

Workshop on Evaluating the Economics of New Labour

St. Catharine's College, Cambridge

Ajit Singh

Globalisation, Industrial Revolutions in India and China and Labour Markets in Advanced Countries: Implications for National and International Economic Policy

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Summary

This paper examines the impact on labour markets in advanced countries (ACs) of the integration of the two giant fast-growing countries, China and India, with the liberalised global economy. The integration has occurred under “current globalisation” of free trade, free capital movements and domestic labour market flexibility. The first part reviews economic theory as well as several generations of empirical work on the effects of the fast expansion of exports from developing countries (DCs) on AC labour markets. Taking into account the positive, the negative, direct and the indirect effects, the most up-to-date empirical research suggests that globalisation has a small effect on output and employment in the U.S., that is just as likely to be favourable as being unfavourable.

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The paper highlights the pioneering contribution of Freeman (2005), which suggests that even if trade with the South has not previously disadvantaged North's workers, the doubling of the global labour force with India and China's recent integration with the international economy may have profoundly unfavourable repercussions for AC workers. Two major points of constructive criticism of the Freeman thesis have been emphasised here: (a) the lack of analysis of the relevant demand side variables and (b) inadequate recognition of the inherent economic strength and dynamism of the U.S. economy and its innovative large corporations. These should enable the U.S to maintain its technological leadership.

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In relation to policy, the underlying question examined here is whether India and China's industrial revolutions, which are a social imperative for these countries, can be sustained and made compatible with full employment and rising real wages for workers in the North. It is concluded that current globalisation cannot meet these twin objectives and that coordination and cooperation between nation states under alternative globalisation are much the better way, if not the only way, realising these goals. The reasons why this should be so are explained in the last part of the paper.

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Summary

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I. Introduction: the Context

One heartening feature of the evolution of the world economy during the last two to three decades has been the outstanding economic success of China and India – two of the world's most populous and hitherto extremely poor countries. Starting out with the world's largest absolute numbers of people living in poverty, in narrow economic terms the two countries have achieved impressive growth. Graph-1 provides a broad-brush statistical profile of GDP growth for the last four decades, for China, India, all medium and low-income countries, that is, developing countries (DCs) and for the world economy as a whole.

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The rapid economic expansion of these two giants has given rise to serious concerns in advanced nations (“the North”) regarding both the short and the long-term implications for their people. Since the end of the “golden age” of fast economic growth in ACs in the mid-1970s, most advanced economies have been suffering from serious labour market difficulties. Specifically, workers and trade unions blame competition from low-wage economies such as China and India for their problems, namely:

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- Deindustrialization: while India and China have been expanding their industry at a very fast rate and are undergoing industrial revolutions, the absolute numbers employed in manufacturing as well as the share of manufacturing in employment in ACs has been falling.
- There has been increasing income inequality in many ACs, particularly the UK and the US. This has often been ascribed to stagnant or falling real wages of the unskilled workers in the North as a result of competition from the low-wage countries of the South, which, moreover, are alleged not to obey international labour standards.

There have been high rates of unemployment particularly in the European Union (EU), which are also popularly attributed to competition from the South.

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In the post-World War II period, the economics profession, as well as the traditional liberal establishment in the US have favoured free trade and taken a broadly benign view of the effects of competition from poor countries on economic welfare in the North. However, more recently, the methodology for examining this issue has provoked passionate controversy. Krugman (2000) and Leamer (2000), two of the world's leading trade economists, have accused each other of not understanding the elements of trade theory in their respective methodological approaches to these issues. The legendary Paul Samuelson emerged from retirement to argue that while trade may generate gains for many workers it may do actual harm to others, and, in practice, the winners may not compensate the losers.

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To sum up, the present study addresses three analytical and policy questions, as follows:

- The extent to which China's and India's economic impact on the rest of the world is likely to be different from that of preceding rapid industrialisers (post-World War II Japan and Korea and Taiwan). A priori, a difference may arise due to the huge size of the two economies, as well as from their large absolute numbers of highly skilled workers.

