

**India, China and Australia:  
Lessons from Different Paths in Economic Reform**

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## **India, China and Australia: Lessons from Different Paths in Economic Reform**

Internationally-oriented economic reform in India, China and Australia has a short but fruitful history. While there are great differences in levels and patterns of development across these three countries, and while their divergent histories have led to immense differences in economic and social institutions, some common elements in their interaction with the international economy make a comparative study rewarding.

India, China and Australia are the three countries of continental size in Asia and the Western Pacific. Their geographic extent and diversity encouraged the view in each that it could achieve economic success mainly through utilising the resources and opportunities within its own borders.

The early interaction of India, China and Australia with the modern international economy was mostly as parts of a global Empire, controlled from another continent. The qualification that has to be made for China is only a minor one: China's foreign trade was mainly through the "Treaty Ports" in which British influence was dominant until the rise of Japanese economic strength and imperialism in the twentieth century.

The rise of nationalist sentiment and political movements in the early twentieth centuries in each of India, China and Australia was, on economic matters, to a significant extent shaped in reaction to the ideas about free trade and investment that were dominant in the heartland of the British Empire. Economic nationalism in each of the three continental countries was deeply suspicious of the guiding ideas of the emerging, mainly British, modern economics profession.

For different reasons, the influential economic nationalist movements in India, China and Australia were closely associated with objectives of more equal distribution of incomes and wealth. In each, the egalitarian objectives came to be associated more with particular instruments designed to promote them, than with the ultimate income distribution goals themselves. In

Australia, the instruments were racially discriminatory immigration policy, trade protection, and pervasive state intervention in the economy. In India, they took the form of a local transmutation of mid-twentieth century Fabian socialism, combined with an Indian facility for bureaucratic complexity in its implementation, and with elements of indigenous distrust of advanced technology. In China after the success of the Communist Party in 1949, it took the form of socialist central planning on the Soviet model. All of these instruments had in common a retreat from deep involvement with the international economy. The approaches to economic policy adopted in all three countries turned out to be damaging to economic development, and, at best, ineffective in the promotion of more equitable income distribution.

In all three countries, there have been major reforms over the past quarter century—in China from 1978, Australia from 1983 and India from 1991—designed to remove the barriers to rapid economic growth that had been created by inward-looking development strategies. In each country, the decisive initial reforms were implemented by a political party that had been closely associated with the introduction of the inward-looking policies. In all three, the reconciliation of greater reliance on domestic and international markets for allocation of resources and distribution of incomes with equitable income distribution remains a central concern of policy.

It happens that Professor Sir John Crawford's career was associated closely with the application of ideas from the economics profession to the promotion of development through closer international integration, alongside the achievement of equitable income distribution in particular in Australia and India.

I have lived a considerable part of my professional life standing on the shoulders of Professor Sir John Crawford. Crawford was one of the supervisors of my doctoral thesis, on *Australian Trade With Southeast Asia*. He was my first predecessor as Head of the Economics Department in the Research School of Pacific and Asian Studies at The Australian National University. He was my

first predecessor as Chairman of the Australian Centre for International Agricultural Research (ACIAR).

Crawford played an important part in establishing the intellectual and institutional base for internationally-oriented economic reform in Australia. I accompanied Crawford on his and my first visit to China in 1979, in response to a new Chinese leadership's invitation for economists from The Australian National University to take a close interest in a new Chinese development strategy that turned out to be of historic importance.

Fourteen years later, Jagdish Bhagwati used a chance meeting on a flight from London to New York in 1992 to persuade me that India's young commitment to internationally-oriented reform was going to make a big and lasting difference to India's development and relations with the international economy. In response, I turned to Crawford's close Australian colleague from his work on what became known as the Green Revolution in India, Ric Shand, to establish an Australia-South Asia Research Centre in the Economics Division of the Research School of Pacific and Asian Studies at The Australian National University.

Professor Sir John Crawford's contributions to Australian and international intellectual life and public policy grew from his view that sound analysis and research were the necessary foundations of good policy. Many Indians became aware of that perspective from Crawford's work as a principal adviser to the Government of India and the World Bank on Indian food and agricultural policy for a number of years from 1964.

### **Parts of a Global Empire**

There is an island called White Swan in one of the Pearl River tributaries near Guangzhou in South China. From the time of the Second Opium War until the accession to power of the Chinese Communist Party in 1949, White Swan Island was the location of the British and French

concessions. By the late twentieth century, China was sufficiently rich and self confident to restore the buildings from these settlements to their original state.

One of the grand old buildings that has been restored in the British settlement now carries again the plate with its original name, the *India, China and Australia Shipping Line*, the contemporary successor to which is the *Pacific and Orient Line*, or P&O for short. Another major building is labelled *The Chartered Bank of India, China and Australia*.

The White Swan reminds us that in the first century or so of the development of modern Australia, the international economic lives of India, Australia and the internationally-oriented parts of China comprised the three main centres in Asia of a global commercial Empire.

The outpost of Empire that became the city of Perth, the town of my birth and school years, was named by its first Governor, Captain James Stirling of the British Navy, for the black Swan. A recent biography records how Stirling made the case for settlement in terms of the Swan River's favourable location for trade with India, China and Southeast Asia, and for social interaction with India (Statham-Drew (2003), pp.63,85 and 101).

