

China and India: a Comparison of Two Trade Integration Approaches

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Discussion
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Note: The views expressed in this presentation are those of the author and do not necessarily reflect those of the ECB.

Main assessment of the paper

- A very nice overview of a key topic
 - Useful comparison China/India
 - A valuable effort to collect relevant data
- **Two main assets:** discussion of trade policy and model simulations
- Main suggestion: **refocus the paper** on the latter
 - Other suggestion: flesh out the conclusions

Three possible views on India's development

1. Is India a new China in the making ?

$$\text{India} = L^{10}(\text{China})$$

2. Is India simply in a lower league ?

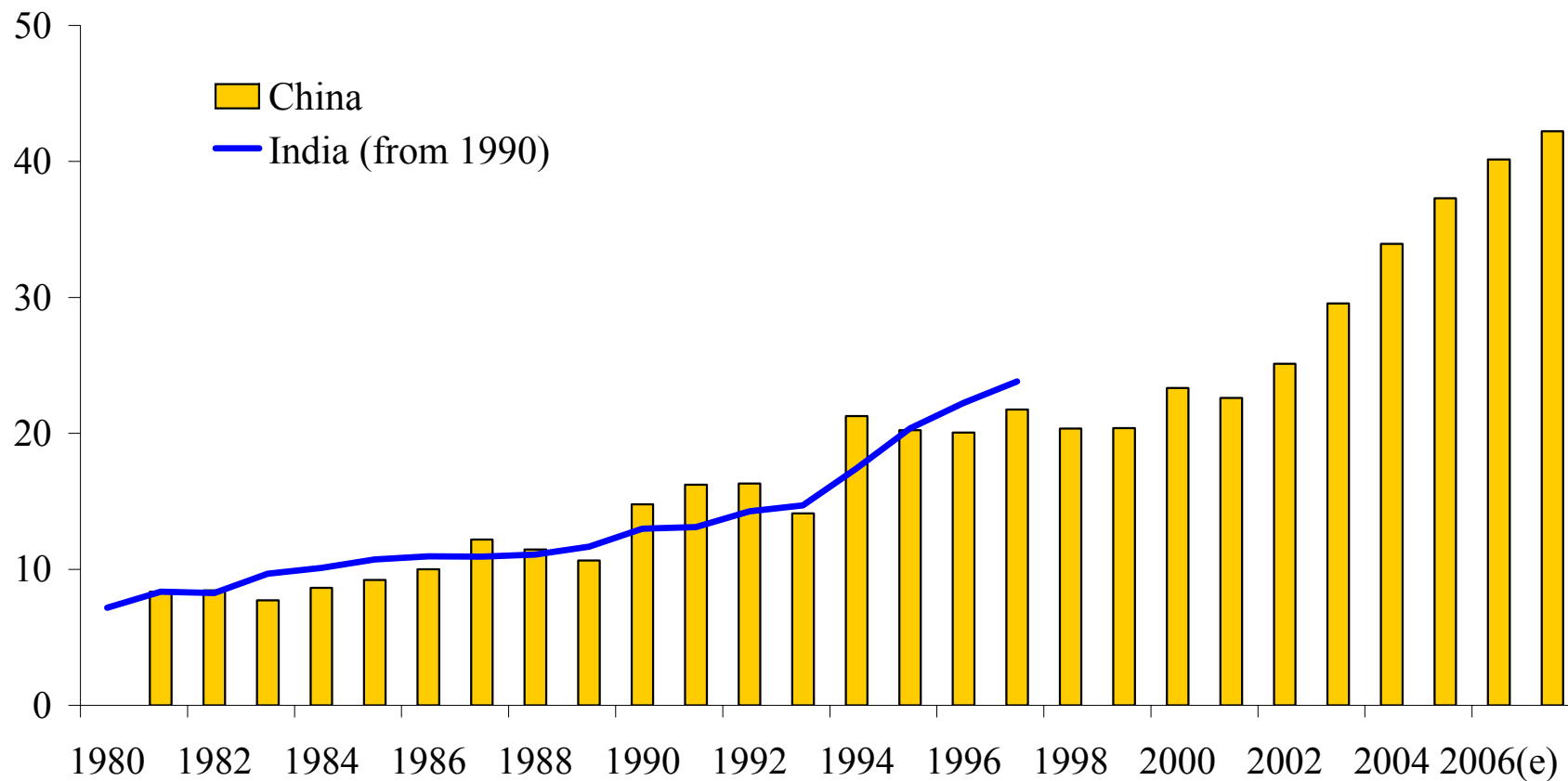
$$\text{India} < \text{China}$$

3. Is India converging towards a different model ?

$$\text{Lim}(\text{India}) \neq \text{Lim}(\text{China})$$

$$\text{India} = L^{10}(\text{China})$$

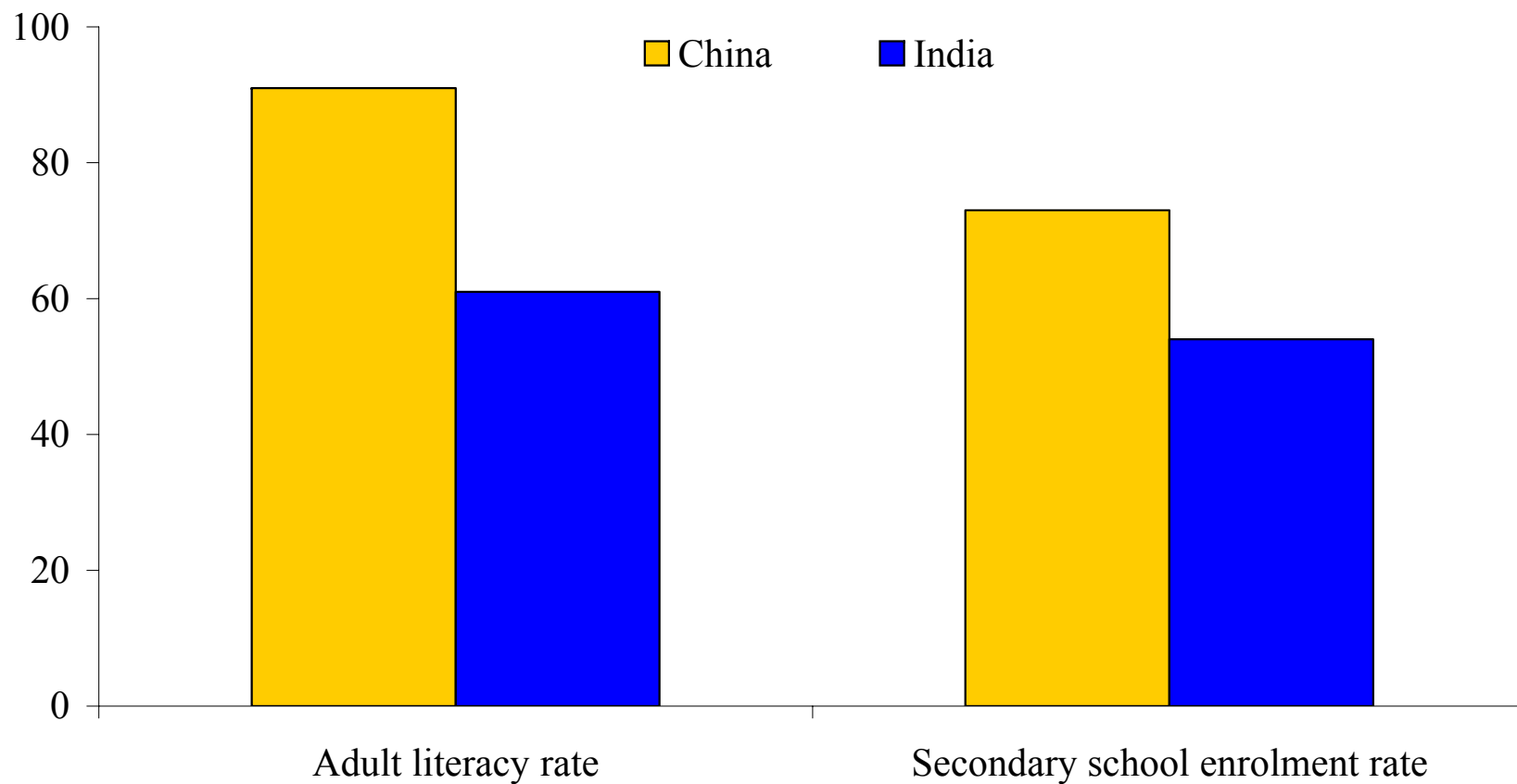
Exports of goods and services relative to GDP (%)