How to ensure that China's and India's present industrial revolutions are sustained as it will be argued that they are a social imperative for these countries. They should not be brought to a premature halt by the deficiencies of current globalisation. The latter include, for example, the manifest lack of international coordination of economic activity and volatility of international and national financial markets.

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•Is the current globalisation efficient from the perspective of labour both in the North and the South? Is there a constellation of policies and institutions that could lead to higher wages and higher levels of employment instead of a trade-off between the two, as is often the case under current globalisation.

These are complex issues, but of great immediacy for economic policy analysis, and inevitably subsume many themes and sub-themes.

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II. India and China and the World Economy

China and India have both made remarkable progress since about 1980, when each embarked on economic reform, though under wholly different circumstances. In China, the end of the 1970s marked the emergence of a pragmatic, outward-oriented economic and political regime under the aegis of the communist party. It was closely associated with the rise within the party of Deng Xiao Ping and his open door policy. Over the following 20 years, China's economic growth averaged nearly 10 per cent, taking into account a recent upward revision of China's GDP statistics (See further, IMF, 2006, Box 1.6, page 37).

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In India, the 1980s marked a different kind of turning point as the country began to undertake deregulation of internal investment activity and regional decentralization of economic decision-making. This policy shift helped raise the rate of growth from the so-called “Hindu rate” of 1.5 per cent annual growth of GDP per capita to about 4 per cent. This acceleration in economic growth continued into the 1990s and the data suggests that it has increased further during the new century and, for the last three years, the annual GDP growth rate has averaged nearly 8 per cent – a rate never achieved before in India.

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These transformations in the Chinese and Indian economies are reflected in widespread progress on a number of fronts. Both countries have greatly increased their share of world exports of manufactures, though at a much faster pace for China than India (Table 3). In absolute terms there are more engineering and science students graduating from each of these two countries than from either the US or the European Union. There have also been important structural changes in both economies, though subject to qualifications discussed below. Table 4 further indicates that, on various fronts, at least in the short-term and up to now, China has achieved relatively more than India.

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Since the beginning of China's open door policy in 1979, the country has broadly followed a strategy of export-led growth. As a consequence, the Chinese economy has experienced fast integration with the world economy. The Chinese share of world manufacturing exports rose from less than 1 per cent in 1981-1985 to 6.2 per cent in 2001-2003. Whalley (2006) reports that the growth of total exports in recent years has been of the order of 30 to 40 per cent and that, if these growth rates continue, by 2010 China will account for a massive 50 per cent of world trade. Starting from a tiny share of world trade (imports plus exports) in the 1980s, China today is the third largest trading economy after the US and Germany. Table 3 also indicates that, in 2003, the Indian share of total world merchandise trade (imports plus exports) was only 0.7 per cent compared with 5.8 per cent for China.

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India's economic growth, on the other hand, has been more geared to the domestic market, and hence its export sector is currently of less concern to other countries. India's economic growth is therefore in principle more sustainable and less subject to retaliatory measures.

These issues of China's and India's growth strategies, their compatibility with other national economic interests and policy implications both internally and externally will be discussed in detail in later sections.

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III. Sustainability of China's and India's Industrial Revolutions

In considering the sustainability of China's and India's industrial revolutions, it is useful to start with the observation that both countries' accelerated economic growth since 1980 provides in different ways serious challenges to received economic analysis.

In the case of China, contrary to what current theory of development suggests, there are no well-defined property rights either in agriculture or industry; the markets for most products are highly segmented and imperfect; the capital market can best be described as being embryonic; the labour market is still subject to considerable government planning and although there is some fluidity in the market for unskilled industrial labour there are still wide-spread restrictions on internal migration.

From the perspective of orthodox economic analysis, these imperfections impede resource flows and lead to misallocations. Nevertheless, notwithstanding these deficiencies, the Chinese economy has achieved extraordinary growth for twenty years.

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As in the case of China, close examination of the post-1980 acceleration of economic growth in India also does not fit the orthodox analysis. As noted earlier, contrary to the expectations of the IFIs and orthodox economists, the major turning point in India's economic growth occurred in 1980, rather than in 1990. Had it occurred ten years later, faster growth could have been ascribed to the liberalisation programme introduced by the government in response to the 1991 crisis.