India, China and Australia in the late nineteenth and early twentieth century were significant participants in international trade. On the eve of the mid-twentieth century upheavals that ended the old imperial order, each accounted for a few percent of world trade. British policy kept India open to more or less free foreign trade and investment until Independence. China had been forced by the foreign powers to keep the Treaty ports open for free trade, and this provided fairly open access to inland markets. Britain maintained free trade policies in the Australian colonies until Self Government, granted at different times between 1855 and 1890. The first and sometimes largest colony, New South Wales, chose to maintain free trade policies until the Australian Federation in 1901, although Victoria and to a lesser extent other colonies experimented with protection.

In Australia, the era of Imperialism and free trade generated strong economic growth and high living standards, the highest in the world prior to the Great War 1914-18 (Table1). The high incomes were distributed widely amongst the non-indigenous population, which prior to Federation contained a large proportion of Chinese origin (over 7 percent at its nineteenth century peak), and significant numbers from India. The nineteenth and early twentieth centuries were much less successful economically for India and China, both of which experienced falls in living standards through the first half of the twentieth century (Table 2). The economic decline was more pronounced in China, where it was affected by continued political instability associated with successive civil and international wars and the limited reach of national governments.

The failure of development in India and China in the era of Imperialism proves beyond reasonable doubt that free international trade and investment is not a sufficient condition for rising living standards. The presence of racial discrimination in labour and capital markets, and in access to education and the enforcement of the law, low levels of public provision of education and health services through the community, and the weakness of domestic institutions to facilitate interaction of large numbers of people with the modern economy, can all now be recognised as barriers to broadly based development.

It is easy to understand how free trade came to be seen negatively in a period of failed development in India and China. It is more surprising that free trade also came to be seen as a barrier to broadly based development in Australia, where its fruits had been rich. For a democratic polity, as Australia was from an early date, retreat from the market and the international economy is a recurring temptation. The case against free markets and open trade is easily made in a democratic polity, unless political leaders who owe their strength to other things are wise to the lessons of economic analysis and development experience.

### **Looking Inwards**

So Australia from Federation and India and China from the early years of national government all went through long periods of inward orientation. Through the first third of the twentieth century, the inward-looking policies in Australia became steadily more severe. They were broadly maintained though the second third of the century. Australia completely excluded “non-white” immigration, including from China and India and other countries from which many Australian residents had been drawn in the nineteenth century. It greatly restricted all immigration from outside the British Isles. Import protection became steadily higher, until Australia had moved from being the most open of the rich economies to one of the most closed. Early in the Second World War, tight controls on foreign exchange were introduced, which remained highly restrictive until the early nineteen sixties, and were not removed until the beginning of a new reform era, in 1983. India and China remained open for longer, but each began an even more comprehensive autarky in the late 1940s.

All three countries' shares of world trade declined steadily, until in 1980 Australia and China accounted for roughly the same amounts of foreign trade, each at around one percent of the world total (Chart 1). India's exports in 1980 were about half those from China and two fifths of Australia's.

For Australia, the inward orientation in the first two thirds of the twentieth century was associated with overall economic growth in the middle ranks but output per person at the bottom of the countries that are now developed (see Tables 1 and 2, and Garnaut 2002). Australia ceded its first place at the top of global living standards to one after another of the developed countries, although relatively high population growth meant that its position in total economic output did not fall commensurately with per capita output (Tables 2 and 3). Australia's average living standards relative to those in other high-income countries continued to fall until the 1980s. Australia held up better relative to an average of the rest of the world as a whole through the first half of the twentieth century, because the major developing countries, first of all China and India, performed even more poorly.

For India and China, economic performance improved under national government in the second half of the twentieth century, relative to their own earlier experience and to the rest of the world. Each country may have turned its back on large potential gains from deeper integration into the international economy through trade and investment, but the new circumstances offered offsetting benefits to growth that were larger in magnitude. The gains from independence included in China's case a reduction (although not for thirty years the removal) of severe civil disorder. In both countries, there was now larger investment in human capital and much wider opportunity for utilisation of human talent. Despite the contrasting constitutional arrangements in India and China, there was in both a new sense that the purposes of Government included systematic efforts to raise the living standards of the population. A much wider range of public goods that were necessary inputs into development were made available by Government. The savings rate rose markedly in India and much more in China—in the latter case enhanced by the deliberate use of state-owned industrial enterprises, charging high prices for their output, as agents for increasing savings and investment.

### **The Origins of Reform**

Major changes in economic strategy and policy are politically difficult at any time. When the change is from an inward-looking and interventionist to a market-oriented and internationally-oriented strategy, it must contend with opposition from a wide range of interests which receive rents from protection and government intervention. To the extent that the new development strategy promotes sustained economic growth, it changes greatly the established distributions of incomes, power and wealth, in ways that can be anticipated, in broad outline at least, by people who have much to lose. The potential beneficiaries of a more market-oriented development strategy are likely to be at once uncertain and spread widely through the society and polity.

The difficulties of change are compounded by the anti-intuitive nature of the relationship between free trade and reliance on markets, and economic growth. The arguments for protection and

intervention by the state sit more comfortably with the common prejudices of our species. The difficulties of reform are more complex in a democracy, where an element of public understanding of the gains from change is a precondition for reform. Nowhere is the challenge greater than under Federal constitutions, such as those shared by Australia and India.