Sources: World Economic Outlook and ECB staff calculations.

No. 1 challenge for future growth: education

Human capital indicators
(%, in 2004)



Source: World Development Indicators.

Focus of the discussion on three main topics

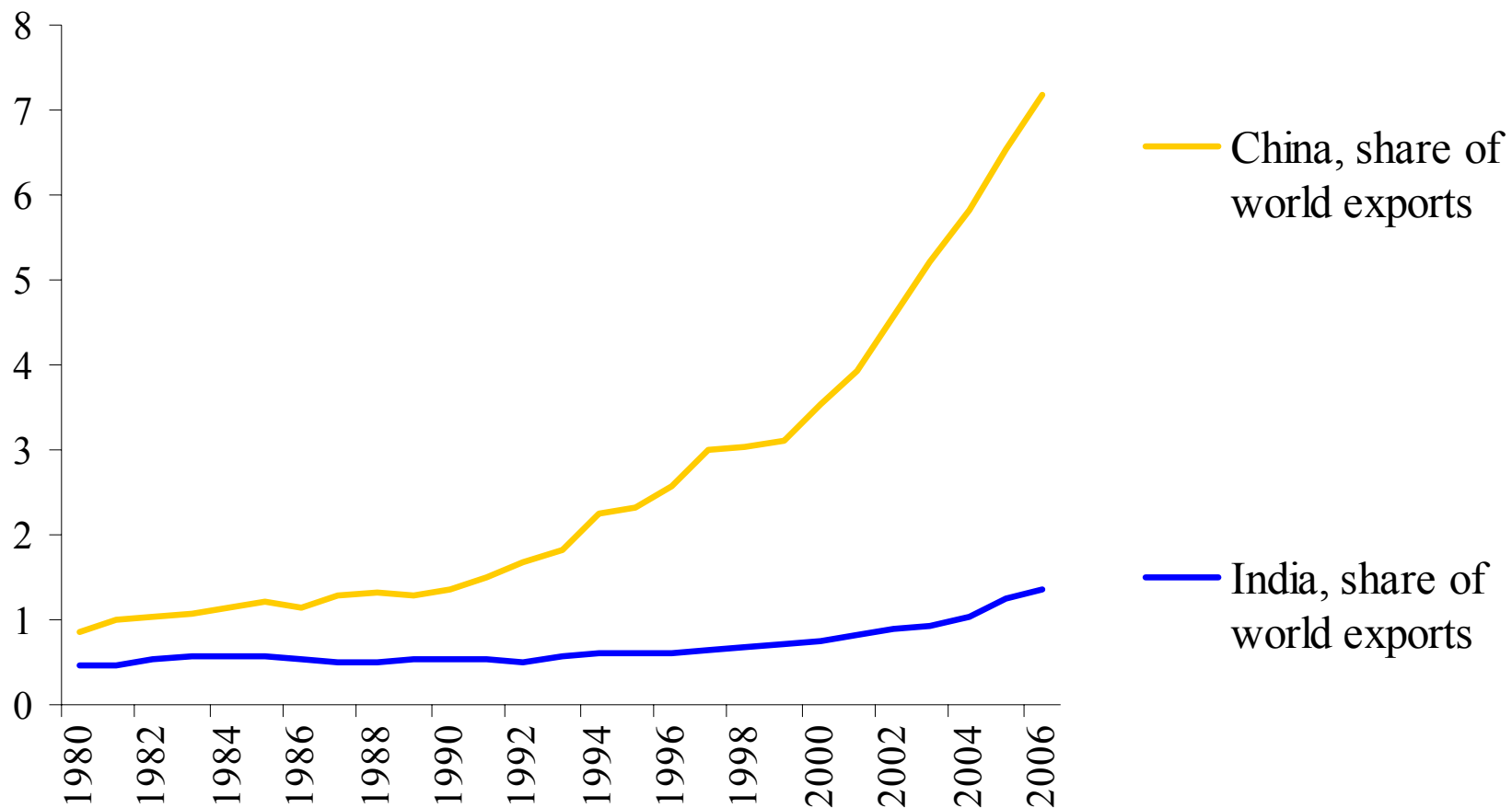
1. Trade openness and the effect of trade policy
2. The role of services (for India, China and RoW)
3. Trade specialisation (high-tech v. low-tech)
 - Not covered: (Net) trade integration
 - ...and what to conclude from that ?