Students of these two giant economies raise questions about the sustainability of these high growth rates owing to the observed slow rate of structural change

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Slow structural change is understandable in the case of economies that are not growing fast, but much less so for China and India which have grown rapidly over the last quarter of a century. As Table 4 indicates the share of industry in India rose from 20 per cent to 27 per cent in the period 1960 to 2000. However, most of this increase took place between 1960 and 1980. Since the latter date industry's share has increased by only one percentage point. In China, the share of industry rose from 47 to 49 per cent between 1980 and 2000. The corresponding figures for the share of industry indicate a decline in the period 1980 and 2000 in all Latin America countries, except Venezuela, where the high share of industry is presumably due to oil extraction and refining rather than to manufacturing.

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However, it is found that for many DCs, the share of industrial employment has begun to fall at much lower levels of per capita income than has hitherto been the case. In that sense, Table 5, that gives sectoral employment shares, suggests that China has been de-industrializing mildly for some years now, while India has not. The latter's share of manufacturing employment has been increasing, albeit at a very slow rate. However, further analysis indicates that the share of *modern* manufacturing labour in India has declined, so that all net additional manufacturing jobs have been created in the informal sector.

An important question arises whether this premature de-industrialization pattern of economic development will prove to be a hindrance to further development of the economy or whether it could be a benign feature

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This issue is particularly important for the Indian economy, where services have grown faster than manufacturing in the last ten years. Services have grown at an annual rate of 8 per cent while manufacturing has grown by 6 per cent (Dasgupta and Singh, 2005). The faster growth of services is largely due to the fast growth of the use of IT in domestic and foreign industry and services. But fast growth overall has been jobless, that is, in both the formal manufacturing as already noted above, and also in the formal services sector. Many Indian economists have argued that this pattern of growth is lopsided and unsustainable. They suggest that India will need to have fast growth of low-skill manufactured exports to remedy the situation and avoid social unrest.

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It may be noted that the IT sector itself, despite India's advantage, can only make a limited direct contribution to growth of output and employment as it employs a mere 1 per cent of India's labour force, while accounting for twenty per cent of its exports. However, the latter contributes indirectly to total output and employment growth by virtue of helping to relax the balance of payments constraint for the economy as a whole. This contribution is already significant and is expected to become even more so in the future. The Economist (June 3, 2006, p.7.), in a survey of business in India, reports on a recent Nasscom-McKinsey study forecasting India's BPO (business back office) export revenues. The latter were worth US\$ 5.2 billion in 2005 and are expected to increase five-fold to reach a level of over US\$ 25 billion in 2010, a compound annual growth rate of 37 per cent. Using a Kaldorian analysis, Dasgupta and Singh (2005, 2006) have argued that the ITC sector is an additional engine of growth for the Indian economy, now and well into the future. It more than meets the criteria normally applied to manufacturing for regarding it as an engine of growth.

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Finally, it should be noted that, despite the disappointing overall formal sector employment outcomes of fast economic growth, it is socially imperative that India's industrial revolution should continue, including the further development of the IT sector and its progressively wide use in all other sectors of the economy. This is the challenge facing India's policy makers to bring about wide adoption and diffusion of this technology in order to enhance competitiveness and productivity throughout the economy. This alone may enable the economy to be run at a level that would ensure full employment at rising real wages. The latter constitute the long term requirements for social peace(Singh, 2000).

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IV. Globalisation and Labour Market Difficulties in the North

It will be useful to start with some stylised facts concerning labour market difficulties in ACs, which are normally attributed to integration of developing countries with the world economy and the consequent competition from low wage DCs.

The growth rate of the average real wage in the US was 0.25 per cent per year during the 1980s and 1990s compared with the historic norm of 2 per cent per year.

Wage dispersion and income inequality in the US greatly increased during the 1980s and 90s, having remained steady or declined for almost fifty years before.

It is a remarkable fact that the US economy has been much more stable over the last fifteen years than ever before.