For all of these reasons, a polity does not shift from an autarkic to an internationally-oriented strategy without good reason. The reasons were not good enough while Australians seemed to be enjoying reasonably prosperous times, and while average output and living standards were growing at substantially higher rates in India and China than in the living memory of most citizens.

Eventually, the realisation in each country that it was greatly underperforming others with which it compared itself was corrosive of the autarkic strategies. Jagdish Bhagwati has observed for India and it is relevant to Australia and China as well, that “The worst psychological state to be in is to have a superiority complex and an inferior status. This incongruity cried out to be fixed: reforms were increasingly seen to be the only answer” (Bhagwati, 1993, p83).

Internationally-oriented reform came first in China. The disruption to normal economic life in the Cultural Revolution (1966-76) increased the reality and the perception of underperformance. It created a sense of political crisis and disillusionment with the established political framework. This made radical reform possible after the death of Mao Zedong in 1976. China’s perception of its own underperformance was heightened by the prominent success of its near neighbours in East Asia. The ideological and political breach with the Soviet Union had by this time liberated Chinese thought from the influence of its original inspiration, and introduced an urgent strategic imperative for accelerating economic growth.

China’s Leninist political system, with its huge concentration of power at the top of the Communist Party hierarchy, meant that the views and qualities of individual leaders were of large consequence. It was historically important that effective leaders who shared the general

disillusionment with the Cultural Revolution, and who retained great authority from their historical roles in the revolution and war against Japan, survived to play major roles after the death of Mao Zedong. After several years of incoherent policy with outward-looking elements, in December 1978 Deng Xiaoping secured support in the Central Committee of the Chinese Party for decisive opening of the Chinese economy to the outside world and greater reliance on markets for allocating resources. There was no blueprint for economic reform. But there was a clear sense of the direction of necessary change, and willingness to experiment with a wide range of new policies and institutional arrangements in that direction. Policy reform from that time was gradual, but inexorable.

The success of early Chinese reforms encouraged more steps and acceleration in policy change. Over the past quarter century, most restrictions on direct foreign investment have been removed, and many remaining barriers are to be phased out under China's far-reaching commitments on entry to the World Trade Organisation. Foreign exchange controls on capital movements remain relatively severe by the standards of successful developing countries. Protection has been radically reduced: China has moved from being one of the most closed to foreign trade of major developing countries, to being more open than all except a few others in its own East Asian region, with average tariff rates on all imports of goods in the middle single digits. Remaining protection, especially in services, will be significantly reduced under the WTO entry commitments.

Australians had always defined their country to a considerable extent in terms of the enviable material standards of living of its citizens. By the late 1960s and 1970s, it was apparent to most people that Australian average incomes were no longer high by the standards of Western Europe, let alone North America. Japan and other East Asian economies were catching up rapidly with Australian income levels, and some of them could soon be expected to overtake Australia. Amongst other consequences, the postwar reach of the immigration programme to Western Europe was no longer attracting large numbers of new Australians.

Australia's relative underperformance economically became a source of pressure for fundamental change in economic strategy. Members of the economics profession became more active and effective in the policy discussion, and were joined by a growing minority of leaders of opinion in business, the media and the Parliament. While internationally-oriented reform never had majority popular support, by the 1980s it carried sufficient credibility amongst elite opinion for it to be possible for a strong and committed government to embark on far-reaching policy change with reasonable prospects for political success (see Anderson and Garnaut (1986), Garnaut (1993)).

In Australia, one essential element of reform began before the others and only incidentally in response to economic pressures. This was the unwinding of the White Australia immigration policy. Here the initial pressure came from an increasing minority of Australians saying that the White Australia Policy was morally repugnant and contrary to Australia's overwhelming interest in close and productive relations with countries in its Asian and Pacific neighborhood. Some non-European migrants were accepted from 1966. Racial elements in immigrant selection criteria were removed in 1973, although within a reduced overall level of immigration. The scale of Asian immigration to Australia expanded with acceptance of refugees from Vietnam, Cambodia and Laos in the late 1970s. The final step to a large-scale immigration programme selected without reference to race occurred in the context of general internationally-oriented reform in the mid-1980s.

None of these steps passed without critical comment, including from one or two leading political figures. In the late 1990s, immigration policy was briefly the focus of a virulent, racist political movement in parts of rural Australia. That the reaction against non-discriminatory immigration died out without distorting the general policy (as distinct from the refugee component), is evidence of considerable depth of community support for the new policy. The end of racial discrimination was associated with a marked lift in the contribution of immigration to Australian economic development (Garnaut, Kang and Ganguly, 2003).

Policy reform to deepen Australian integration into the international economy occurred in two parts. Barriers to international financial transactions were removed in one step in December 1983, with the abolition of all exchange controls and the floating of the Australian dollar. The removal of most protection for industry occurred gradually, in a series of decisions between mid-1983 (the removal of import quotas on steel) and March 1991 (the second of two announcements of deep across-the-board reductions in protection). As a result of these decisions by the Hawke Labor government, some of them phased in gradually on timetables extending to 2000, Australia moved from having (with New Zealand) the most highly protected manufacturing sector amongst advanced industrial countries, to (with New Zealand) the most open economy to trade amongst OECD members.