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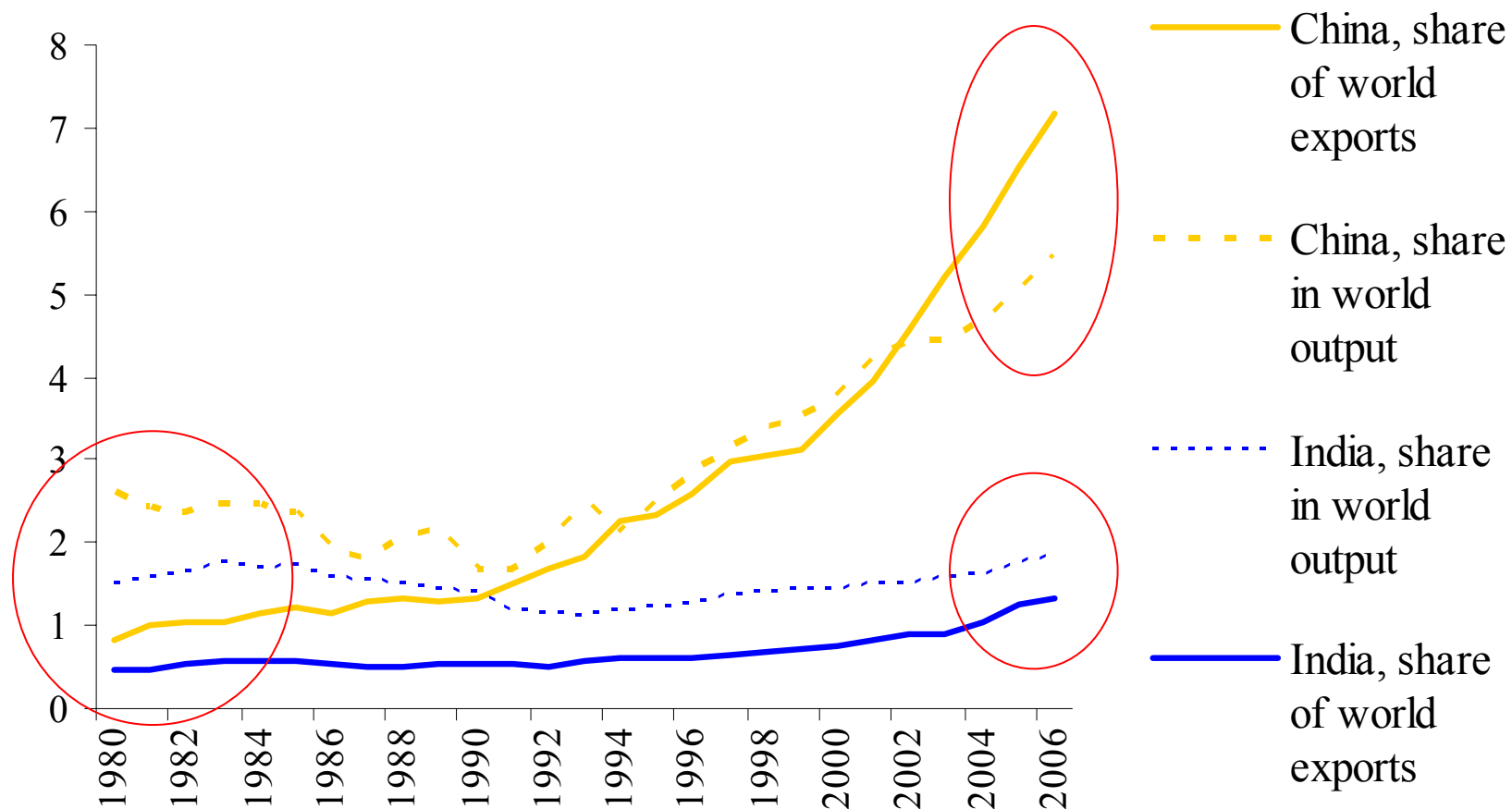
Chart 3 p. 28: share in world exports

China and India, shares in world exports and world output
(Percentage of China and India's exports and output in world exports and output)



Results: overall degree of trade intensity

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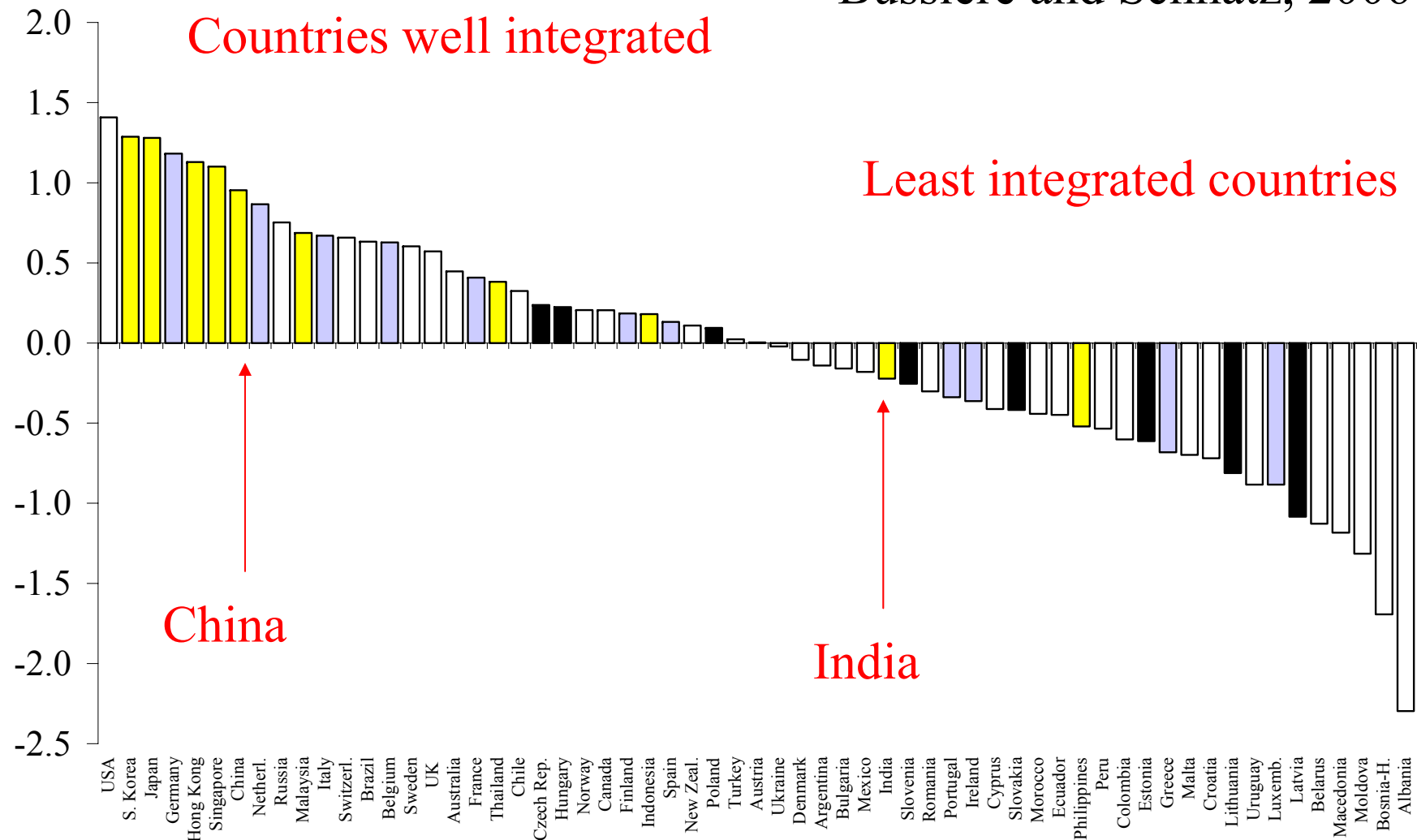