However, paradoxically the incomes of the firms and middle-income workers are subject to much greater fluctuations than was the case twenty years ago

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There has been considerable de-industrialisation, with millions of people leaving good jobs in manufacturing and being relocated in 'informal' service sector jobs, or remaining unemployed.

In contrast to acute deterioration in income distribution in the US, European countries have suffered instead from mass unemployment (see Graph 2).

A central question for this paper is to what extent if any these labour market difficulties of the North can be ascribed to competition from the low-waged labour product from the South.

I discuss in this section the various theoretical and empirical approaches to answering this question. For reasons of time I will not go into this discussion here, but my conclusion is as given in the summary at the beginning of this presentation. As noted there, the general conclusion from several generations of empirical studies is that taking into account the positive, the negative, direct and the indirect effects, the most up-to-date empirical research suggests that globalisation has a small effect on output and employment in the U.S., that is just as likely to be favourable as being unfavourable.

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V. Dangers from New Globalisers for ACs – The Freeman Thesis

It is important to note that although globalisation may not have been a malevolent force in the past, there is no guarantee that it may not adversely affect the North's labour markets in the future. This is precisely Prof. Richard Freeman of Harvard University's (2005) contention in his 2004 Siciliano lecture. Freeman's contribution is important in part because ten years ago he had written a seminal article with a provocative title "Are Your Wages Set in Beijing"? Freeman (1995) at that time argued that this was not the case and there was insufficient integration between the U.S. and the Chinese labour markets to warrant the conclusion that it is the Chinese rather than the U.S. labour market, which determines employment and wages for U.S. workers. Professor Freeman today reaches more or less the opposite conclusion.

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The essential basis for Freeman's argument is his observation that the global labour force has all of a sudden doubled with the entry of India, China and former Soviet Block countries into the liberalised global market in the recent period. He suggests that in 1985 there were about a billion workers who competed with each other under 'globalisation' i.e. these countries by then had achieved more or less free trade and more or less free capital movements amongst themselves. This globalised countries group at the time consisted of the OECD economies and Latin America. According to Freeman's estimate, approximately 960 million people worked in these countries in 1980. By the year 2000, the size of this labour force had increased to 1460 million workers, mainly through population growth in the developing countries part of this group. However, with the entry of India and China and the former Soviet bloc countries into the globalised economy, by the year 2000 the global labour force had doubled to 3 billion, of which nearly half, i.e. 1.47 billion were the Chinese, Indian and other new entrants to the labour force (see Graph 2). This doubling of the labour force of the world's integrating liberal capitalist economy Freeman suggests, has, on the whole, pleasant consequences for low income countries such as India and China, but potentially rather unpleasant outcomes for high wage workers in rich countries.

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The conventional analysis of North-South trade involves the notion that countries should produce according to their comparative advantage, with rich countries specializing in skill intensive or capital-intensive products and poor countries in labour-intensive and less skilled products. Freeman regards this theory as obsolete in view of the outsourcing of many skill intensive jobs to the South and the ability of countries like India and China to produce more absolute numbers of engineers and science graduates than the U.S. (For comparative figures on the U.S. and China see Graph 3.) It is further argued that the probability of achieving technological innovations depends on the *absolute* numbers of technically trained people rather than their relative numbers

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VI. Supply-side Shocks and the Growth of Demand

At a theoretical level Professor Freeman's essential argument is that the supply side shock of doubling of the world's labour force will have a profound impact on labour markets in other countries. The size of the shock will make it disruptive.

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In the specific case of the integration of China and India with the world economy, economic growth in these two countries is on the whole likely to be more complementary than competitive with the U.S. economy and that of many other countries. The essential point is that India and China, by virtue of their size and high growth rates which they require for meeting their huge employment and other social needs, now constitute another growth pole for the world economy. Together, these two countries account for 20 percent of world production and world demand. Their demand side effects have already led to expansion in several countries, both developed and developing. There is evidence that in the recent period China's trade with Japan was helpful in preventing the Japanese economy from going into recession. As Overholt (2005) notes "Chinese demand provided the stimulus that lifted Japan out of recession [during the slowdown in world economic growth following the collapse of the technology bubble on the stock market]."

