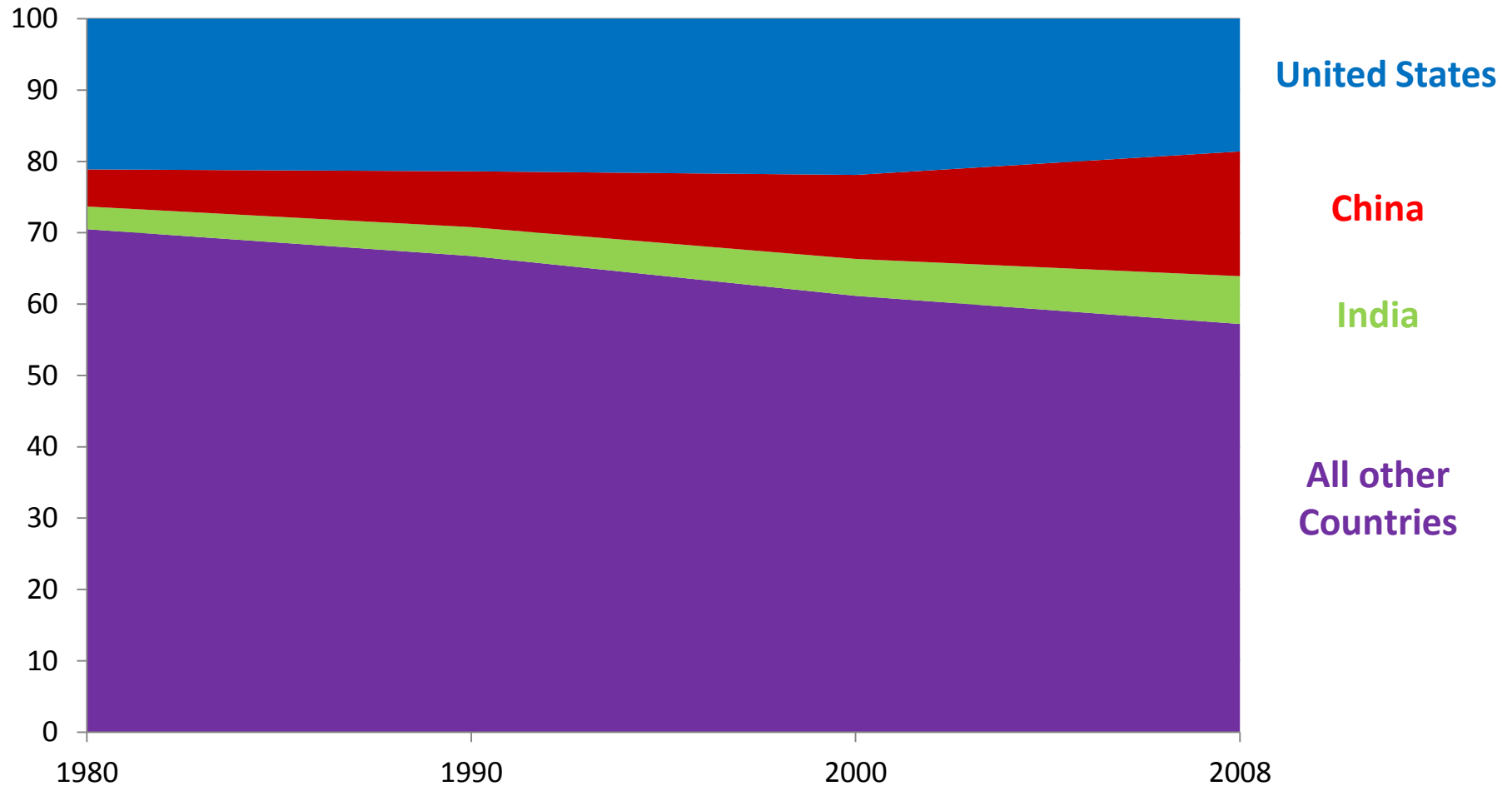
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Emerging Giants



