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Made in the USA: a comparison of the economics strategies India and China have taken to rise to international prominence and the role of the United States and the western world in their ascent.

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Made in the USA:

A Comparison of the Economic Strategies India and China Have Taken to Rise to International Prominence and the Role of the United States and the Western World in their Ascent

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Introduction

The world is no stranger to globalization at this point. The incredible transfer of ideas, cultures, goods, technology, and money has been going on for decades, and the global economy has grown tremendously in the process. The process of globablization has opened the door for countries other than the United States of America to become influential players in the global economy. This is an interesting development because a true challenge to the economic or political authority of the United States has not been seen since the end of the Cold War, and it has maintained its position as one of the most powerful and influential countries in the world since the end of World War I. In the last thirty years, the Asian giants of India and China have liberalized their economies, taking advantage of the new global economy and using their superior numbers to ascend the international economic ladder. With prodigious help from American corporations and consumers, India and China are on the road to becoming the economic superpowers of the world.

India and China have experienced strong ties ever since the first century after the birth of Christ, when Buddhists brought their religion from India to China. Chinese and Indian leaders met and began a cultural and religious exchange that would last for centuries. India especially sent scholars, monks and philosophers to China during the first millennium to translate sacred Hindu texts and spread Indian culture in what has been termed "Indianization."[1]India-China relations experienced a large setback when the nations fought a protracted war over issues pertaining to their shared border. After the war the countries ceased trade and political relations, even going as far as removing their ambassadors. The political standoff ended in 1988 when Deng Xiaoping met with Rajiv

[1] Das, 131

Gandhi and relations between the Asian giants were restored to a new high. Although there have been minor setbacks since then, for the most part India and China have maintained a positive relationship and continue to help each other grow economically in the era of globalization.[2]

This paper will look at the economic history of India and China from the last 30 years and the strategies used by each country to get to their elevated status in the global economic system. These strategies will be compared and contrasted to determine why these Asian giants were as successful as they were. Careful detail will be paid to the role of the First World, and especially the United States, as a group of consumers, as powerful political entities, as members of international financial institutions, and as the home countries for many Multinational Corporations (MNCs or TNCs) in the growth process of both China and India because of its current position as the most powerful state in the world.

China – The Economic Anomaly

In the middle of the twentieth century, China was a completely authoritarian country with a closed, communist economic system. Led by the inimitable and oppressive Mao Zedong, many Chinese people were poverty-ridden and hungry. Modernization programs like Mao's Great Leap Forward, where mass industrialization and agricultural development were pursued simultaneously, completely failed because of the great toll they had on the people. Millions of people died from a lack of nourishment because so many agricultural workers had been redirected to work on steel mills.[3] Under Mao, China's government had flip-flopped between centralization and decentralization and the

[2] Das, 135
[3] Murray, 51

economy experienced limited growth. When Mao passed away, a new group of leader headed by Deng Xiaoping rose to the occasion and started a calculated economic overhaul that would completely change China's development trajectory.

After Deng Xiaoping took over as the de facto leader of China in 1978, Chinese economic policy took a decisive turn. Deng was the driving force of the transition from communism to a socialist, market-based economy.[4] China's absurd economic growth began in the late 1970s after the government "adopted economic liberalization and modernization of its non-market economy."[5] Deng struck a balance between authoritarianism and liberalism, trying to maintain a hybrid Chinese economy for the entirety of his time in power. He is known as the architect of the Chinese economic reforms and is credited with its great economic success.[6]

Deng started the reform process with a "fiscal decentralization" policy. In this system, "Budgetary revenue would be divided or allocated between the central and local government." The new policy started a decentralization process that would be a trend for many years to come. With their new powers and responsibilities, regional leaders made more informed decisions about monetary distribution and business development than their centralized colleagues. This led to an almost doubling of industrial output from rural areas, a pleasant surprise for Deng.[7] Another early reform enacted by Deng involved state-owned enterprises, or SOEs, that were a key part of the national economy. Initially Deng experimentally gave 6 SOEs some increased autonomy, which included "the right to produce and sell products to the market (after a certain proportion was allocated