The Indian reforms had their origins in growing realisation that the Indian economy was not performing well, and then in the strategic as well as economic challenge of Chinese success. They were triggered in 1991 by macro-economic crisis. Like the Chinese and Australian reforms, but more so, they have been gradual; at times moving slowly to the point of imperceptibility, but adding up to historic deepening of interaction with the international economy. Protection has been greatly reduced, but remains high by any standards. Exchange control has been considerably liberalised but remains restrictive, although in form at least less so than in China. Policy on entry of direct foreign investment has been greatly eased, but investors continue to face a daunting regulatory framework beyond the foreign investment regime itself.

## **Effects and Lessons of Reform**

Output growth accelerated markedly in all three economies in response to reform. The response was strongest in China, where reform began first and has gone furthest. China's average annual growth rate in the past quarter century has been over 9 percent, compared with 3.9 percent (properly measured) in the two preceding decades. A majority of the higher growth rates came from increased total factor productivity (a lift in annual rates of growth from minus 0.6 percent to plus 2.7 percent). Most of the rest was contributed by higher savings and investment rates, themselves deriving to a considerable extent from the higher growth in incomes (see Perkins, 2004).

Accelerated growth in China was at first associated with recurring episodes of high inflation and balance of payments crisis. These have been much less damaging over the past decade than in the first 15 years of reform.

In Australia, reform was also associated with a decisive lift in output growth, especially relative to other developed countries. In the 1980s, rapid expansion in employment contributed an exceptional proportion of output growth, helping to build support for reform in critical early stages. In Australia, too, reform was at first accompanied by macro-economic instability. An episode of severe misjudgement of the monetary policy implications of financial reform led to deep recession in 1990-91, and ultimately to a cooling of enthusiasm for reform and with a lag, the defeat of the Labor Government (Garnaut, 2004a). After the recession, the return to strong growth was marked by higher productivity rather than employment growth, supported by high levels of investment as a share of GDP.

Absorption of an important lesson from the recession led to bipartisan commitment to politically independent application of steady monetary policy around a low inflation target. This has so far helped to deliver sustained growth with low inflation, now for over thirteen years.

Australia experienced the lowest average incomes growth of the countries that are now rich in the first third of the twentieth century, and was only an average performer in the second third. The years since the recession comprise the first extended period in which average growth in Australia has been in the top ranks of developed countries.

The most pronounced changes in the structure of the Chinese, Australian and Indian economies have been in the levels and composition of foreign trade. Exports have increased much faster than output in their own economies (except recently in Australia, in a puzzling weakening of export growth since 2000). Chinese exports over the past quarter of a century have grown far more rapidly than those of any other country (Chart 2a), and India's since the reform have grown more rapidly than those of all but a few countries (Chart 2 b). For the first extended period since Independence, India has been rapidly increasing its share of global trade. From around two fifths of Australia's in 1980 and still in 1991, Indian exports this year may exceed Australia's (Charts 1, 2a and 2b). The transformation of export performance in the Indian reform period has relaxed what had been a recurring constraint on the country's overall growth.

There is a general tendency for the share of foreign trade in the economy to be lower in more populous countries. When this is taken into account, China has much larger exports relative to population size than the general run of countries. Australia and India have much lower ratios of exports to economic output than you would expect from their populations— even after the internationally-oriented reforms, although the reforms have taken them closer to the norm (Charts 4a and 4b) . In India's case, this is a measure of the distance that has yet to be travelled in opening the economy to external trade.

In all three countries, reforms that had as their centre the liberalisation of international economic transactions led quickly to far more extensive reform to allow the effective operation of markets. Much of the lift in productivity growth came from these subsequent effects.

In all three countries, higher average living standards have been associated with reductions in poverty and rising living standards of the poorest people. They have also been associated with widening inequality in income distribution, prior to taxation and social security intervention, which has generated criticism in polities in which equitable distribution has been a point of sensitivity.

In Australia, the expansion of social security, public health and public education provision alongside economic reform, especially in the 1980s, led to overall reductions in inequality when all these effects are taken into account. China is making an immense effort to improve national social security and public education, so far with uneven results.

In all three countries, standard economic analysis has been a reliable guide to the directions of improved economic performance that would follow reform, but has consistently underestimated the extent of the gains from reforms. Some disappointments in the outcomes from reform in India, most importantly on the reduction of poverty, have been explained by the fact that the reductions in trade barriers have not gone far enough to remove the policy bias in favour of capital-intensive production, and against the labour-intensive production that would be much more dominant in India at this stage in history under free trade. (Warr, 2004).

Consistently with the conclusions of standard economic analysis, the experience of the three countries argues strongly against direct intervention in markets to achieve equitable distribution. Increased reliance on markets in allocating resources and determining goods and services process, including through deep integration into the international economy, has been effective in promoting growth and for the most part the living standards of the poor. The effective interventions to constrain inequality in income distribution have been through public provision of public goods—notably education and health—and carefully designed social security, rather than through direct intervention in the operation of markets.

In India and China, the effects of freer trade in raising the incomes of the poor are especially powerful because labour remains more abundant, relative to capital and land resources, than in their main trading partners. Movement towards stronger specialisation in production and export of the labour-intensive products in which they have comparative advantage, through the removal of barriers to trade, increases demand for labour, and therefore employment and incomes of relatively poor people.