World GDP: 1980 Onwards

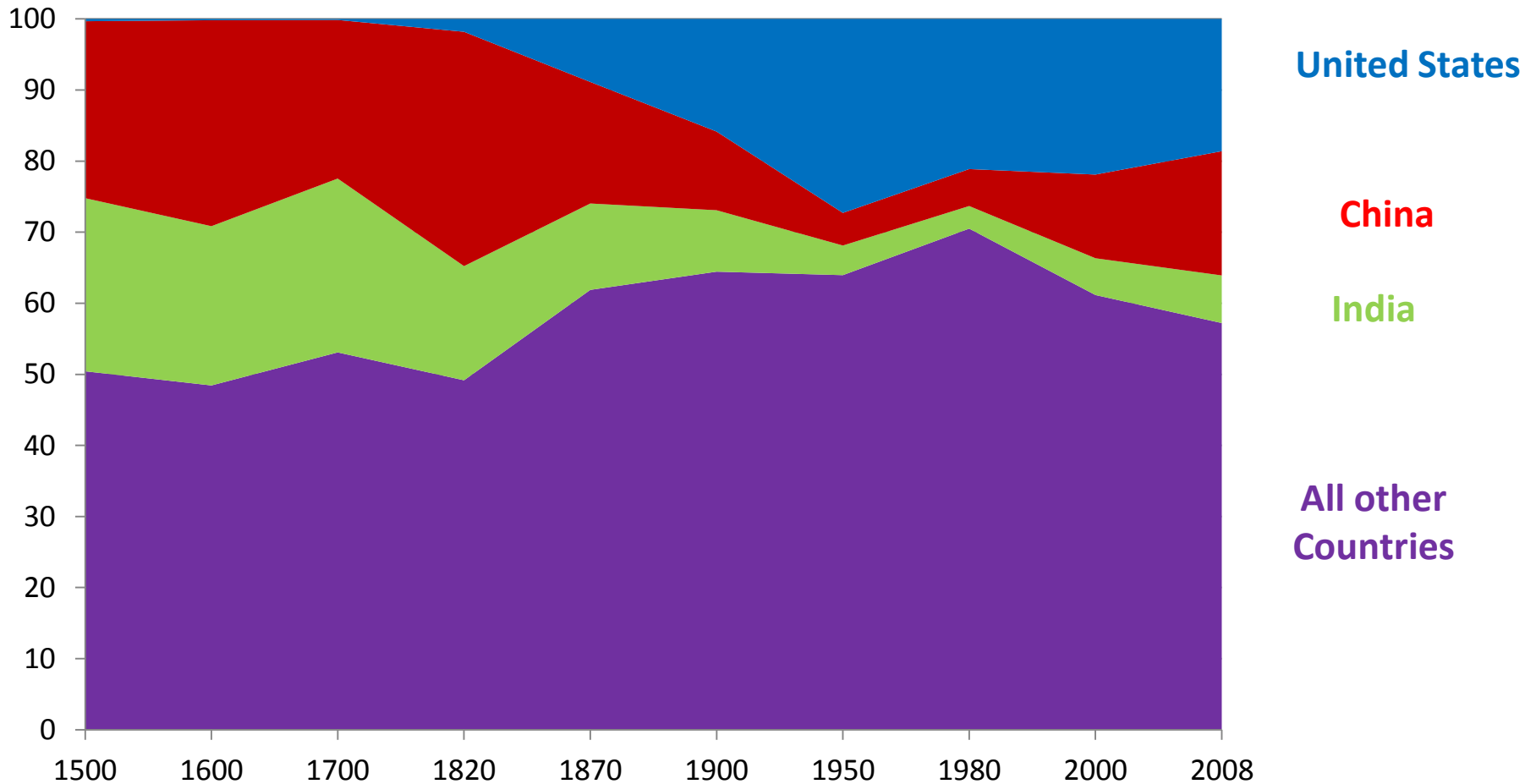
Percent of World GDP



Sources: VisualizingEconomics.com & The Madison Project
Last Observation: 2008

World GDP: 1500 Onwards

Percent of World GDP



Sources: VisualizingEconomics.com & The Madison Project

Last Observation: 2008

Our Speakers:

YiLi Chien, Senior Economist

B. Ravikumar, Vice President

Emerging Giants: Perspectives on China

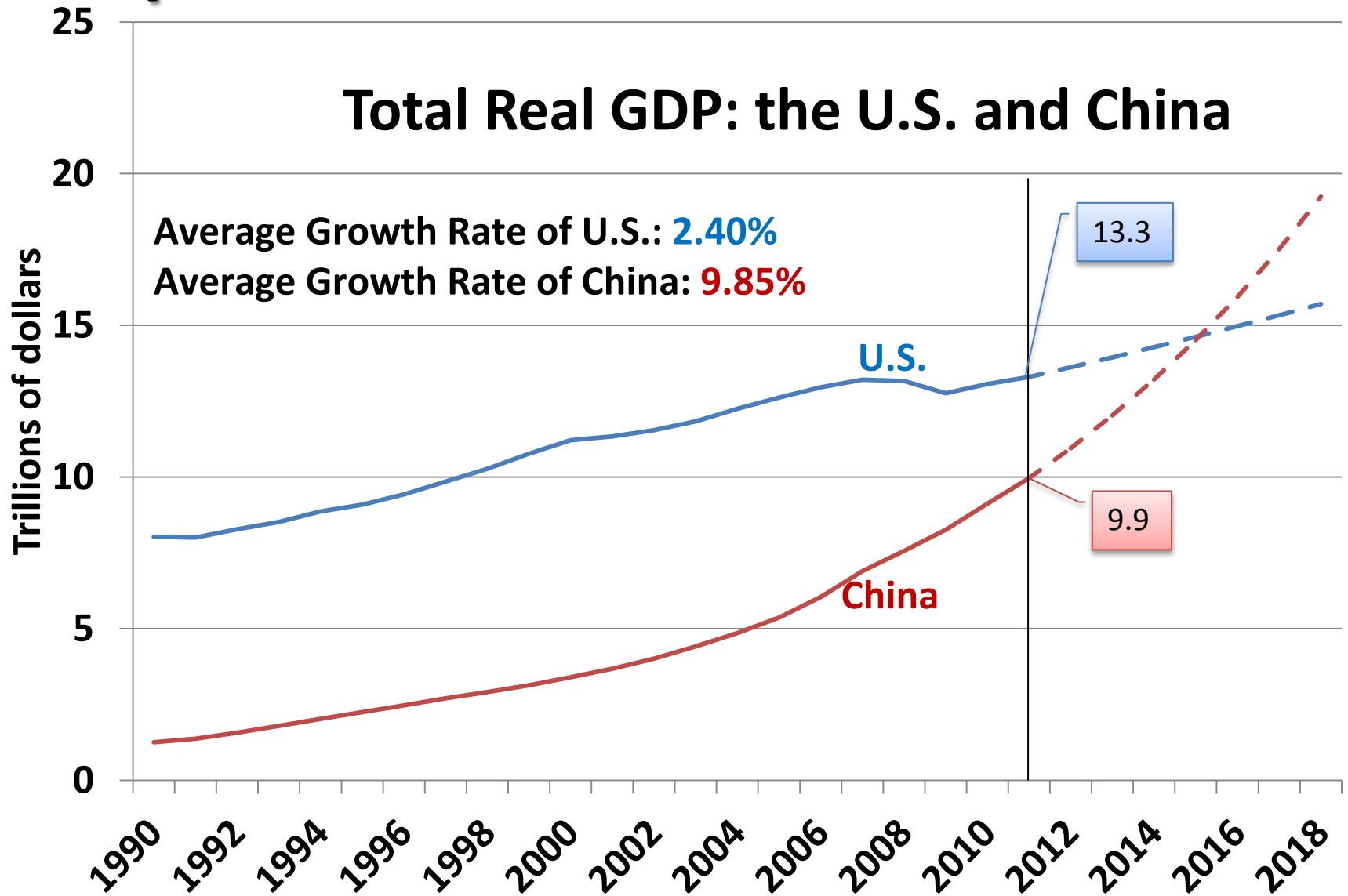
YiLi Chien, Senior Economist

November 13, 2012



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Rapid Growth of the Chinese Economy