[4] Mahtaney, 86
[5] Das, 27
[6] Mahtaney, 84
[7] Ibid., 88

towards the fulfillment of plan quotas) and the right to appoint middle-level managers without approval from the government. Furthermore, enterprises were allowed to retain some of their profits."[8] A third development involved farm reform. Deng virtually ended the commune system that was started during the Great Leap Forward of the late 1950s. He also allowed a free market system for farmers to sell their crops.[9] These were huge steps for the extremely restrictive communist government of China and were the beginning of its economic transformation. Gradually, more and more corporations were granted autonomy and by 1980, 60% of Chinese SOEs were beneficiaries of this policy. This number continued to increase as time went on.

Another notable liberalization policy involved the setting up of Special Economic Zones (SEZs) in carefully chosen regions of China. SEZs would be special because the businesses in the zone would receive numerous benefits that other regions would not get. For instance, the government would spend a lot of money to upgrade and modernize the equipment and technology of the region in order to transform the businesses there into export-first, profit-seeking industries. Foreign investors would also receive a sizable tax break for investing in the SEZs. It started out as an experiment, with only two provinces as part of the plan. However, when profits exploded and the areas experienced incredible growth, Deng quickly expanded the program. The question arises of why the government did not just make the entire country a special economic zone and modernize all at once. In response to that, China was like many other developing countries and did not have the resources necessary for such a broad modernization movement. Even if it did, the sudden change would be impossible to regulate and control effectively, and the plan would be in

[8] Mahtaney, 88
[9] Murray, 55

vain. This phenomenon, known as “Big Bang privatization”, is advised against by many economists. Instead, as with most of his plans, Deng gradually implemented the reform and watched it slowly come to successful fruition.[10]

These reforms were quite a deviation from the strict communist regulation of China’s past, and both left-leaning and right-leaning party leaders, especially the more seasoned ones, were not pleased with it.[11] Deng had tried several times to get out of the political spotlight but was unsuccessful, as men like Zhao Ziyang who he recommended for party leadership were often forced to resign because of stiff resistance to reforms. The Chinese economic and political system was going through a change, and many were not ready for it. Deng adroitly deflected much of the criticism directed at the reforms by presenting the results to his dissenters. China was in the middle ground between Communism and market-socialism. Politically, the Chinese Communist Party (CCP) maintained much of its central power, though that was gradually being given up as the SOEs and fiscal decentralization showed.

In 1992, Deng took a strong stance on the reform issue, stating that reform should be the goal of the CCP for the next one hundred years. Deng implored, “Carry out a reform so long as it is beneficial to the increase of social productivity, the country’s overall strength and the people’s living standard.”[12] He wanted to implicate that China should not keep its same communist economic strategy for the sake of keeping it, and that change, if it could help the people, was not a terrible thing as the party leaders had made it out to be. Coming from a man who was as respected as Deng, the reforms were more easily accepted by the CCP. In 1993, Jiang Zemin, the CCP secretary, and other leading

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[10] Mahtaney, 89
[11] Charkavartty, 47
[12] Mahtaney, 93

Chinese economists came together to make policy changes that would start the transformation of China into a market-based socialist powerhouse. The product of this meeting was the Decision on Issues concerning the Establishment of a Socialist Market Economics Structure, which was put into practice by November.

The Decision was comprised of four specific elements. The first was to create laws that would set up an implementation timeline for the new reform measures so that they are not put into practice all at once. The second was to employ a new market system with a set of defined laws and rules. The third was to create federal institutions that could help to sustain the new system. These institutions would be socialist-based, and would include a national treasury, welfare systems and a more evenly distributed federal monetary distribution system.[13] The principles of the Decision greatly catalyzed the economic growth of China, and although they have not been fully realized, the reforms helped to bring liberalization to one of the most traditionally closed countries in the world.