The experience of the three countries has thrown up some surprises. Market-oriented reform has led to rapid transformation of institutions to take advantage of new opportunities. China has had three immense institutional surprises: the speed and productive consequences of the replacement of collective utilisation of land by the household responsibility system in the early years of reform; the extraordinary dynamism of township and village enterprise that grew from the remnants of the People's Communes in the middle years; and the rapid transfer of apparently collective enterprises into private ownership over the past half dozen years. The lesson that can be drawn, is that market-oriented reform supports the adaptation of institutions to the rapidly changing economic environment.

There have also been pleasant surprises in the emergence of new export industries once reform has opened opportunity for market responses. The explosion of Indian software and Australian education and specialised manufactured exports following reform are amongst them (Joshi and Sanyal, 2004).

There have also been unpleasant surprises. For many observers, the deep Australian recession of 1990-91 and the virulent Chinese inflation of the late 1980s were the most unhappy surprises in Australia and China respectively.

One general lesson from the reform experience is that the combination of increased utilisation of domestic and international markets, with careful efforts to provide improved education and health

services and social security transfers to low-income people through budgetary processes, can support a highly favourable combination of strong economic growth alongside progress in the alleviation of poverty.

A careful reading of the lessons of internationally-oriented reform in Australia and other countries suggests some cautions about financial reform in advance of institutional development to manage the pressures that derive from deep integration into international financial markets. China and India seem to be reflecting these lessons in their measured approach to dismantling controls on some kinds of international capital movements.

### **The Future of Reform: Fitting the Parts Together**

Chinese economic reform and economic growth have great momentum. Barriers to international exchange continue to be reduced rapidly, partly in response to WTO entry commitments, but mainly because the Chinese authorities recognise that trade liberalisation is highly favourable for China's own development. The institutions for managing and facilitating market exchange are being strengthened steadily. This is propelling China rapidly to the frontiers of world productivity and incomes, first of all the four hundred million people of China's coastal provinces.

There are risks to sustained rapid economic growth in China, but the purely economic risks are not prominent amongst them. The biggest tests will arise as pressures grow for democratisation of the political process, with the success of economic development—challenges from which India is to a considerable extent insulated by its democratic heritage (Garnaut, 2004a).

I am not quite as confident about the future path of internationally-oriented economic policy in Australia. Our democratic polity decided a few years ago that it had had enough of continuing change, when Australia was still a long way from fully utilising its opportunities. In any case, the work of reform is never done, if only because interests that benefit from protection secure such large rewards from it, at the expense of the community interest, that they have good private

reasons to keep on trying. We have become vulnerable to claims for contingent protection, mostly in the form of anti-dumping actions. A confused debate about so-called “Free Trade Agreements” with the United States and some other countries including China has restored legitimacy to the old protectionist idea that we should not reduce our own protection unless others are reciprocating. Australia has been a good model of the benefits of unilateral trade liberalisation; but for a while we will need the good example of others.

The international economic environment is currently highly favourable for India to accelerate its economic development, by building on the achievements of these past dozen years, and moving as rapidly as possible to dismantle the high barriers to international economic transactions that remain in place.

Part of the contemporary opportunity in India derives from Chinese economic growth. Chinese success is sometimes seen as limiting the opportunities for internationally-oriented growth in others. The opposite proposition is closer to the truth. The Chinese transformation increases the gains from India committing itself without reservation to deep integration into the international economy. China’s exports of labour-intensive manufactures expanded rapidly in the first two decades of reform through taking over the market shares of other East Asian suppliers who were losing competitiveness as a result of their own economic success. (Chart 3). Increasingly, economic success in China is raising the skill levels and the costs of its own labour. The resulting structural change is causing China’s export growth to be focussed increasingly on more capital-intensive and technologically sophisticated goods. This creates an opportunity for others at an earlier stage of development with lower average incomes, just as the economic success of Japan, Korea and Taiwan created an opportunity for suppliers from the mainland of China.

The trade opportunities created for India by rapid Chinese growth extend beyond manufactured goods, to agricultural, and manufacturing industries.

The opening of Chinese agriculture to international trade is having effects on the composition of Chinese agricultural production and trade that are at first sight surprising, but upon reflection understandable within the framework of standard economic analysis. China by world standards, and in comparison with India, has little arable land per person. Open international trade is leading to expansion of imports of land-intensive agricultural products (grain and oil seeds, for example), and of exports of more labour-intensive and to some extent capital-intensive agricultural products (horticultural products and many processed foodstuffs). In a world of free agricultural trade, India would be an exporter of some of the products that China is tending to import, as part of a process that raises agricultural incomes in both countries and elsewhere.

The Chinese structural transformation will proceed much more quickly than most people now expect. China's demographic transition will be compressed into a shorter period than in any other country. Labour is becoming scarce and wages rising in the coastal provinces. These developments will become apparent on a national scale within a decade or so. For these reasons and for one or two decades, India's international competitiveness is likely to strengthen in many goods and services that use labour intensively. So long as India continues to reduce barriers to international trade, this will be favourable both to growth in exports and output, and to equitable distribution of the benefits of growth.

India's comparative advantage in international trade is varied and complex, as we have seen from the florescence of vigorous new export industries since the reforms began. Every new step in reducing barriers to imports lowers the costs of industries that are already competing successfully in export markets, and allows them to do better. The labour-intensive export industries will do well with continuing trade liberalisation, and this will be good for both growth and equitable distribution. But the skills and talents of Indians will ensure that complex, technologically sophisticated goods and services will be well represented in the export mix.