Comparison China/India openness

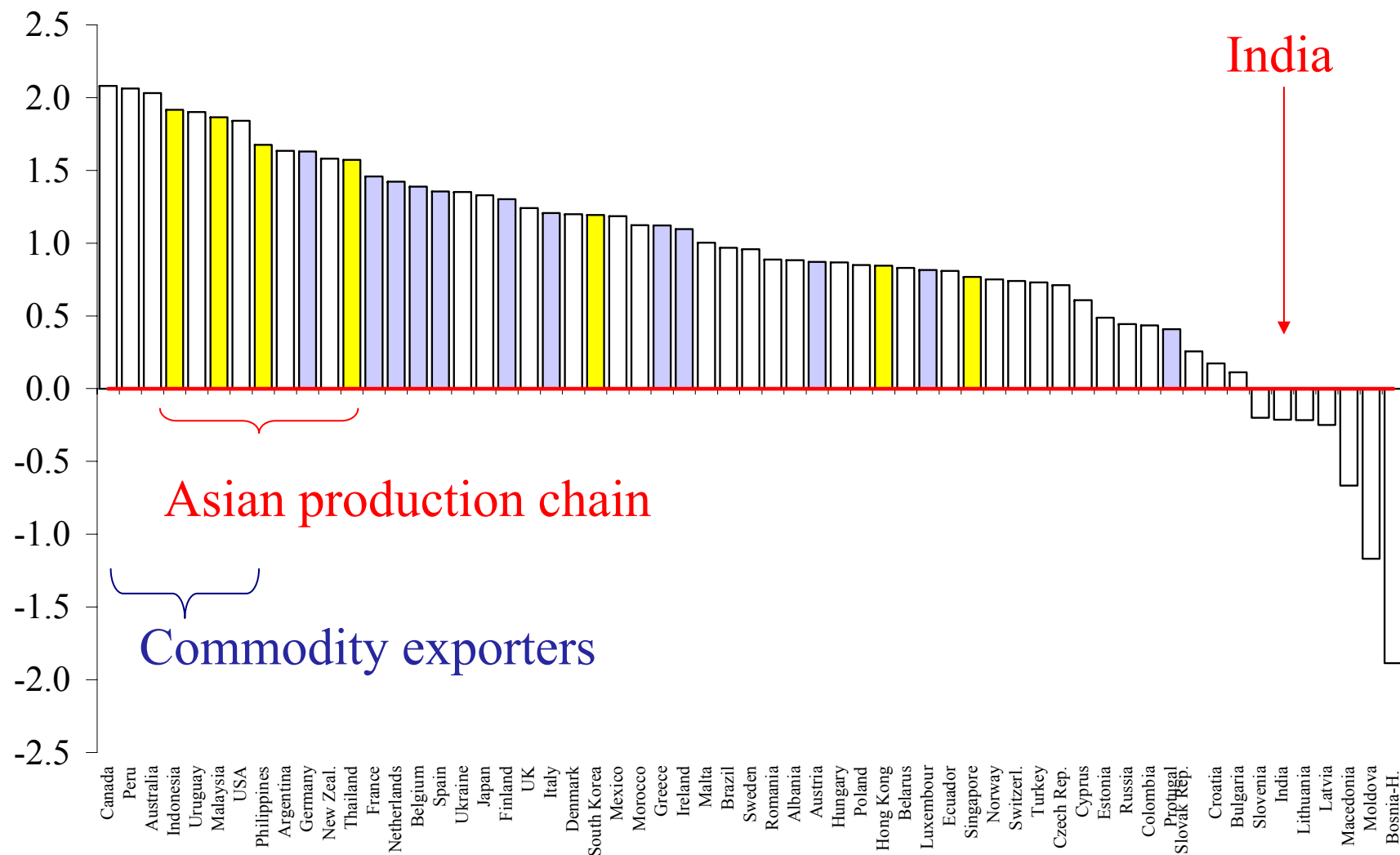
- What explains the striking difference between China and India in terms of trade integration?
- Need to control for obvious elements
 - gravity model
- Role of regional trade integration
- Role of trade liberalization / trade policy

Gravity model: overall degree of trade intensity

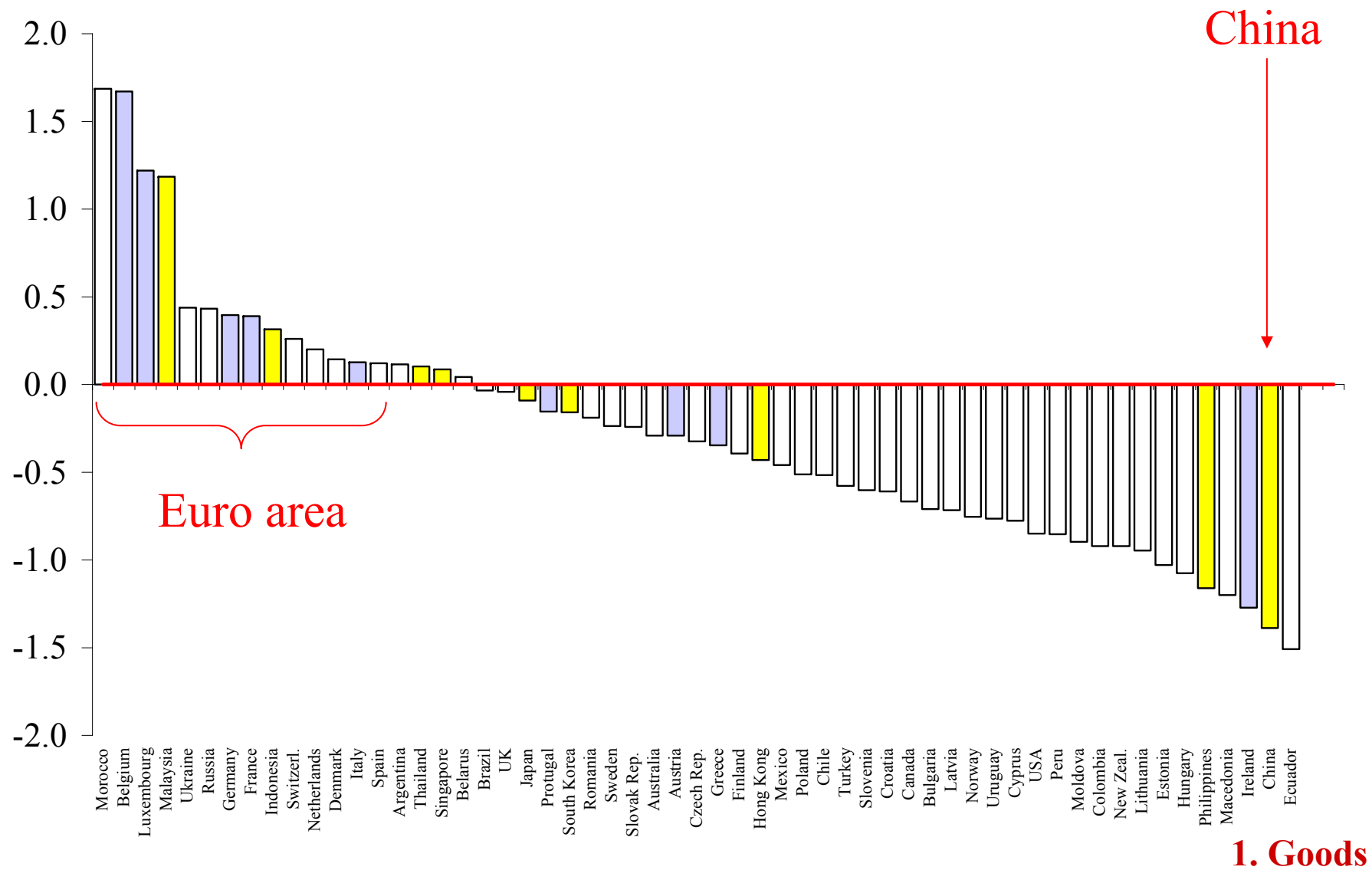
Bussiere and Schnatz, 2006



Results: depth of bilateral trade linkages for China



Results: depth of bilateral trade linkages for India



Some accounting

- Over the period 1994-2002, China's trade rose by 140%
 - China's real GDP roughly doubled
 - GDP of RoW rose by slightly over 40%
→ Model predicts 150% rise

 - In 2003, China's trade rose by 30%
 - China's real GDP rose by 10%
 - GDP of RoW rose by less than 5%
→ Model predicts 9% rise
- Can trade policy explain this gap?

