iJRASET
International Journal For Research in
Applied Science and Engineering Technology

INTERNATIONAL JOURNAL FOR RESEARCH
IN APPLIED SCIENCE & ENGINEERING TECHNOLOGY

Volume: 12 **Issue:** IV **Month of publication:** April 2024

DOI: https://doi.org/10.22214/ijraset.2024.58446

International Journal for Research in Applied Science & Engineering Technology (IJRASET)
ISSN: 2321-9653; IC Value: 45.98; SJ Impact Factor: 7.538
Volume 12 Issue IV Apr 2024- Available at www.ijraset.com

The Rise of Developing Economies

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Abstract: This research delves into the transformative shifts in the global economic landscape, spotlighting the ascending influence of developing economies, notably China and India. Contrary to projections by international financial institutions, the study contends that India's pro-market reforms position it as a potential economic giant in the 21st century. Analyzing the economic transformations since China's 1978 reforms and India's 1991 reforms, the study emphasizes the significance of these economies' growth and diversification due to their demographic and economic resources. China's earlier reforms during the Cold War allowed advantageous dealings for domestic businesses, facilitated by a well-equipped administration. Both countries, however, exhibit growth reliant on unsustainable credit booms, rendering them financially vulnerable. As global market leaders, China and India's economic success reshaped global markets, trade patterns, and investment strategies. This chapter aims to furnish essential insights into the evolution of these economic giants, offering foundational knowledge for investment and business opportunities in India and China.
Keywords: Developing economies, Economic growth, China, India, Financial systems, Monetary policy, Demographic trends, Emerging markets, Globalization

I. INTRODUCTION

A. Background

The rise of developing economies, particularly China and India, has fundamentally altered the traditional dynamics of the global economy over the past three decades. China has become the manufacturing epicentre of the world, being dubbed the "world's factory", while India has emerged as a dominant hub for services and information technology (IT) enabled sectors.

Understanding the underlying factors that have contributed to the growth trajectories of these economies is crucial for policymakers, economists, investors, and business leaders alike. Their large populations and expanding middle classes have shaped patterns of consumption, production, and trade across the planet. At the same time, their unorthodox development pathways combining state capitalism, investment-led growth, and economic liberalization set them apart from textbook assumptions. Evaluating the successes and pitfalls of China's export-driven paradigm versus India's domestic consumption model allows for nuanced perspectives on drivers of growth in developing countries. As China confronts slowing growth rates and faces demographic headwinds, India is viewed as the next bastion of economic expansion. Comparing industrial policies, pace of reforms, and demographic dividend dynamics sheds light on India's potential as an emergent economic superpower while scrutinizing bottlenecks in infrastructure, human capital and innovation ecosystems. Beyond headline GDP figures, assessing the inclusiveness and sustainability of their growth trajectories is vital. Issues from worsening inequality to environmental degradation raise questions about the viability of economic expansion divorced from human development yardsticks. As key 21st century growth engines, the development paths chosen by China and India have profound geopolitical implications as well from security arrangements to global governance architectures. Evaluating models of state-led capitalism helmed by single-party political systems against noisy democratic traditions highlights differing views on political freedoms and civil liberties. This complex, multifaceted landscape sets the stage for comparative analysis between the two dominant developing economies shaping our integrated world order. The examination offers insights into economic, social, and political dimensions of growth in the Global South.

B. Objectives

This research paper aims to:

1) Compare and contrast the growth trends in advanced and emerging economies over the past three decades regarding GDP, industrial composition, living standards.
2) Analyse the evolution of financial systems in developed and developing countries, encompassing types of institutions, market maturity, risk management tools.
3) Investigate the monetary policies adopted by both advanced and emerging economies in response to crises such as the Great Recession, Eurozone sovereign debt crisis, examining unconventional tools deployed.

4) Focus on the growing influence of China and India in shaping the global economic landscape across spheres:
- As lead drivers of growth, contributing over 50% to incremental GDP over 2008-2018, transforming worldwide consumption patterns and trade flows.
- With outward focused development models and increasing overseas investments and acquisitions, expanding their strategic footprint and shaping governance norms.
- Through newly created multilateral institutions like the AIIB that reflect the Global South's increasing economic significance after decades of Western dominance of global finance.
- As testing grounds for alternative development models from China's state directed capitalism to India's high-tech services ecosystems that confound traditional assumptions.
- Through extensive reforms tapping into demographic dividends, boosting human capital and innovation capacities pivotal to sustainable, inclusive growth patterns.
- With climate and sustainability implications of their energy policies and consumption demands impacting commitments made towards collective action on planetary boundaries.