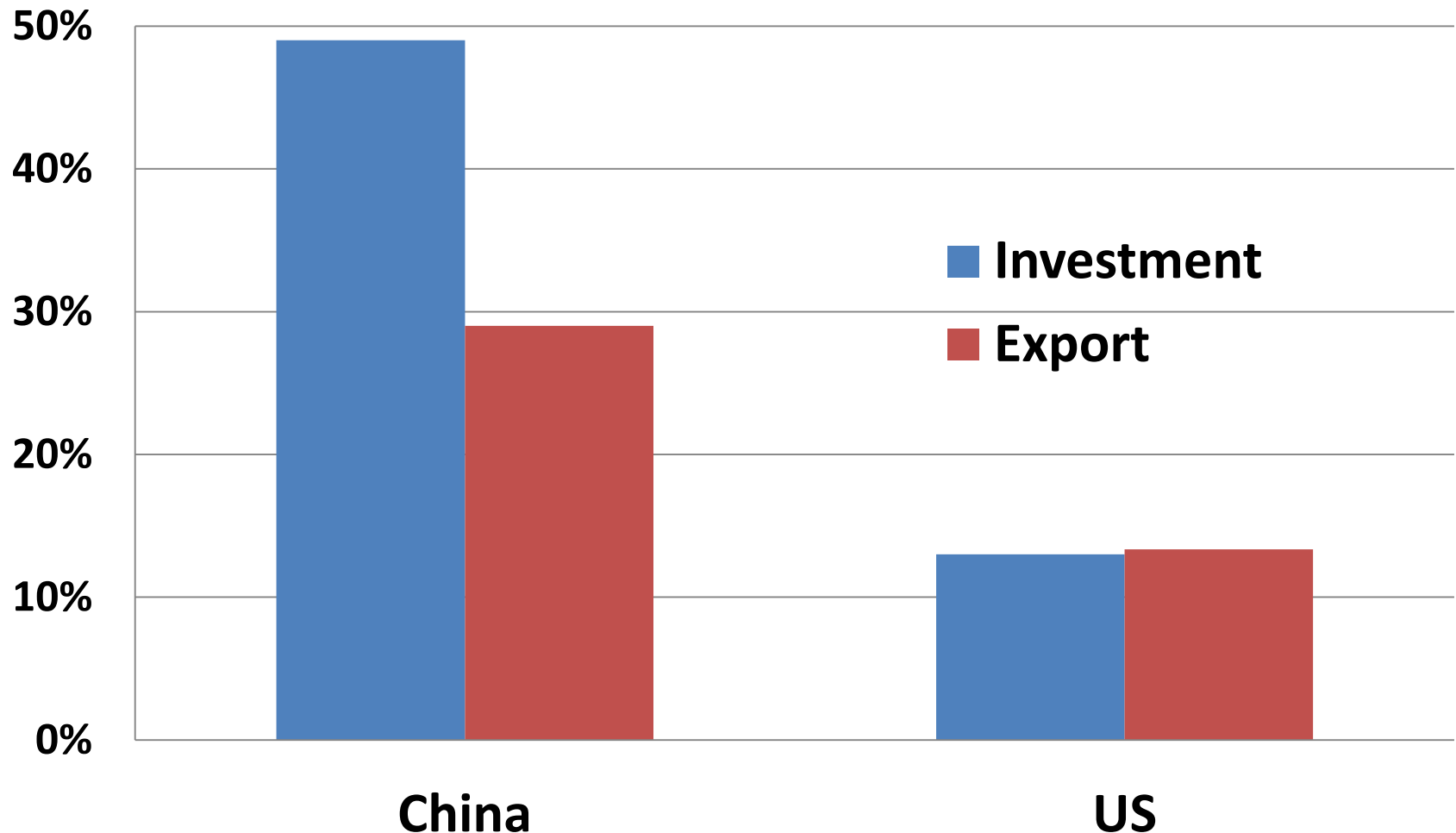
Source: IMF

Key Questions

- **What drives the growth of the Chinese economy?**
- **Is the high growth of China sustainable?**
- **Does trade with China hurt the U.S.?**

Investment and Export Driven Growth

Investment and Export to GDP Ratio for 2011



Source: Haver Analytics

Challenges

Investment-driven and export-driven growth are not sustainable

- **The return and efficiency of investment have to go down eventually**
- **Limited export market**
- **Competition with other developing economies**

Other Challenges

- **Inequalities**
- **Inefficiencies**
- **Environmental problems**
- **Corruption and crony capitalism**

What If China Becomes the Largest Economy?

- **If China keeps its high growth, China will be the largest economy within a decade**
- **Even if China and the U.S. have the same GDP, the U.S. per capita GDP is still 4 times higher than that of China**

Trade with China

Last year, the U.S. imported \$394 billion and exported \$103 billion

- **Advantage: improve welfare of U.S. consumers**
- **Disadvantage: cost jobs in the U.S.?**

Large in Quantity while Small in Share

- **Imports from China: \$394B or 2.6% of U.S. GDP**
- **Exports to China: \$104B or 0.68% of U.S. GDP**

Does Trade with China Reduce U.S. Jobs?

Yes, but not much

- **U.S. consumers do not spend much on Chinese products**
- **A small fraction of the U.S. economy produces goods similar to Chinese imports**
- **However, a fraction of manufacturing workers might suffer the most**

Summary

- **Per capita GDP will still be much higher in the U.S. than in China for several decades**
- **Trade with China does reduce U.S. jobs, but probably not as much as thought**
- **Rising China provides great opportunities for U.S.: Sell services to China (financial, education, entertainment)**

Emerging Giants: Perspectives on India

B. Ravikumar, Vice President

November 13, 2012



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Basics

- An ancient civilization
- A diverse country
- World's largest democracy
- Population: almost four times the U.S.
- Area: one-third of the U.S.

Economic Reforms

- Comprehensive reforms began in the early 1990s
 - Transition from piecemeal reforms
- Inward competition
- Outward competition

Economic Reforms

- Inward competition
 - Removal of licensing restrictions
 - Privatization
- Outward competition
 - International trade
 - Foreign investment

Impact of Reforms

- Telecommunications: Private sector share of telephone subscribers
 - 0 in 1980s
 - 4.7% in 1998
 - 79% in 2009