Ever since the reforms of the Decision were suggested, China has experienced unequaled economic growth. China's GDP has skyrocketed at a rate that no other economy can approach, the majority of which can be attributed to its manufacturing sector. In 2004, China was responsible for 8.3 % of exports related to manufacturing in the world, a 6.4% increase from 1990. The manufacturing sector also took up 41% of China's GDP, a good deal of which was sold domestically. These statistics are not too surprising and seem to downplay the idea that China is exceedingly dependent on trading manufactured goods on the international market. This is not so, as in 2005, "manufactured goods constituted 93 percent of exports or almost a quarter of the gross

[13] Ibid., 94

value of industrial output."[14] This enormous percentage suggests that China has a stranglehold on the manufactured goods market, as it has a competitive advantage and uses it to its full potential. The exported manufactured goods are primarily sent to countries in the First World that want cheap products, and China profits greatly from them. The liberalization reforms also did wonders for the poverty rate in China. Between 1981 and 2005, the poverty rate in China fell from 85% to 15.9%, which comes out to over 600 million affected people.[15] This is one of the most incredible turnarounds in world history and possibly the most important result of the liberalization movement in China.

The modern Chinese economy is the fastest growing economy in the world and has maintained its breakneck rate of growth for some time.[16] One of the primary reasons why China has done so well is that its politicians were open to change and did not worry so much about breaking with the traditional model of Chinese communism. They were committed to growth and stuck to their reform plans, making adjustments when necessary and creating experimental markets before enacting policies. The sky seems to be to limit for China, and the Asian giant has only one economic rival that could reasonably contend with it for global economic supremacy in the decades to come: India, China's southwestern neighbor.

India – A History of Moderation

In the 1960s and 70s, the Indian economy was in a state of stagnation. The Gross Domestic Product was growing at 3.5%, just barely ahead of population growth, while

[14] Winters, 35
[15] Shah
[16] Das, 2

the newly liberalized Asian tigers like Hong Kong and Singapore were soaring at an 8% growth rate.[17] This led to a period of mass starvation and extended poverty in India. India was so far behind its neighbors because of its strict government controls of the economy. Jawaharlal Nehru, India's first prime minister and a national hero, came into power in 1947 as India gained independence from Great Britain. Many leading economists of the time were hired on as consultants to figure out how the new state should organize its economy.

The overwhelming consensus among the scholars was that increased government planning and protectionism were the best policies to adopt for economic stability.[18] Nehru and the Indian Parliament ended up with a very socialist-like government, seeming autarchic at times. Until the 1980s, the Indian government was very suspicious and distrustful of foreign capital and investors and passed legislation that paralleled these feelings. Tariffs were extremely stiff, making business with other countries almost impossible. Entrepreneurship was also discouraged because of the excessive red tape one had to get through to start an official, legal business. This was known as "license-permit raj" and prevented all but a few established corporations from truly prospering in the private sector.[19] Foreign Direct Investment was also discouraged or prevented. The government tried to supplant the lost revenue from trade by heavily subsidizing domestic industries and businesses. This created a situation similar to the import-substitution industrialization in Latin America which was going on at around the same time. Thus India was cut off from trade with much of the world. The political mayhem that was

[17] Rajadhyaksha, 17
[18] Ibid., 37
[19] Mahtaney, 73

happening at the time dominated the attention of the government and the economy was left to putter along with its socialist like policies.