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It is difficult to overstate the risk the world economy faced from the Japanese situation, where mountainous debt created the risk of a domino-like collapse inside Japan and subsequent rippling collapses around the world. That risk seems to have passed, helped by a critical margin of stimulus from China. Few books are written about global depressions that never happened, but it is quite possible that China's globalisation saved us from beginning the new century with a drastic global economic squeeze." Developing countries in general have benefited from the demand stimulus for raw materials and commodities provided by fast economic growth in China and India leading also to faster economic growth elsewhere. Sustained growth in these two countries thus provides a stable source for the growth of world demand in general with favourable effects on the developing as well as developed countries.

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The aggregate and sectoral demand effects of Chinese and Indian economic expansion manifest themselves in other ways too. For example, the production of cheap goods in India and China, particularly in the latter, helps reduce inflationary pressures in advanced countries thereby allowing their economies to be run at higher levels of output and employment than they otherwise would.

As Raghuram Rajan (2006) notes: In my view, however, the true impact of globalisation has been in contributing to wage and price restraint at a time when central bankers were establishing their inflation-fighting credibility, thus allowing them to achieve targets and gain credibility without the need to tighten to politically difficult levels."

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There are undoubtedly also some negative effects of Chinese and Indian economic growth on the U.S. economy. The most important of these is the competition from the two countries for the world's scarce raw materials and commodities

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The above considerations do not show adequately, if at all, in the three generations of the conventional studies of the impact of globalisation on U.S. labour markets, partly because they are partial equilibrium studies rather than general equilibrium studies. There is very little research of the latter kind that is available. There is, however, a recent contribution by Bailey and Lawrence (2006) that addresses this methodological problem to some extent. This article suggests that the jobless growth in the U.S. economy in the first half of this decade was not due to globalisation as is commonly believed, but to other factors. It suggests that imports from the Third World, including out-sourcing, had a negligible impact on U.S. labour markets. Much the greater impact of globalisation came from reduced U.S. exports to other countries that was mainly a result of the appreciation of the U.S. dollar against other currencies. The other main reason for the jobless growth and unfavourable labour market outcomes such as job instability arose from insufficient expansion of aggregate demand in the U.S. economy.

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Although Professor Freeman has raised the right question about the potential for disruption which doubling of the labour force raises, he perhaps underestimates the capacity of the U.S. economy to provide employment and adjustment to those who would lose their jobs as a result of competition. As John Hicks suggests, although there is no guarantee that all those who have lost their jobs due to competition in the product markets will find jobs elsewhere, the probability is much higher that they will do so in a fast-growing, dynamic economy than in a stagnant, low-income economy. The U.S., during the last ten years in particular, is precisely the former kind of economy.

Table 7 provides the data on growth, productivity, IT services and other relevant variables for G7 countries on a comparable basis.

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In short, the above data suggest that the U.S. has one of the most dynamic economies in the world. The U.S. dynamism is remarkable for the fact that it is not a catch-up economy but a frontier economy which has to do the hard work of discovering new knowledge in order to achieve sustained growth. In these circumstances the significant recent trend increase in output and productivity growth rates over that of the last hundred years is quite extraordinary.

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Professor Freeman raises two other issues that require comment in the light of the discussion above. He is worried about the U.S. economy being able to retain its technological lead in view of the much larger number of science and engineering graduates in developing countries. This apprehension also seems to be somewhat overdrawn. It is indeed true that India and China have large educated labour forces, but their capacity to innovate is hugely below that of the U.S. This is because innovation does not just depend upon the ideas of science and engineering graduates, but also importantly on the scientific and technical infrastructure, on the country's technical culture, on organizational capabilities of firms. In these respects, the U.S. is way ahead of India and China and will remain so for a long time. Baumol (2002) has convincingly argued that the U.S. industrial structure of oligopolistic competition between giant firms is capitalism's built-in innovating machine. There is no reason to believe that this machine will become any less potent in the future. However, it may also be the case that substantial government intervention may also be required in this area to achieve the desired social goals. The U.S. economic historian, William Lazonik suggests that the U.S. government is already doing a great deal of work in this area.

