China, India can help, not save world economy

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PARIS (AFP) - Fast growing China and India may be important players but the emerging economic giants alone do not have the clout to drag the global economy out of its worst slump since the 1930s, analysts say.

China, ranked the world's third largest economy after the United States and Japan, grew 7.9 percent in the second quarter this year while India expanded 5.8 percent in the three months to March.

Such rates are relatively modest by their standards but stand out sharply as the United States, Japan and Europe are all mired in deep recession as their economies struggle through the fallout from the global financial crisis.

Chinese and Indian demand has largely kept raw material prices afloat this year -- a key plus for exporting countries such as Australia and Brazil -- while also offering hope against the prevailing gloom.

The two countries "send out a positive message at a time when the trend is dark and this can help reassure the markets," said Michel Fouquin, international affairs analyst in Paris.

But beyond this psychological comfort, China and India have only a marginal impact on the wider global economy because they are exporters with limited domestic demand -- ultimately, they are relying on the developed world to recover first before they too can move ahead once more.

"There is no way that the world economy can get back on its feet again just through (the efforts of) the emerging giants," said Eric Chaney, chief economist with Axa.

China and India may drive demand for raw materials and the other inputs they use in their own exports from Brazil, Australia and the smaller Asian countries but that is not enough for recovery in the developed world.

"I'm much less convinced that either China or India can (provide) a significant boost to other economies," said Eswar Prasad of Cornell University.

"India and China can provide an indirect boost ... by maintaining domestic demand and providing a sense of confidence to the world economy that the recovery is in progress ... but their contribution to the world economy is going to remain modest," Prasad said.

The United States, Europe and Japan are the key markets for goods and services sold there by the great exporters such as China which has a much smaller domestic market despite efforts to boost home consumption.

Richard Herd at the OECD in Paris noted too that in China, the share of imports in "total demand is relatively small, essentially because it's a very large economy and there's a very large degree of self-sufficiency in many areas."

It has been a longstanding complaint in Washington that China's economy is dangerously reliant on exports for growth, leading to huge global imbalances that can no longer be sustained.

US officials said on Thursday that President Barack Obama's administration will tell China at an upcoming meeting that the role of consumption as a major driver of the US economy is diminishing.

"There's been a fundamental change in the US economy ... US households are raising their savings rates, so this is going to a less consumption-led recovery than what they're used to," a senior official said.

"Our message to the Chinese is going to be -- If you want to achieve your growth objectives, you're going to have to find a different way of doing it than through export-led growth," he said.

The bottom line is that "the global recovery will only come from a pick up in (consumer) demand in North America and Europe," said Chaney.

The BRIC four -- Brazil, Russia, India and China -- may protest all they want against the dominance of the dollar-led world trading system but they have no way of opting out of it given their relatively modest economic strength, said Jean-Paul Betbeze, economist at French bank Credit Agricole.

Longer-term, their influence will grow but for now they have much more work to do to meet coming challenges, especially likely changes to their favoured export-led model of economic development, analysts said.

"The Chinese have no other alternative but to boost their domestic market," said Prasad of Cornell University.
