

India and China will help the world economy this year

There will be no campaigning today in the General election. Parties wish to respect the memory of those killed so cruelly in Manchester. I provide a blog today about an unrelated subject.

Between them India and China account for almost two fifths of the world population. Both have in recent years been growing quickly. China enjoyed a major growth spurt based on industry, exports and heavy investment. More recently India has moved ahead of the slower Chinese growth rate based on a more balanced growth, coming from a lower average income level.

China is now the world's second largest economy thanks to the size of her population and the dominance of her industry. She makes half the world's steel and similarly large proportions of many manufactured goods. There are constant fears expressed in the West that China will experience a hard landing. Commentators who missed out on predicting the western banking crash think China might have one of her own. It's an odd argument.

They usually compare total economy debt in China with state debt in the West. If you compare total debt with total debt as a percentage of GDP China is still below a number of western economies. It is true there are potential bad debts within the Chinese nationalised sector. As the Chinese authorities own both sides of the transaction they can sort it out without bringing down the banking system.

Meanwhile India is getting the taste for modernisations and reform from Mr Modi. Following his successful conversion of a lot of cash into bank account money, he is now turning to sales tax reform. He wishes to sweep aside numerous complex transaction taxes imposed on a state by state basis and replace them with one GST India wide. It will greatly simplify doing business across borders within the country.

It looks as if this year again both India and China will make important contributions to world growth.

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