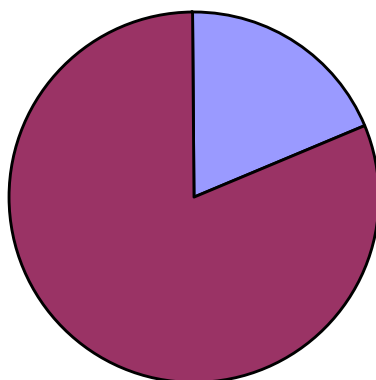
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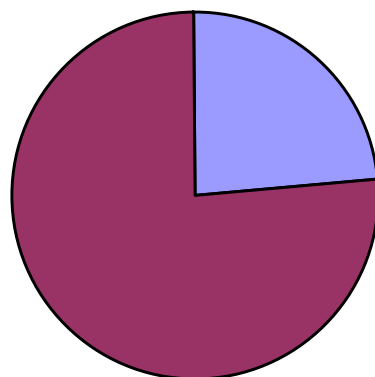
Motivation: the importance of trade in services.

Share of services in total exports (in blue)

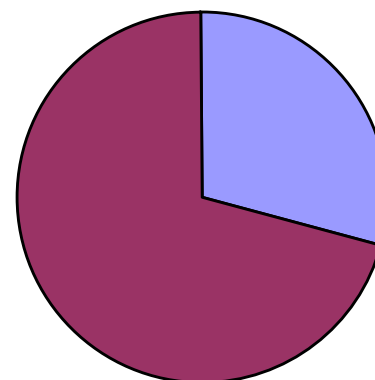
World: 19%



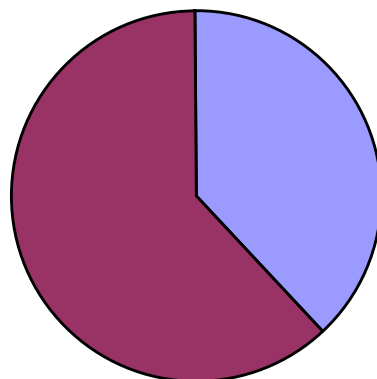
Euro area: 23%



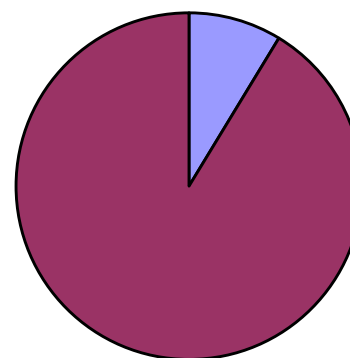
US: 29%



India: 38%



China: 8.7%

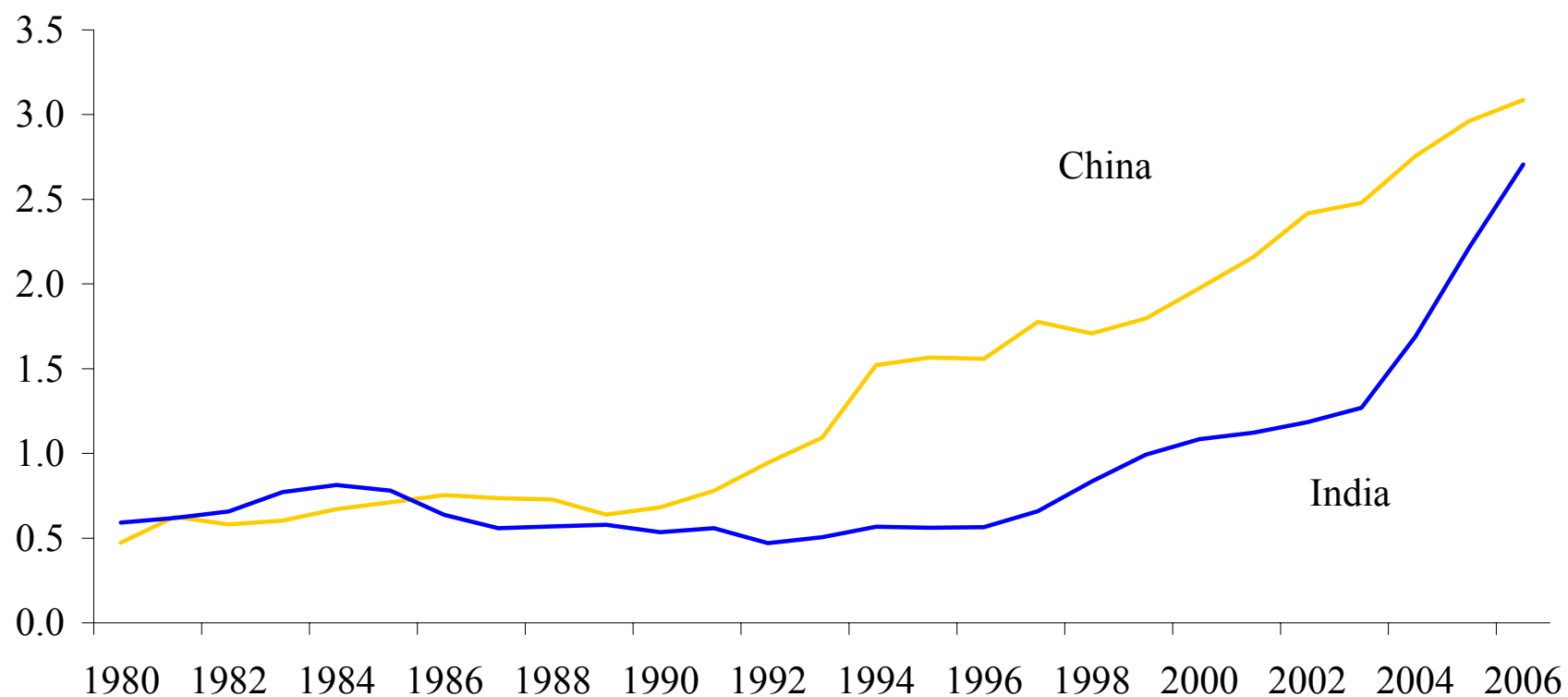


Source: WEO, 2006.

Motivation: the importance of trade in services.

Share of China and India in world trade (services)

Percentage of China and India's exports in total world exports, value terms

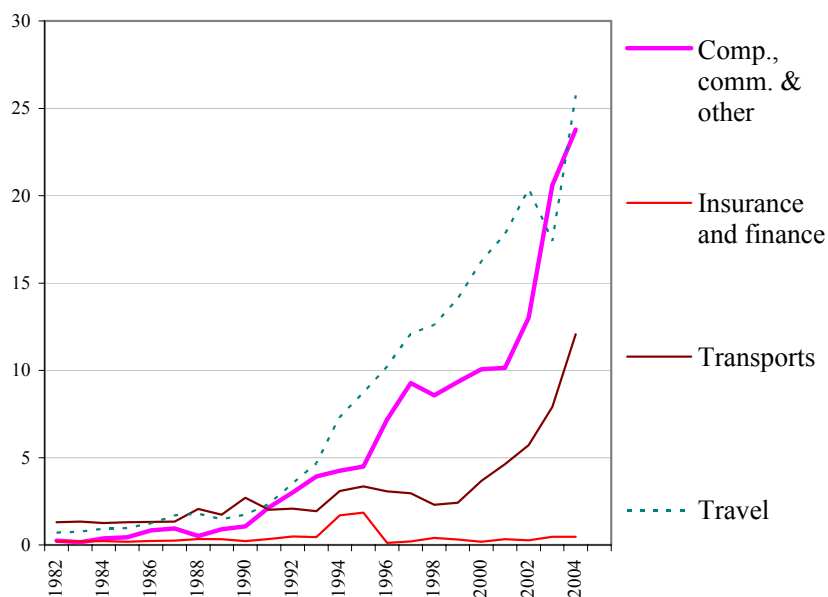


Sources: World Economic Outlook and ECB staff calculations, trade refers to services only.