These benefits from open trade are available to India, whatever the health of the international trading system. But a smoothly functioning system can facilitate internationally-oriented growth in all countries, and enhance the benefits for all participants in international exchange.

There is an opportunity for India to work with China and Australia in strengthening the multilateral trading system—two countries which share with India a considerable amount of trade policy history, in recent years for good, and which share India's interests in a truly open international trading system. We can work together in the WTO, now that China is an active and influential member. We can work together to improve the chances that the recent enthusiasm for bilateral trade agreements is taken forward in ways that support rather than undermine specialisation according to comparative advantage on a global scale.

Professor Sir John Crawford contributed to Australia and the international community making progress down this path. His emphasis in the role of economic analysis as the foundation for public policy is as important today as in the long period in which his work was influential in Australia and many of Australia's neighbours in Asia.

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Table 1

India, China and Australia:  
Per Capita GDP Percentage of World Total

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	Per capita GDP in 1990 \$US PP <sup>a</sup>			Percentage of World Total		
	<u>1913</u>	<u>1950</u>	<u>1998</u>	<u>1913</u>	<u>1950</u>	<u>1998</u>
India	673	619	1,760	45	29	31
China	522	439	3,117	35	21	55
Australia	5,715	7,493	20,390	378	354	357
World	1,510	2,114	5,709	100	100	100

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<sup>a</sup> Purchasing power of per capita GDP, with purchasing power of one United States dollar in the United States in 1990 as numeraire.

Source: Maddison, A., D.S. Prasada Rao and William F. Shepherd, (eds) (2002), *The Asian Economies in the Twentieth Century*, Edward Elgar, UK and U.S.A.

Table 2

India, China and Australian:  
Economic Size Through the Twentieth Century

	GDP, billion \$US PP <sup>a</sup>			GDP, percent of world		
	1913	1950	1998	1913	1950	1998
<i>India</i>	204	222	1,703	7.5	4.2	5.0
<i>China</i>	241	240	3,873	8.9	4.5	11.5
<i>Australia</i>	28	61	382	0.9	1.1	1.1
<i>World</i>	2,704	5,336	33,726	100	100	100

<sup>a</sup> Based on purchasing power of GDP with purchasing power of one United States dollar in the United States in 1990 as numeraire.

Source: Maddison, A., D.S. Prasada Rao and William F. Shepherd, (eds) (2002), *The Asian Economies in the Twentieth Century*, Edward Elgar, UK and U.S.A.

**Table 3**

**India, China and Australia:  
Population Through the Twentieth Century**

	Population, million			Population: Percent of world		
	1913	1950	1998	1913	1950	1998
India	304	359	975	17.0	14.2	16.5
China	437	547	1,243	26.4	21.7	21.0
Australia	6	7	19	0.3	0.3	0.3
World	1,791	2,524	5,908	100	100	100

Source: Maddison, A., D.S. Prasada Rao and William F. Shepherd, (eds) (2002), *The Asian Economies in the Twentieth Century*, Edward Elgar, UK and U.S.A.