In 1975, Prime Minister Indira Gandhi effectively took over the government as an authoritarian figure in what was known as the "Emergency Period." This only lasted for two years, for in 1977 a new group of lower caste and lower class political parties rose to power, ousting the Congress Party from its ruling perch. This would bring some new perspectives into the Indian Parliament and help catalyze change in the economy.[20] Three years later, in 1980, Indira Gandhi ascended to power again with change in mind. This mindset was out of necessity, for India was facing dire straits after the oil crisis of 1979 and an extended period of drought. Gandhi and Parliament soon had to ask the IMF for a loan, and they acquiesced. Of course, the loan had some conditions attached to it. Indira Gandhi helped to repeal many of the socialist policies that were restricting the Indian economy and enact the neoliberal reforms that the conditions of the IMF loans stipulated. Some of these reforms included eliminating some import controls, reducing taxes, and allowing the rupee to be devalued against other currencies to encourage exports. [21] The reforms caused a 5.8% growth rate of the Indian GDP throughout the 1980s which was almost double the 2.95% growth of the 1970s.

After her assassination in 1984, Indira Gandhi's son Rajiv took over as Prime Minister and continued the implementation of reforms started by his mother, helping to drastically trim down the system of "license-permit raj". In addition, Gandhi "encouraged the application of computers and the development of the software industry. These policy initiatives paid rich dividends 10 years later, when India emerged as the most globally

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[20] Chakravartty, 293
[21] Rajadhyaksha, 45

competitive emerging market country in software and IT services."[22] The process of internal liberalization that the Gandhis supported certainly increased economic growth, but there were flaws that were holding the Indian economy back from experiencing something like China's incredible economic development. The problems with India were its inefficient spending on bureaucracies and agricultural development and a legal system that was unfriendly to large foreign investors and businesses.[23] Without foreign capital pouring in as was the case with China, India's economic growth was restricted as it was still refilling its coffers from the previous financial crisis. The reforms primarily made it easy for Indian companies to grow, for they received the benefits of being able to become competitive in the international market without having to deal with domestic competition as much. The Indian government soon took a financial hit because they increased subsidies to the point of being careless, and they were again in danger of going bankrupt.[24]

In 1991 Narasimha Rao of the Congress Party was elected as Prime Minister of India and with the cooperation of the government started a process of liberalization that changed the Indian economy and effectively integrated it into the global arena.[25] Rao enlisted the help of top Indian economist Manmohan Singh to come up with a solution to the serious economic crisis, the second in a decade. In order to avoid going bankrupt, the Indian government had to ask International Financial Institutions (IFIs) like the IMF and the World Bank for more loans.[26] Again they gave out the money, but were a lot more serious about the structural adjustment programs this time around. Therefore Singh had to

[22] Nayar, 205
[23] Das, 19
[24] Rajadhyaksha, 46
[25] Rajadhyaksha, 46
[26] Nayar, 314

work with the SAPs in mind while coming up with an effective economic model. This limited India's options tremendously, though they didn't give in to the whims of the IFIs all the way. Singh advocated globalization and liberalization policies that "devalued the rupee, lifted many restrictions on imports, initiated privatization of public sector undertakings, reduced allocations for research and development and slowed down technology development, and took measures to pass on a substantial portion of [India's] domestic market to the TNCs."[27] One can see that these policies, as with nearly all structural adjustment policies, directly helped developed countries and TNCs establish new markets in India, though this aspect will be discussed later.

The Indian government did not go completely "laissez-faire" as the members of the Washington Consensus (the IMF, the World Bank, powerful MNCs, etc. that pushed for corporate globalization)[28] would have liked. Instead, Singh and the Indian Parliament settled on what is called the "New Delhi Consensus." Unlike many of the debtor countries:

> The Indian government has not sold its assets aggressively in privatization programs. The opening up of the tradables sector has been faster than that of non-tradables… Capital account convertibility has been handled very carefully, step by step. And there has been no fiscal fundamentalism; the government has not attacked its budget deficit with the single-minded determination that the Washington trio normally encourages.[29]

The New Delhi Consensus has kept India relatively stable over the long haul, preventing such crises as the Asian Financial Crisis of 1997 from adversely affecting the economy.

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[27] Nayar, 315
[28] McMichael, 346
[29] Rajadhyaksha, 46-47

The Consensus has also prevented the takeover of the economy by foreign entities, which is a huge part of India's success story.