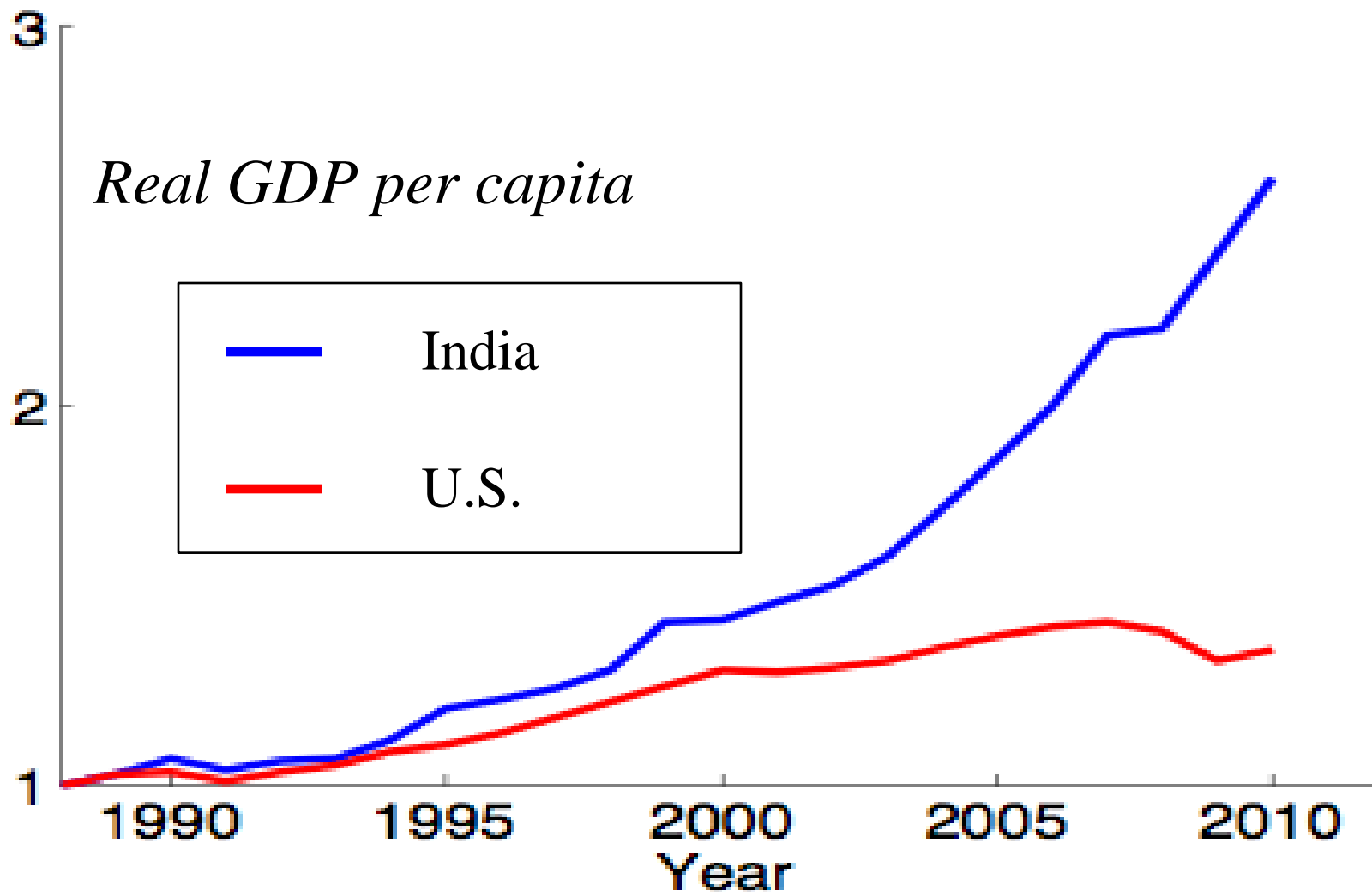
Impact of Reforms

- International Trade: Imports + Exports as a percent of GDP
 - Pre-reform: 12% (1987)
 - Post-reform: 50% (2010)

Power of growth

- Sustained per capita income growth rate of 2% → next generation, on average, is twice as well-off as the current one
- 6% growth → almost 8 times as well-off