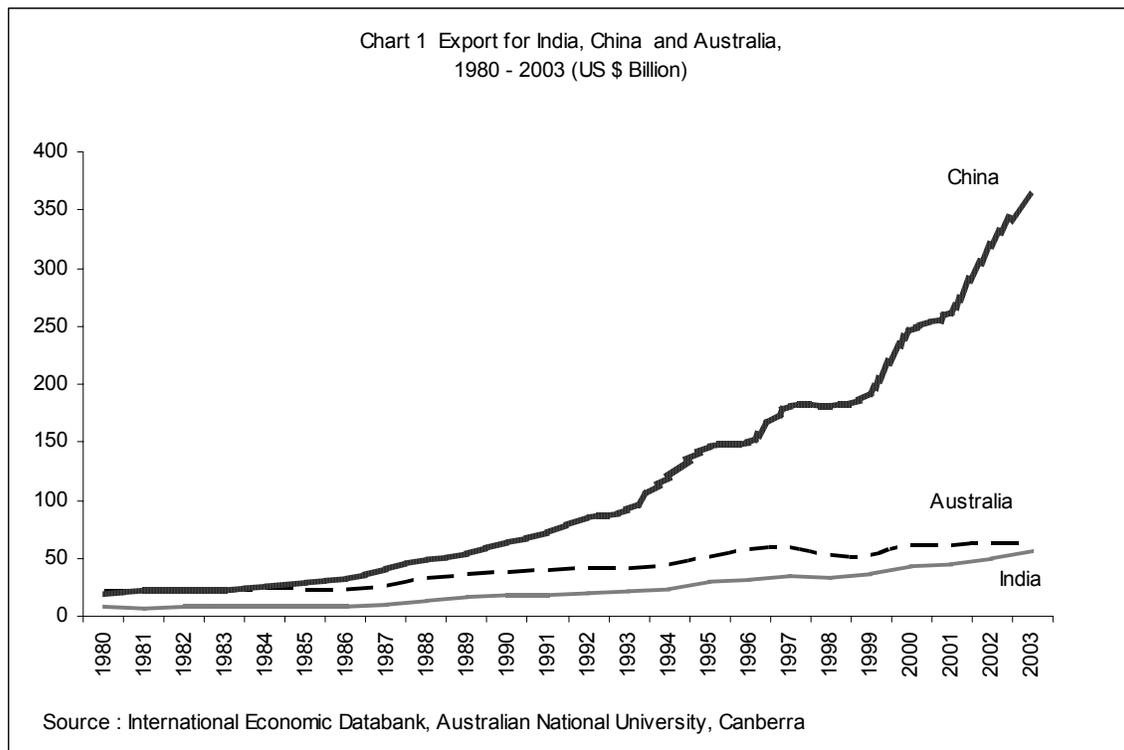
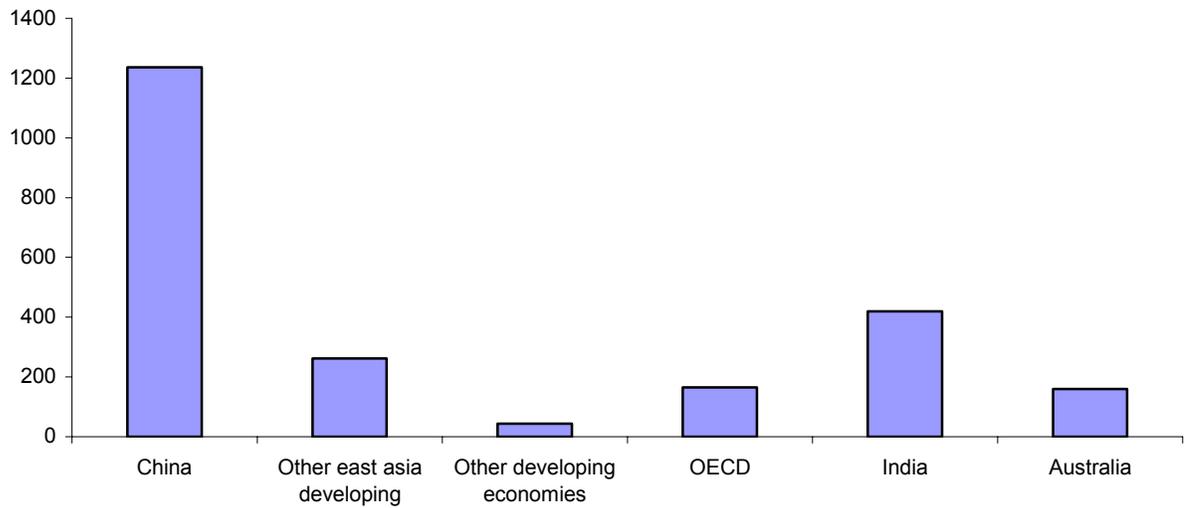
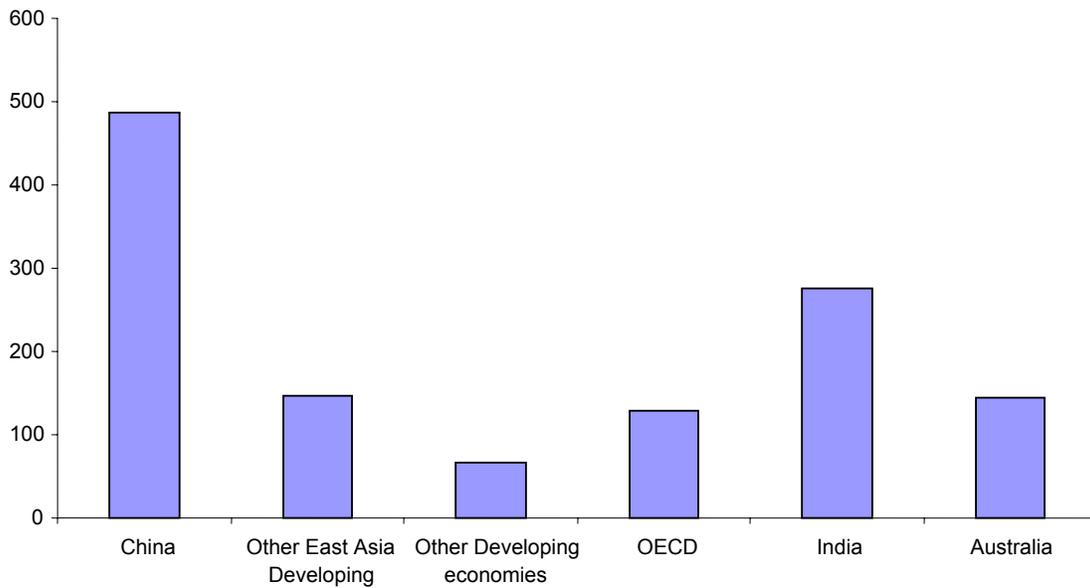


Chart 2a Proportionate growth of exports (constant prices), 1980-2003 (per cent)