The liberalization process did accelerate economic growth in India as projected. Between 1994 and 1997, India experienced a 7.5% growth of GDP, a significant gain from the pseudo-liberalization era of the 1980s.[30] Though the rate of growth slowed at the turn of the century, it has since returned to its rapid growth rate and now sits at 7.3%.[31] The positives of globalization and liberalization in India are numerous. Liberalization has had a dramatic effect on the poor. The number of impoverished people in India was reduced from 40% in 1987 to 23% in 2003, almost halving the poverty rate while experiencing high population growth, an impressive accomplishment.[32] Other Human Development Indicators show double digit gains as well. Between 1995 and 2005, adult and child literacy, life expectancy all saw incredible progress compared to the previous decade.[33] This gave the Indian critics some hard evidence that liberalization could benefit the masses and that trade wasn't all that bad.

The modern Indian economy is doing very well compared to most developing countries and is one of the fastest growing economies in the world with a 7.3% GDP growth rate.[34] With a young and massive work force, abundant support from foreign investors, and a growing domestic market, India is poised for an incredible economic growth period, the likes of which only China has experienced. A great deal of India's modern success can be attributed to the rapid growth of its information and communication sector, the seeds of which were planted when Rajiv Gandhi supported the

[30] Nayar, 206
[31] CIA World Factbook
[32] Nayar, 209
[33] Human Development Reports
[34] CIA World Factbook

use of federal funds for the expansion of telecommunications infrastructure nationwide. The Asian giant is well known around the world as being the home of help desks and call centers. These jobs, which fit into the category of Business Process Outsourcing, do not have as great a share of the Indian economy as one would imagine. There is an upside to the industry though. Greene notes that "Although business process outsourcing only accounts for 1 percent of India's GDP and less than 2 percent of its annual job creation, it has evolved into the most dynamic sector of India's booming economy."[35] The Indian economy represents 85% of all BPO services, which is a virtual stranglehold on the industry, and growth in the sector is expected to be exceptional.

With the expansion of giant tech corporations like Infosys, India has established itself as a major player in the world software market as well. The software development sector in India grew from a $25 million infant industry in 1985 to a $6.4 billion powerhouse by the turn of the century. Two-thirds of India's software market is dedicated to exports, the majority of which go to the United States and other developed countries. According to Nayar, "out of the total software exports, almost 62 per cent went to the US and Canada, 24 per cent to Europe, and 4 percent to Japan."[36] With its favorable location and many English-speaking, highly tech educated citizens, India is also becoming an international technology research hub. The city of Bangalore has attracted some of the biggest names in modern technology including Google, IBM, Microsoft, AOL, Oracle and Sun Microsystems. These MNCs have constructed research and development centers and invested billions of dollars to take advantage of the new wave of software engineers

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[35] Greene, 11
[36] Nayar, 389

that are willing to work at $5,000 to $10,000 per year, a fraction of what they would earn in the United States.[37]

Resisting the West – A Comparison of Development Strategies

The position of economic power that India and China are rising to is not untouched ground. Some estimates say that at the beginning of the 18th century, China and India together represented 45.7 of the GDP in the world and were by far the two largest global economies.[38] It is almost as if they are simultaneously reasserting their history of economic dominance, but are pursuing that goal through different avenues. The economic liberalization processes of China and India were clearly different and produced two separate outcomes, though they have started to mimic each other as the freshness of the initial liberalization movement has worn off. The similarities between the overall liberalization strategies of China and India are very telling of effective growth strategies and help to explain why they have come out on top.