Rapid Growth

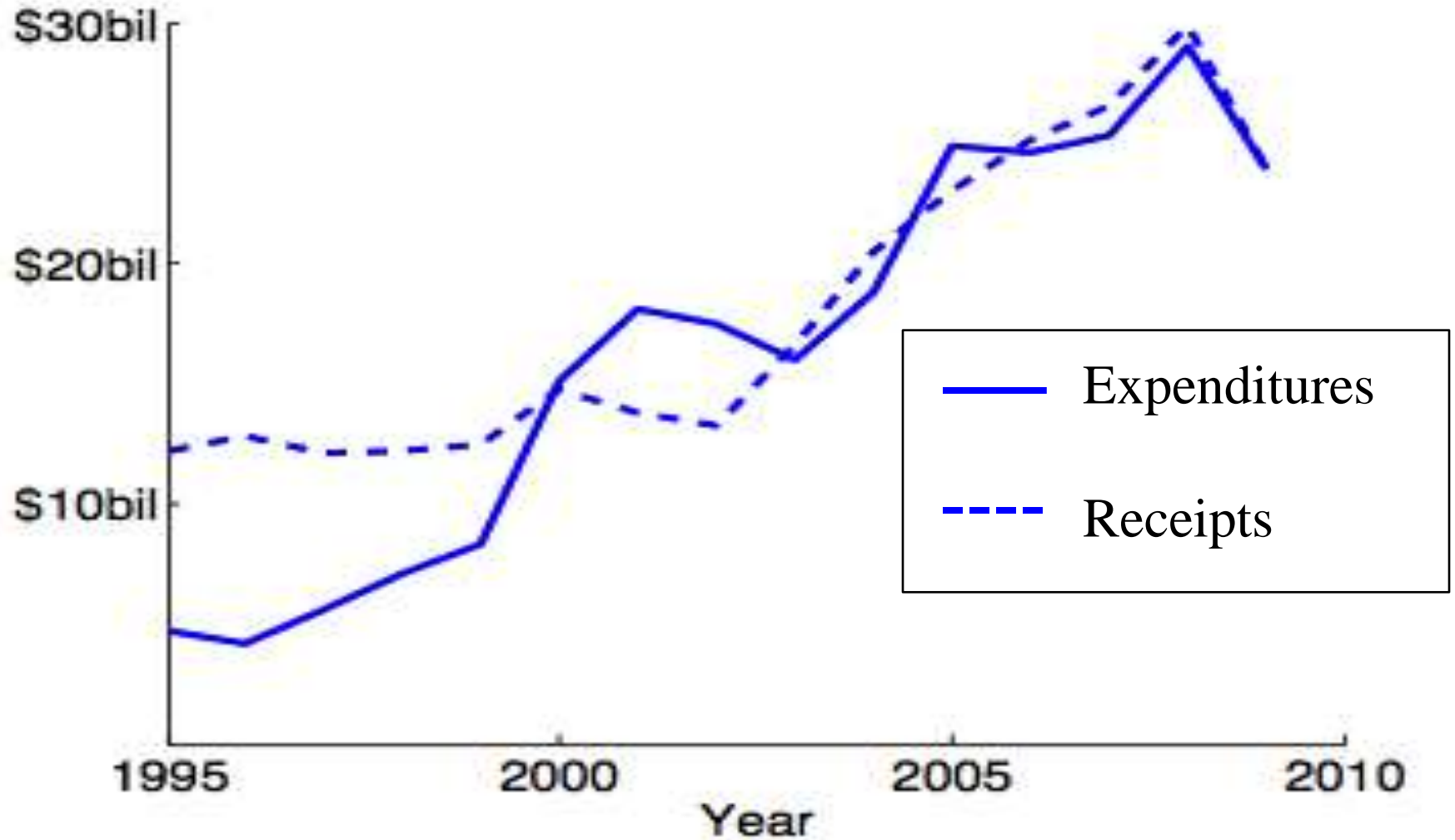


Source: The Penn World Tables, version 7.1. Normalized PPP 2005 International dollars

Closing the gap

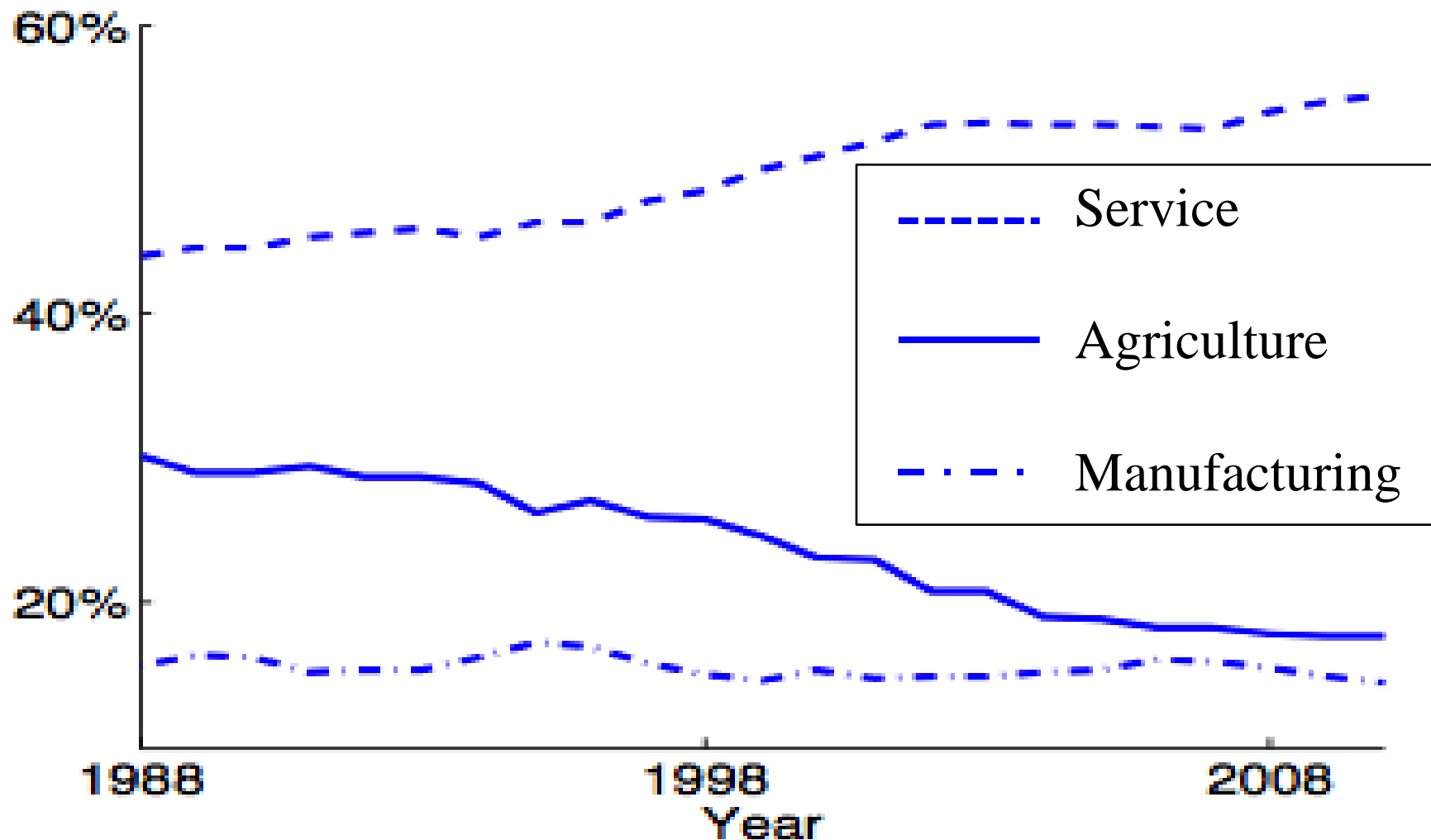
- 1988
 - U.S. GDP per capita: 23 times that of India
- 2010
 - U.S. GDP per capita: 12 times that of India