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VII. World Financial Imbalances

In order for current globalisation to be sustainable it must not only address the fears and anxieties of high-waged workers and salary-earners of advanced countries, but also the difficulties of China and India in continuing with their industrial revolutions on integration with the world economy. With respect to the latter an important issue concerns current existence of huge global financial imbalances which, depending on the way the rebalancing occurs would have a profound influence on the short- and medium-term prospects of developed as well as developing countries; it may indeed also affect their long-term growth and development prospects. Not only is the resolution of these imbalances salient for the countries running such imbalances (e.g., China and U.S.), it will also profoundly effect the prospects of countries like India which are not regarded as being contributors to these imbalances.

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There are also however, important arguments against a hard landing. These include first of all the question of why such an event has not happened so far. Many economists have been suggesting hard-landing scenario for a long time, none of which has yet materialised. It may well be the case that there are significant forces that protect the value of the dollar and not allow it to go into a freefall. These forces have, in part, been discussed in section V and include the outstanding record of the U.S. real economy during the last decade and its inherent strength and dynamism; the fact that in geo-political terms U.S. is a much safer haven for the capitalist world than the currencies of other countries such as those of the Eurozone and Japan.

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So although there are reasons to believe that the hard-landing may not necessarily happen, the probability of its occurrence cannot be ruled out. In view of the damage such an event can cause to economic growth in DCs as well as ACs, an appropriate policy response would involve orderly rebalancing of the surpluses and deficits by cooperation between countries. There is by now a general consensus that the optimal solution would require concerted actions by both surplus and deficit countries. Specifically the leading surplus countries including China would need to revalue their currencies while the U.S. and other deficit countries may need to devalue. It would also require relatively faster growth of aggregate demand in the Eurozone and Japan and correspondingly slower growth in the deficit countries such as the U.S. Such international cooperation implies deep interference with the market forces that is inconsistent with current globalisation of free trade and free capital movements. This alternative globalisation, based on close cooperation between countries, is able to provide coordination, prevent potentially dangerous market failures of current globalisation and achieve socially desirable outcomes. Such alternative globalisation is more likely to result in the positive-sum outcomes from international trade and capital movements, both for rich and poor countries, for China and India as well as the US.

To sum up, faster growth of world demand is easier to organize today than in the past. This is mainly because of industrial revolutions in China and India and the social imperative for these countries to achieve faster growth of output and employment to meet the basic needs of their people. China and India together constitute about twenty (20) percent of the world demand and therefore represent a new growth pole for the world economy. Further, in this context, Krugman's 1994 observation on changes in productivity growth and growth of real wages and real demand continue to be highly relevant. It is worth reproducing Krugman's analysis on this issue in his own words at some length:

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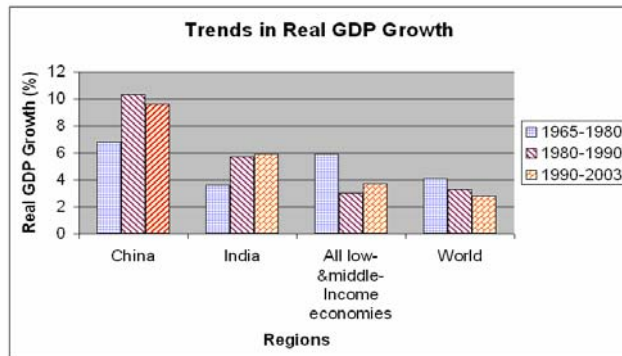
Economic history offers no example of a country that experienced long-term productivity growth without a roughly equal rise in real wages. In the 1950s, when European productivity was typically less than half of US productivity, so were European wages; today average compensation measured in dollars is about the same. Japan climbed the productivity ladder over the past thirty years, its wages also rose from 10 per cent to 110 per cent of the US level. South Korea's wages have also risen dramatically over time. Indeed, many South Korean economists worry their wages may have risen too much. South Korean labour now seems too expensive to compete in low-technology goods with newcomers like China and Indonesia and too expensive to compensate for the lower productivity and product quality in such industries as autos. (Krugman, 1994, p.116)

Although there have been fears that China will not obey Krugman's law, all the signs are that with the continuing boom, many sectors of Chinese workers are able to obtain real wage increases close to the achieved rate of growth of productivity. This augurs well for the harmonious development for India and China as well as the US and the North, albeit under alternative rather than current globalisation.