The time periods in which the giants enacted their liberalization reforms had a very important effect on their respective developments. Under Deng's guidance, China began its reforms in 1978, while India began its reforms because of IMF's conditionality agreements under Gandhi in 1980. At first glance, a two year difference would not seem to make a difference. This was not the case because of the strategies they took. India took a slow, lumbering approach to liberalization, opening up trade barriers like it was pulling its own teeth. It would take two steps forward and one step back in terms of passing reforms. China on the other hand was taking three steps forward, opening up trade to

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[37] Das, 123
[38] Das, 14

other nations in increments but more comprehensively than India. Thus by the 1990s, China was already a good deal ahead of Indian economic development, having established more trading partners and received more investments. Many scholars believe that India will have the same growth pattern as China but lagging a decade or two behind it.[39]

Looking at the overall GDP and GDP growth of India and China, it's no secret that India is playing catch up to China in terms of overall economic progress. China is experiencing a 9.8% growth rate with an overall GDP of $4.2 trillion, while India is experiencing a 7.3% growth rate and an overall GDP of $1.237 trillion.[40] While GDP often directly correlates with population size, this is not a deciding factor in this comparison, as India has about 1,166,000,000 people and China has 1,339,000,000 people. According to the data, China's economy is three times larger than that of India and is growing at a significantly higher rate despite a similar number of people. Barring a major financial catastrophe in the next few years, China seems to have discovered the most effective mode of sustained economic growth. India, while relatively very successful, has been held back by various factors which will be discussed, though it has some advantages that may turn the tide in its favor.

The different political systems of the Asian giants played possibly the most decisive role in the liberalization movements of India and China. The two Asian giants have very different methods of popular government. According to Das, "While India is an open, pluralist, multi-party, democratic society, China is a closed society run in an

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[39] Das, 16
[40] CIA World Factbook

authoritarian manner by the Chinese Communist Party."[41] These opposing systems fostered the employment of unique but effective liberalization strategies. China's communist system was fairly centralized, so decisions could be made and executed very quickly. Xiaoping Deng combined the ease of decision making of authoritarianism with the economic expansion possibilities of liberalization to allow China's economy to flourish. This had not been done before on such a grand scale, as many felt that only democratic systems could be compatible with liberalism.[42] India's democratic-socialist hybrid system cultivated a more drawn out development process, as economic legislation often dragged on in the mire of bureaucracies and political disputes even more so than other less-socialist democracies. This could be viewed as an advantage though, for it prevented rash and uninformed decisions by representatives. The civil liberties afforded to Indian citizens were another advantage that statistics cannot measure, for personal freedoms keep people content.

In the technology sector, India has a definite advantage over China.China has started to put more and more of its resources into computer technology development in the last few years, as the government has realized the potential for profit. According to Wilson, "During the past decade, China has arguably placed more importance on reforming and modernizing its information and communication technology (ICT) sector than any other developing country in the world."[43] China has met success providing widespread access to telephones and the internet and, seeing the profit that India has made in the industry, wants to expand the industry even further. According to Wilson:

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[41] Das, xii
[42] Mahtaney, 179
[43] Wilson, 886

> The current leadership under President Hu Jintao and Premier Wen Jiabao continues to devote massive material and political resources to... "informatization" (the application of modern ICT tools to other economic sectors) as a key strategic element for advancing the twin goals to which the CCP is committed: the measured transition from a communist to a market economy and, more reluctantly, the continued shift of the CCP from a revolutionary to a ruling party.[44]

Information technology in China has been growing 20% annually and may soon be a force to be reckoned with on the international market.

China and India have taken different roads when it comes to their focus on ITC development. India is focused on software and exports, while China is focused on hardware and the domestic market. This is conducive to an economic relationship between the two giants, as they are not directly competing and can actually help each other grow.[45] Although they only account for a small part of the global ITC market, the combination of "Chindia" frightens many MNCs and political leaders. With their superior numbers and combined research and development techniques, the Asian giants could give some of the more established and wealthy corporations a run for their money.[46]

India has one distinct advantage over China in regards to growth potential, and that is age distribution. In the coming years, India will reach the demographic "sweet spot" for economic growth. This means that India will have a large working age population and a small number of dependents, which are those too young or too old to work. According to Rajadhyaksha, "The lower the proportion of dependents, the higher is