Growing Tourism



Source: World Development Indicators, World Bank. In PPP 2005 International dollars

An Unusual Transition



Source: World Development Indicators, World Bank.

Size of the Indian Economy

- Total Real GDP in 2010
 - India – \$4.69 trillion
 - Japan – \$4.39 trillion
 - Germany – \$3.13 trillion
 - U.K. + France – \$4.68 trillion

Future Growth

- Hurdles
- Opportunities

Future Growth: Hurdles

- Labor regulations
 - Obstacles to large scale manufacturing
 - Moving unskilled labor from agriculture to manufacturing

Future Growth: Hurdles

- Infrastructure
 - Railroads and highways growing too slowly

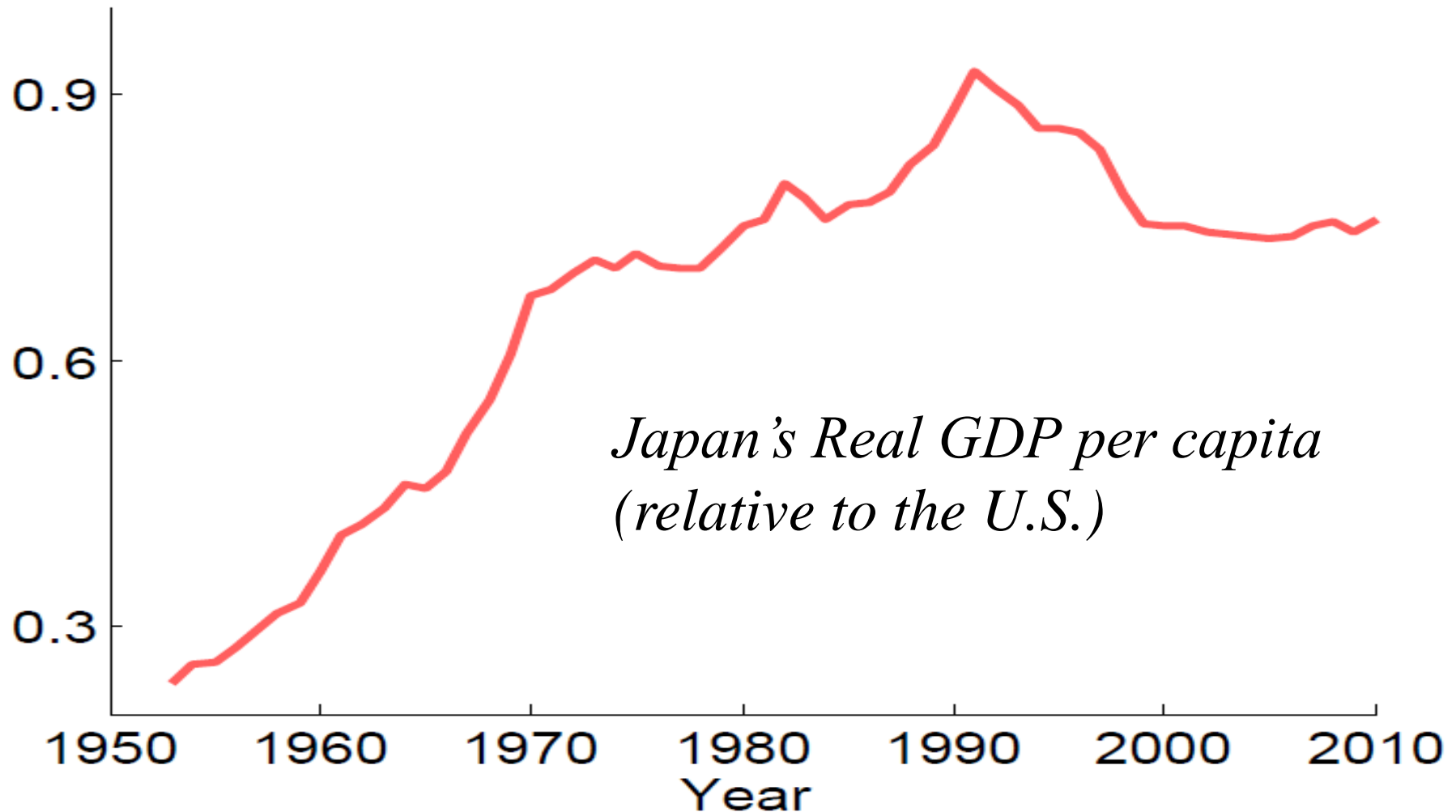
Future Growth: Opportunities

- Well-equipped with skills in science and engineering
- Total factor productivity
- Large consumer market