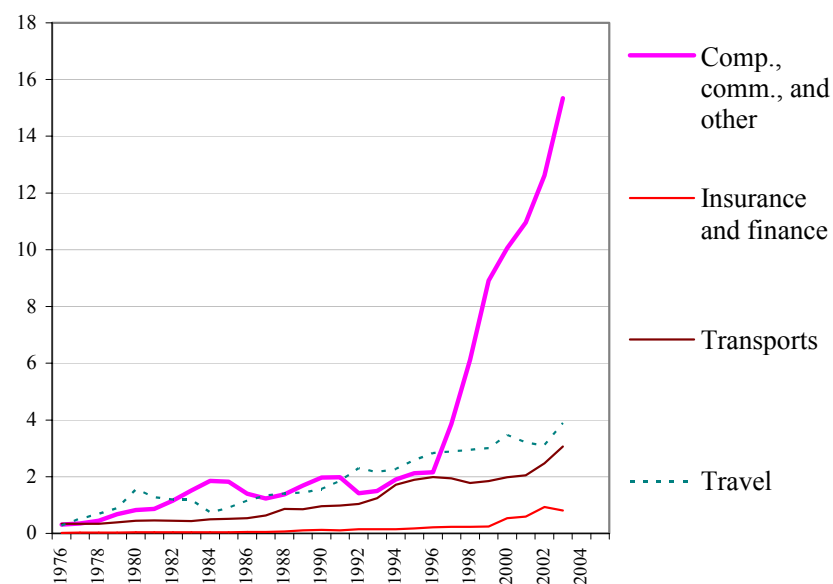
A look at services components

Exports of services, broad categories

China

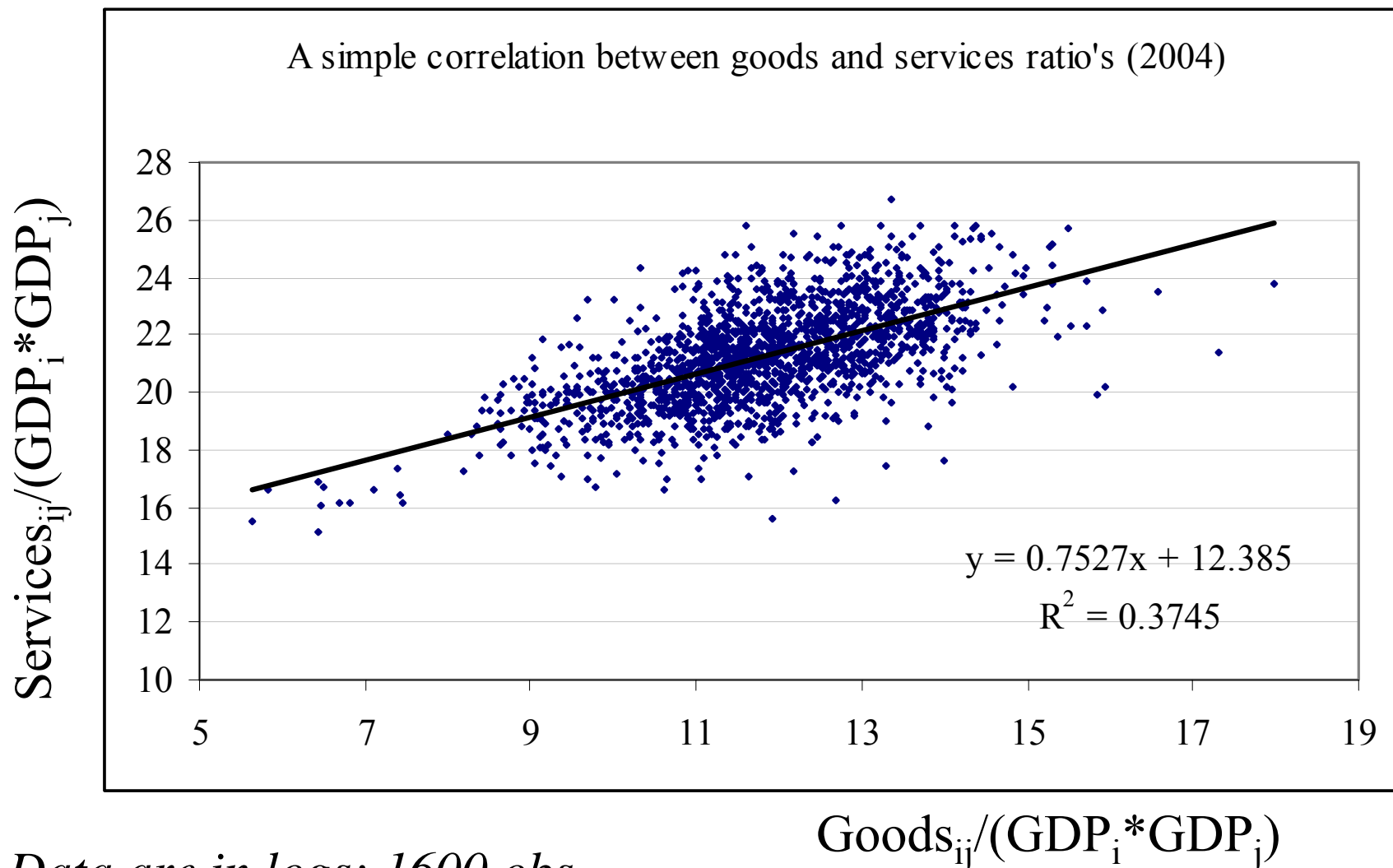


India



Source: World Development Indicators

Exports of goods and services are correlated



Data are in logs; 1600 obs

Why would goods and services be complements ?