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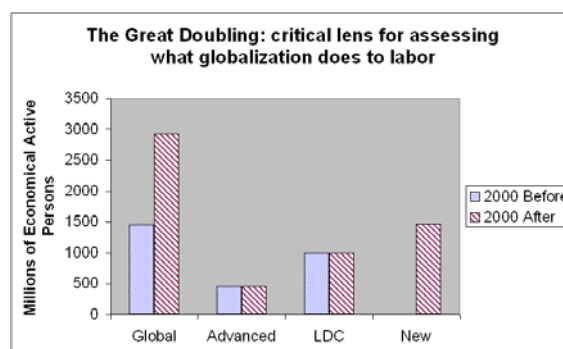
Graph 1. Trends in Real GDP Growth: China, India, developing economies, and the world 1965- 2003
(Average annual percentage growth)

Source: Adapted from Dasbupta and Singh (2005)



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Graph 2



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Table 4

(value added as percentage of GDP)

	Agricultural			Industry			Services		
	1960	1980	2000	1960	1980	2000	1960	1980	2000
Asia									
China	..	31	16	..	47	49	..	22	34
India	50	37	27	20	26	27	30	37	46
Indonesia	54	26	17	14	42	47	32	32	36
Korea	37	16	5	20	41	44	43	43	51
Malaysia	37	24	12	18	37	40	45	39	48
Pakistan	46	31	26	16	25	23	38	44	50
Philippines	26	23	17	28	37	30	46	40	53
Sri Lanka	32	28	21	20	30	27	48	42	52
Thailand	40	25	10	19	29	40	41	46	49
Median	38.5	26	17	19.5	37	40	42	40	49
Latin America									
Argentina	16	..	5	38	..	28	46	..	68
Bolivia	26	18	18	25	29	34	49	53	48
Brazil	16	10	9	35	37	32	49	53	59
Chile	10	7	8	51	37	34	39	56	57
Colombia	34	28	15	26	30	29	40	42	56
Ecuador	29	13	11	19	38	25	48	49	64
Mexico	16	10	4	29	38	28	55	52	67
Peru	18	8	8	33	45	38	49	47	55
Venezuela	6	6	5	22	47	47	72	47	47
Median	16	10	8	29	37.5	32	49	50.5	57

Source: World Development Report (1982) and (2002)

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Table 3. Recent Economic Development in India and China: Some Salient Facts

2002	CHINA	INDIA
Gross national savings	44% of GDP	22% of GDP
Trade in Goods	49% of GDP	21% of GDP
200		
Share in World merchandise Exports (World)	5.8% (4 th in World)	0.7% (31 st in world)
Share in World exports of Commercial Services	2.6% (9 th in World)	1.4% (21 st in world)
1992-2001		
Weighted average tariff	Fell from 35.6% to 12.8%	Fell from 70.8% to 28.4%
2003		
Inward Stock of Foreign Direct Investment	\$501.5 bn	\$30.8 bn
FDI inflow	\$ 53.5 bn (4% of capital formation)	\$ 4.3 bn (12.4% of capital formation)
2000		
Illiteracy	6%	35%
1996-2002		
Private investment		
• In telecommunications	\$13 bn	\$ 9.2 bn
• In energy	\$14.3 bn	\$ 7.5 bn
In transport	\$15.9 bn	\$ 2.3 bn

Source: Compiled from Martin Wolfe's various columns, Financial Times (2005)

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Table 2. Real GDP per Capita and Growth in China, India, Japan and the Republic of Korea during their rapid growth periods