Total Factor Productivity

- More inputs imply more output, but this is not a sustainable engine of growth in the long run
- Long-run engine of growth – more output with less input: Total Factor Productivity

Japan's Growth

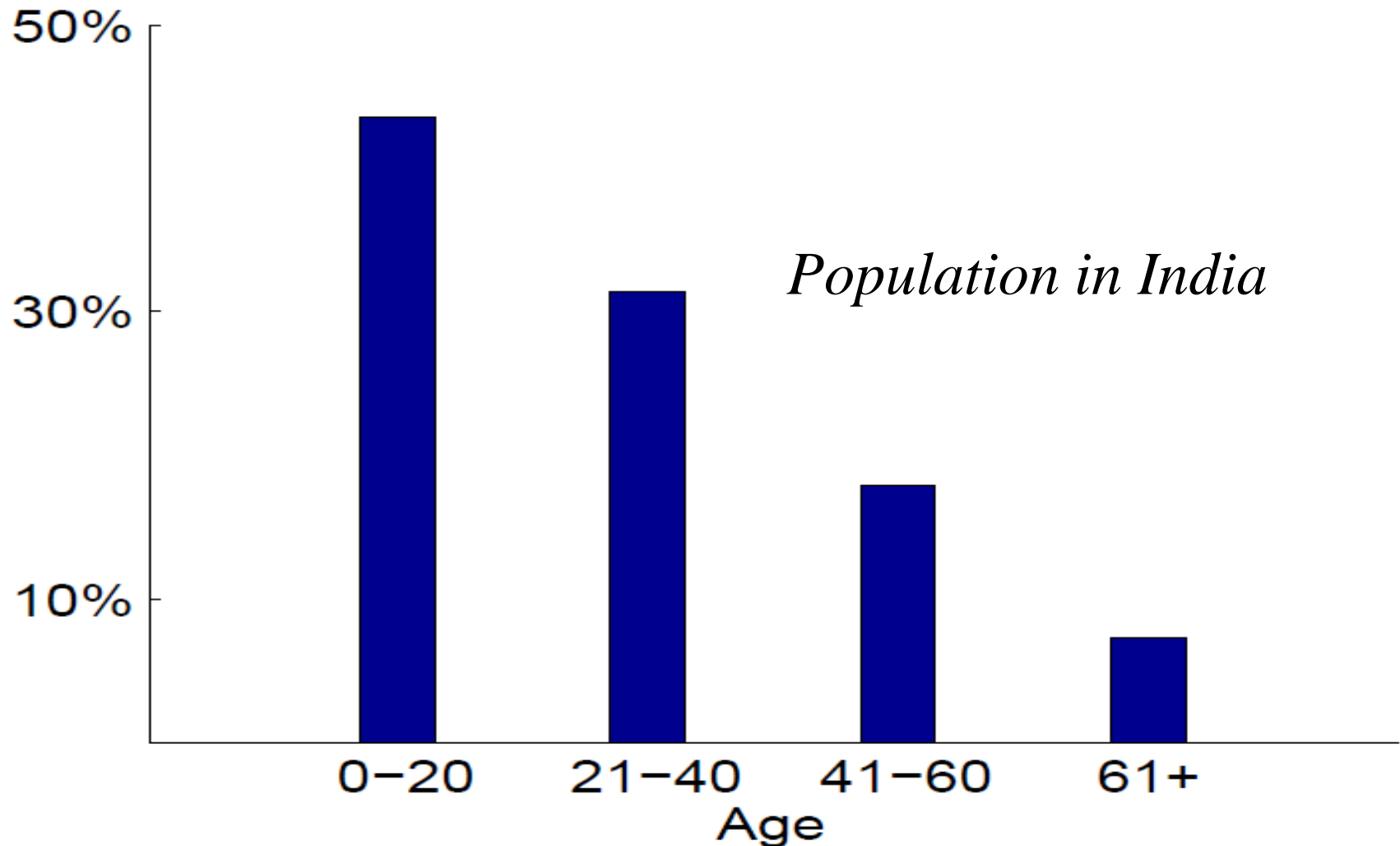


Total Factor Productivity

- Increases in Total Factor Productivity is the long-run engine of growth
- Contribution of TFP growth in India
 - 1950-1990: 20%
 - After 1991: 55%

Source: The Penn World Tables, version 7.1, PPP 2005 International dollars; Barro and Lee (2010), NBER working paper 15902

Large Consumer Market



Source: IPUMS International. India age distribution: 2004.

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Large Consumer Market

- More than 500 million below age 25
- That is more than the *total population* of the U.S. + Canada + Mexico
- This working age population will be earning and spending over the next few decades



Source: <http://www.gapminder.org/>

Summary

- Economic reforms in India are gradually paying off.
- India is integrated into the global economy.
- While there are hurdles to future growth, there are ample opportunities for future growth.