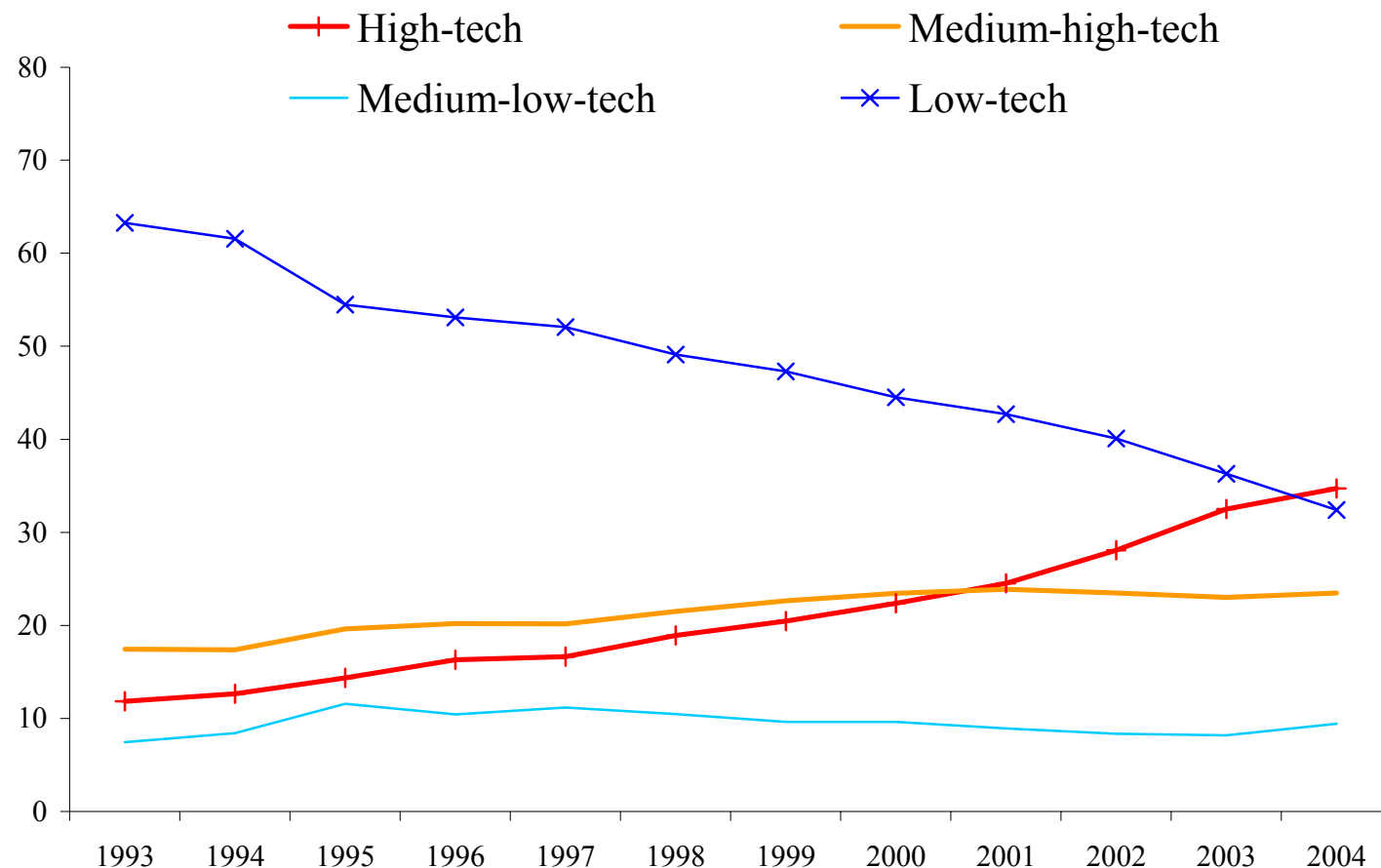
- **Direct effects** (complements in the production):
 - Transports and goods exports
 - After-sale services
 - High-tech goods and patent exports
 - High-tech goods exports and patents imports
- **Indirect effects:**
 - Network effect (getting to know people and countries)
 - Complementary sectors in terms of skills (IT related goods, IT related services)

Focus of the discussion on three main topics

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China climbing up the technological ladder...

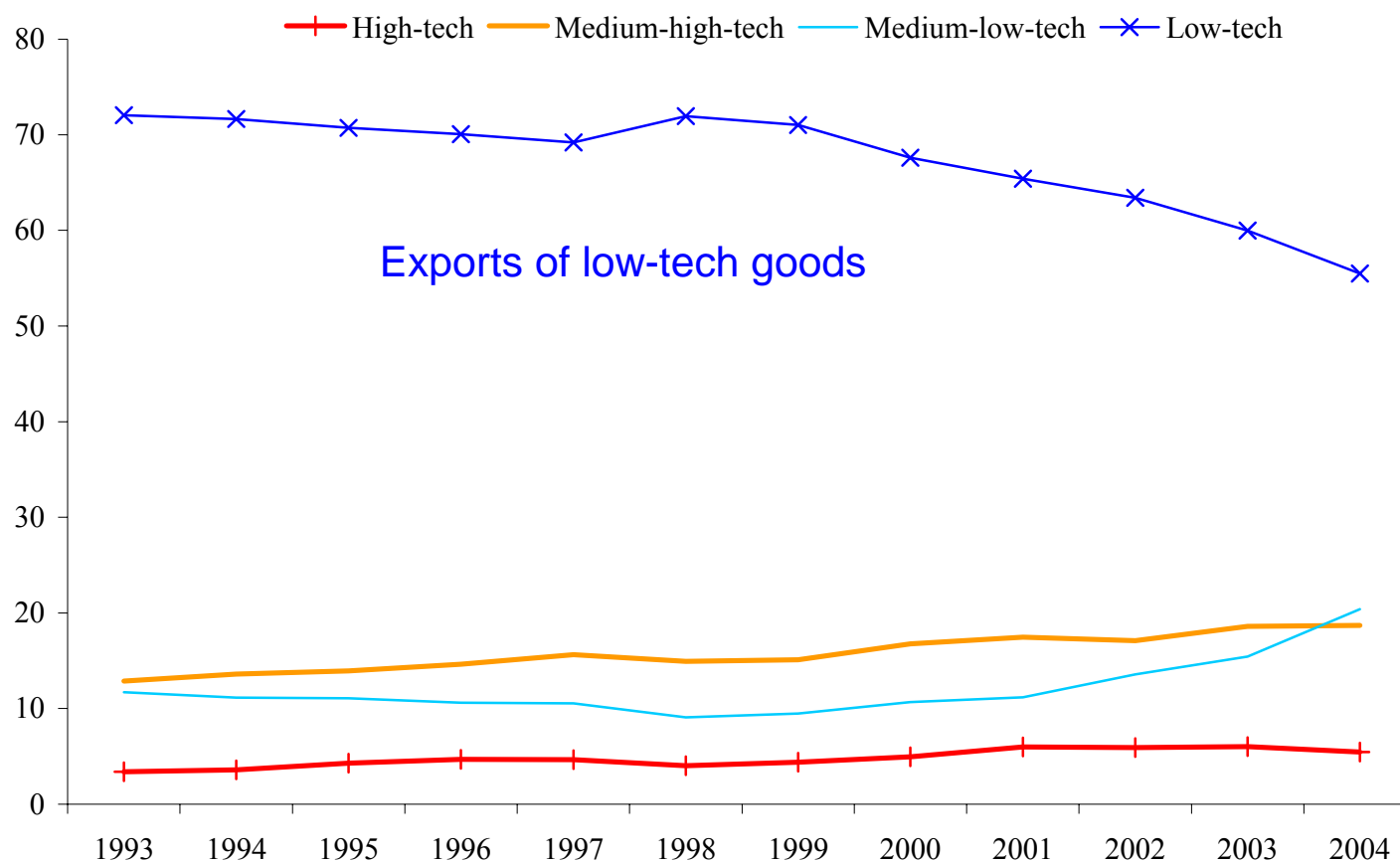
Breakdown of China's Exports by Commodity
(% total exports)