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[44] Wilson, 886-887
[45] Wilson, 903
[46] Randeep

an economy's ability to invest and grow."[47] When workers do not have to use their salaries to support their children or parents, they either invest or spend extra money they have, stimulating the economy. This "sweet spot" will only last for 15 years but may give India a competitive edge. By 2020, India is projected to have 116 million workers who are 20-24 compared with 94 million workers in China, a notable deviation from the historical trend.[48] China is faced with an aging population whose demographics have been stifled by laws such as the infamous "one child" policy that has prevented about 200 million births according to one estimate.[49] This could lead to a slowdown in economic growth and allow India to make up ground it lost when it was bogged down in its slow liberalization process.[50]

Now I Am Become America, Creator of Superpowers

The United States of America has been the Great Power of the world for some time now. As a driving and controlling force behind many of the top international institutions, the United States has used its political power and economic superiority to control the growth of developing countries. Not surprisingly, it has had a very pointed role in the economic liberalization and development of the developing Asian giants, the two most populous countries in the world, though in distinctly different ways.

One way in which the United States has controlled developing countries is through its position of power in IFIs such as the Bretton Woods institutions of the World Bank and the IMF. Although these institutions are supposed to be neutral and primarily

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[47] Rajadhyaksha, 53
[48] McMichael, 286
[49] Murray, 76
[50] Winters, 11

help the people of developing countries, this is not the case. The IMF is controlled by the developed countries who contribute money to the institution for lending use. The amount a developed country contributes directly corresponds to their voting power for IMF policies. The United States is by far the largest donor, contributing enough money to earn 16% of all votes in the organization. This gives the United States a huge position of power and a great deal of influence over the dealings of the IMF. Combined, the western powers control more than 50% of the vote in the IMF, giving it the power to control who gets what loans and how they must change their economic policies.[51] In addition, since its inception every the managing direction of the IMF has been from Europe, exacerbating the disparity of the institution. With the IMF at the helm, many developing countries have opened up their economies only to see Wal-Mart, McDonald's and other giant American and European MNCs come in and try to take over domestic markets. The World Bank and the IMF started out with two separate and distinct objectives but have recently become almost synonymous, for their goals and methods are very similar.[52] Voting rights in the World Bank are, like the IMF, determined by donor contributions. The United States and the United Kingdom are the largest shareholders in the World Bank. The President of the World Bank has always been an American citizen and is nominated by the American president.[53] Like the IMF, the World Bank is also dominated by the Western Powers and will continue to be in the foreseeable future.

The IMF and World Bank implement structural adjustment programs on debtor countries as conditions of their loans. These structural adjustments have always involved the adoption of neoliberal economic reforms, which have included lowering import taxes

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[51] International Monetary Fund
[52] Nayar, 224
[53] World Bank

and quotas, reducing subsidies to public and private businesses, eliminating foreign investment restrictions, privatizing public entities, slowing or stopping technology development and loosening currency exchange controls. Such actions often hurt the populations of affected countries, for they allow MNCs from the wealthy countries to go in and effectively force local companies out of business, hijacking the market with their low prices. MNCs take full advantage of the lifting of foreign investment restrictions, building factories and employing locals at a relatively dirt cheap cost compared to what they pay in their home countries. Although some of the reforms that the IFIs condone are necessary for a successful entry into the global market, they are often over prescribed and debtor countries are taken advantage of. Policies like slowing technology growth increase the reliance of Third World countries on the technology First World, setting up a system of dependence and oppression that is difficult to escape from Because of this, the SAPs of the IMF and the World Bank have been criticized as being "a euphemism for re-colonization of the developed countries" by some because of the degree of control the MNCs gain from these policies.[54] It is through the SAPs that the First World has managed to maintain their power for so long, and if a developing country is to have any chance at making true progress, it must carefully navigate the pitfalls of the international lending system.