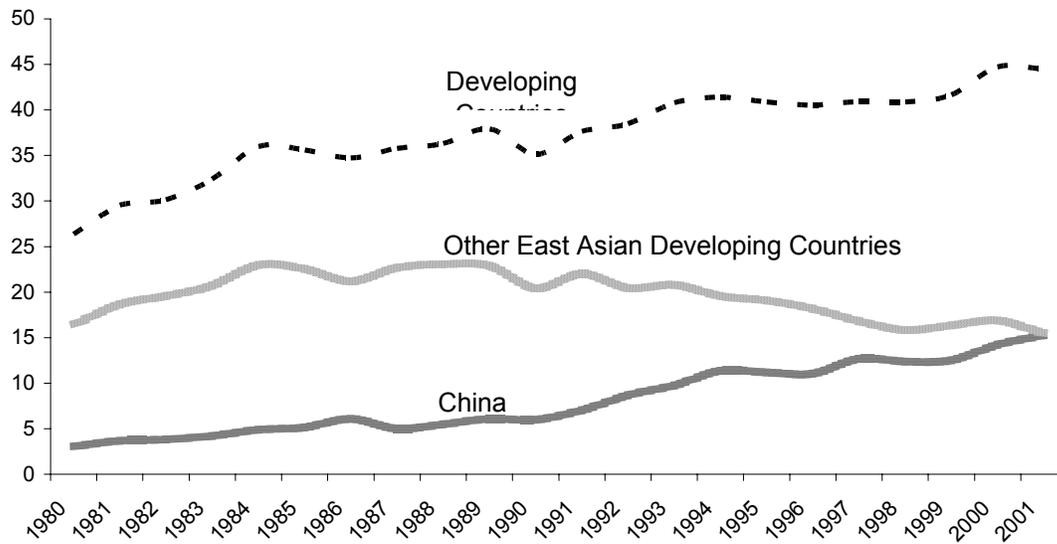
Source : International Economic Databank, Australian National University, Canberra

Chart 2b Proportionate growth of exports (constant prices), 1991-2003 (per cent)



Source : International Economic Databank, Australian National University, Canberra

Chart 3 Developing economy shares of world exports in labour-intensive manufactures, 1980-2001 (per cent)



Source : International Economic Databank, Australian National University, Canberra

Chart 4a Export Ratios for Populous Economies and Australia, 1990  
(population over 50 million)

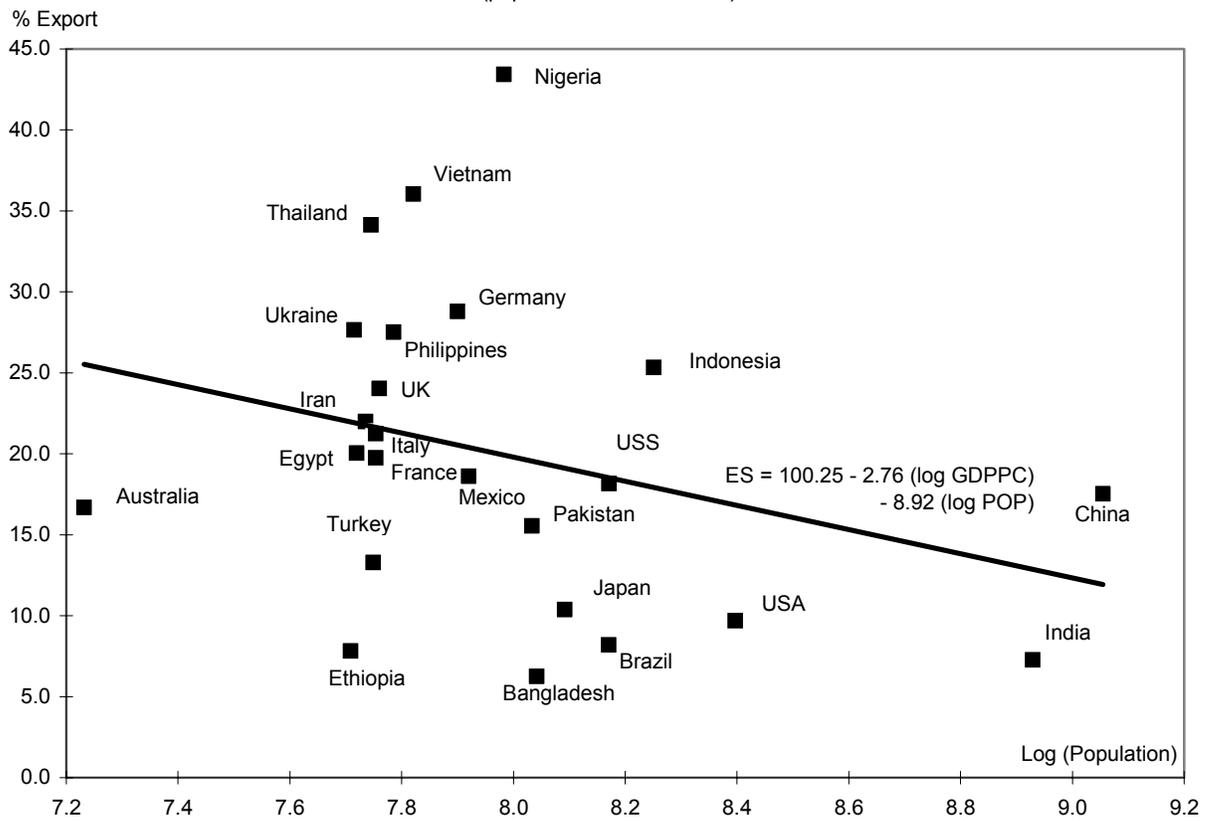


Chart 4b Export Ratios for Populous Economies and Australia, 2002  
(population over 50 million)