...while India remains very low tech

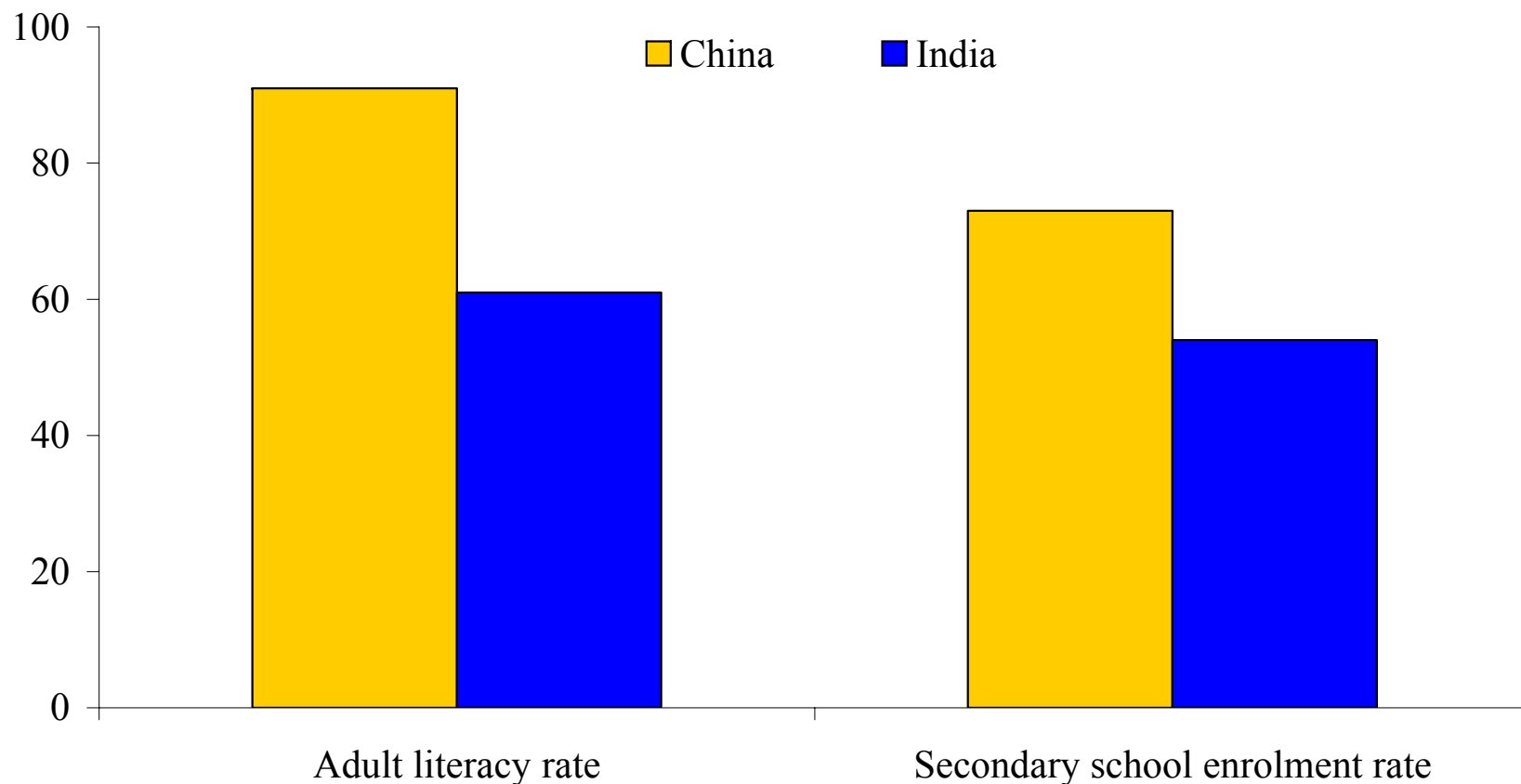
Breakdown of India's Exports by commodity

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China and India: not in the same boat!



Source: WEO, April 2007; 2006, % of GDP.

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Tentative conclusions and open questions

- The paper tackles an important issue and makes a contribution to the literature through:
 1. Systematic effort in data collection
 2. Discussion of trade policy and model simulations
- It could be further reinforced by focusing on the simulations and on the effect of trade reforms

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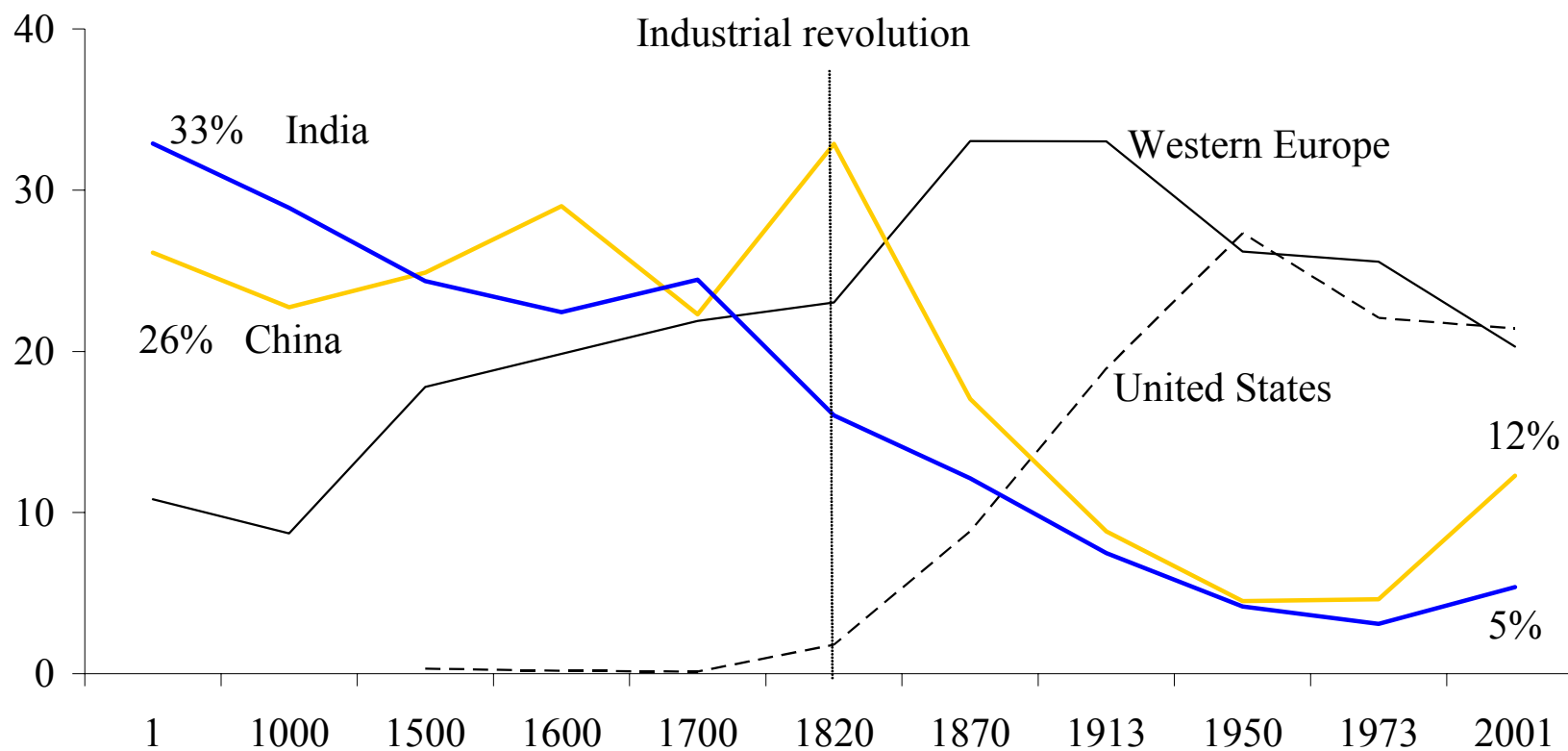
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China and India.....back to normal?

Share in World Output, 1-2001 AD

(%, with output data valued in 1990 international Geary-Khamis dollars)



Sources: Maddison (2003) and ECB staff calculations.