India's liberalization policies were in large part influenced by the IMF. By receiving large loans in the early 1980s and early 1990s, India was forced to comply with the conditionality agreements set forth by the IMF and open up their economy to trade with the rest of the world, eliminating trade barriers like tariffs and quotas in the process. While they might have headed down that road anyway, the IMF certainly nudged them

[54] Nayar, 315

forcefully in the neoliberal direction. India did well to avoid the “shock treatment” liberalization advocated by the IFIs, settling instead for a more gradual approach. As its borders opened to trade, MNCs became enamored with India’s large English-speaking, working age population, employing Indians as call center workers for a third of the cost or less of comparable American or European workers. This led to big profits for MNCs and more employment for Indians. MNCs have not been as successful integrating into the Indian domestic market as they have in the Chinese market, though both countries have done a relatively good job keeping them at bay compared to much of the rest of the developing world. The governments of the Asian giants have resisted letting MNCs such as Wal-Mart and McDonald’s take over their domestic markets, and because of this they have maintained control of their economies.

China, unlike India, did not receive loans from the IMF and therefore was not forced into a neoliberal conditionality agreement. However, China did open up its borders to trade of its own accord, and large American MNCs wasted no time in taking advantage of this. When China created the SEZs, American corporations went to the special regions and set up manufacturing plants, hiring millions of Chinese laborers to work for a fraction of the cost of their normal employees. This meant great profit for MNCs and an ensuing improvement in living conditions for the Chinese people. As American consumers have gobbled up cheaply manufactured goods by the millions, the manufacturing industry in China has only expanded, often supplanting the manufacturing firms of the Asian tigers and selling materials directly to MNCs. In 2004, for instance, China sold $18 billion worth of goods to Wal-Mart.[55] The parallel ascent to power of

[55] Winters, 51

Wal-Mart and China are directly related, as they have been close business partners during the greatest stretches of their growths.

The manipulations of the United States, the rest of the First World and the IFIs that they control have devastated the economies of countries across the world, leaving their people impoverished and their leaders wondering what happened. The sustained economic success of China and India in the international marketplace in the last twenty years can be largely credited to their careful avoidance of risky policy reforms and their adoption of protectionist measures to keep things that way.[56] Both of the Asian giants have kept a tight reign on their economies, gradually opening them up to trade while maintaining a degree of control. This sets them apart from many of their neighbors including the Asian Tigers, who opened up too much and were burned by the Asian financial crisis of 1997. China and India have instead used the global market to their advantage, and have engaged in relationships with MNCs and the First World that could more accurately be defined as “mutually beneficial” than “parasitic,” despite the initial intentions of the parties in question.

Conclusion

The two Asian giants are on the verge of a historical shift in global power. Their remarkable economic growth, adaptable political systems and formidable numbers have put them in a position to wrest economic control of the world from the United States and the other western powers for the first time in centuries. Ironically, the very same policies that led to the ascent of India and China were recommended and pushed onto them by the western powers who wanted to exploit them for profit, bringing the Buddhist and Hindu

[56] Hewitt, 208

notion of karma full circle. While the United States wrestles with an $11 trillion debt,[57] China is having a hard time figuring out what to do with all of its surplus money and India is rapidly becoming a global technological hub. Much of the success of these economies is derived from trade and business with MNCs based in the United States and the other developed countries. Now India and China combined own a quarter of the United States Treasury Securities.[58] China is poised to become the reigning global economic superpower, or at least share the position with the United States, as soon as the year 2035 according to some scholars.[59] Some even believe that a war between China and the United States is possible, as power transitions have historically been violent.[60] India is on the heels of China's success and rapidly advancing, and could even overtake it. In any case, all eyes will be on the Asian Giants as the 21st century unfolds.

[57] U.S. National Debt Clock
[58] U.S. Department of the Treasury
[59] McMichael, 285
[60] Gao, 8

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