	Real GDP per capita (dollars)								Average growth rate (per cent)				
	Market prices ^a				PPP ^b				1 st decade	2 nd decade	3 rd decade	4 th decade	1 st 20 years
	Year 1	Year 10	Year 20	Year 2003	Year 1	Year 10	Year 20	Year 2000					
China(1979)	163	347	752	1,067	1,023	1,752	3,276	3,747	8.6	8.1	.	.	8.3
India(1980)	222	304	440	511	1,159	1,634	2,414	2,479	3.7	3.8	.	.	3.7
Japan(1957)	5,481	11,575	20,763	38,222	3,605	7,515	13,544	24,675	8.4	6.1	2.9	2.9	7.2
Rep. Of Korea (1965)	1,297	2,397	4,149	12,232	1,803	3,501	6,237	15,876	6.7	5.7	7.5	4.2 ^c	6.2
United States	.	.	.	35,566	.	.	.	33,293

Source: UN (2005) Trade and Development report, 2005, pp.29

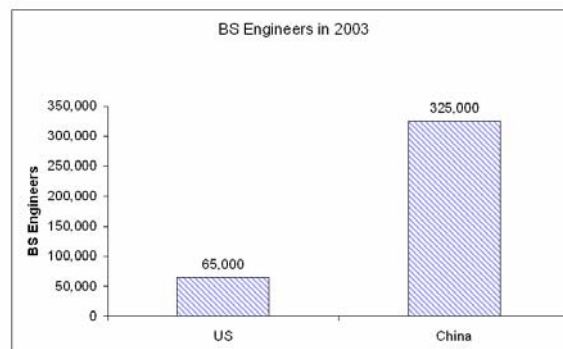
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^a In constant 2000 dollars

^b In constant 1996 dollars

^c The Republic of Korea's average growth rate in the 4th decade covers only 9 years due to data constraints

Graph 3



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Table 7. Sources of Labour Productivity Growth

Year	U.S.	Canada	U.K.	France	Germany	Italy	Japan
Output							
1980- 1989	3.34	2.96	2.72	2.61	2.15	2.47	4.41
1989-1995	2.36	1.00	1.65	1.49	1.67	1.51	2.51
1995-2000	4.10	3.63	2.64	2.44	1.78	1.90	2.13
Hours							
1980- 1989	1.79	1.87	0.82	-0.66	0.11	0.15	0.56
1989-1995	1.02	0.20	-1.17	-0.41	-0.71	-0.57	-0.67
1995-2000	1.99	2.31	1.08	1.04	-0.05	0.95	-0.71
Labor Productivity							
1980- 1989	1.55	1.08	1.90	3.27	2.04	2.32	3.84
1989-1995	1.34	0.80	2.82	1.90	2.38	2.08	3.17
1995-2000	2.11	1.32	1.56	1.41	1.83	0.96	2.84
IT Capital Deepening							
1980- 1989	0.41	0.27	0.20	0.17	0.17	0.23	0.42
1989-1995	0.43	0.34	0.25	0.17	0.25	0.24	0.33
1995-2000	0.87	0.46	0.64	0.30	0.41	0.38	0.81
Non-IT Capital Deepening							
1980- 1989	0.31	0.51	0.76	3.08	1.17	2.22	1.20
1989-1995	0.32	0.36	1.48	1.43	1.38	1.08	1.42
1995-2000	0.39	-0.03	-0.27	0.31	1.01	0.85	0.66

Cont.....

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Labour Quality							
1980- 1989	0.30	0.55	0.11	0.24	0.27	0.24	0.87
1989-1995	0.36	0.42	0.50	0.59	0.33	0.38	0.53
1995-2000	0.21	0.23	0.33	0.34	0.21	0.46	0.29
Productivity from IT Production							
1980- 1989	0.22	0.14	0.20	0.23	0.23	0.28	0.23
1989-1995	0.25	0.14	0.22	0.22	0.29	0.31	0.29
1995-2000	0.44	0.21	0.62	0.43	0.57	0.62	0.61
Productivity from Non-IT Production							
1980- 1989	0.31	-0.38	0.62	-0.45	0.20	-0.65	1.12
1989-1995	-0.02	-0.46	0.37	-0.52	0.12	0.06	0.60
1995-2000	0.20	0.45	0.24	0.03	-0.38	-1.35	0.47

Note: Percentage. Contribution. Canada data begins in 1981
Source: Jorgensen (2004)

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