II. GROWTH TRENDS

A. Advanced Economies

1) Historical Context

The postwar period saw advanced economies like the United States, Western European nations and Japan undergo rapid rebuilding, industrialization, and infrastructure expansion. Government policies focused on wider accessibility to higher education helped spur innovation capacities. Construction of welfare states and public social safety nets - encompassing components like healthcare, pensions, unemployment insurance - also accelerated human capital development and provided economic security for citizens.

2) Recent Trends

Facing a wave of financial and economic crises in recent decades, central banks in advanced economies deployed extreme monetary policies involving quantitative easing programs and ultra-low benchmark interest rates to inject liquidity into banking systems and manage downturns. At the same time, the ascendancy of technology and digital platform companies has risen, concentrated in advanced economy hubs like Silicon Valley and thriving financialized cities like London or Hong Kong. However, the COVID-19 pandemic and climate change risks have triggered attempted to onshore certain sensitive manufacturing like medical equipment and shorten supply chains to balance competitiveness pressures with national strategic interests.

3) Demographic Trajectories

Demographic trajectories worldwide are undergoing significant shifts marked by declining birth rates and aging workforces. This trend is particularly evident in developed nations like the US, UK, and Canada, where rising old age dependency ratios pose challenges for sustaining economic productivity and social welfare systems. To address labour force concerns, these countries have increasingly relied on immigration to supplement domestic workforce needs. In East Asian economies, the rapid aging of populations has become a pressing issue, leading to similar demographic challenges. Projections indicate severe demographic headwinds in the coming decades, emphasizing the urgency for nations to adapt policies and strategies to address the implications of aging populations on various socio-economic aspects.

4) Inequality Dimensions

The landscape of inequality has evolved significantly since the 1980s, witnessing a surge in top income shares and wealth concentration. This shift has widened economic disparities, with real wage growth trailing behind productivity gains. The gig economy, characterized by precarious and informal jobs, further amplifies inequality, creating financial instability for many workers.

Geographic disparities are evident, as thriving urban centres contrast with declining towns, accentuating regional inequalities. Moreover, inequality perpetuates across generations, as limited access to opportunities for disadvantaged youth reinforces socio-economic disparities.

Tackling these multifaceted dimensions is imperative for fostering a more equitable and inclusive society.

B. Emerging Economies

1) Case Study: China And India

In the case study comparing China and India, China has experienced robust economic growth driven by a manufacturing-led export boom and extensive infrastructure development, contributing to double-digit GDP growth over several decades. The country's state-led initiatives have played a pivotal role, with dominance in financial systems, including state banks, bond purchases, and subsidized lending aimed at fostering development.

On the other hand, India has carved a niche in the global economy through the dynamism of its services sector, establishing itself as a major hub for IT, software, and business process outsourcing (BPO) services. This growth is complemented by a focus on domestic consumption as a key driver. The state's intervention in financial systems is notable, mirroring China, with a prevalence of state banks and initiatives to support development through subsidized lending.

Both nations benefit from a demographic dividend due to young populations, fostering high labour force participation and human capital growth. However, the case study identifies challenges faced by both countries, including worsening income inequality levels, environmental degradation, and signs of slowing productivity. These challenges underscore the complexity of sustaining economic growth while addressing critical social and environmental issues in the pursuit of long-term development.

2) Comparative Analysis

In a comparative analysis of various economies, South Korea and Taiwan have successfully employed export-led industrialization strategies, contributing to the rise in living standards within their respective regions. These nations have demonstrated the effectiveness of integrating into global trade networks as a means of driving economic growth.

The Southeast Asian tiger cub economies experienced rapid growth during the 1990s, capitalizing on integration into China's manufacturing supply chains. This approach allowed them to leverage China's economic expansion and participate actively in the global market. In contrast, commodity-exporting nations in Latin America and the Middle East faced growth volatility due to the unpredictable price swings of commodities such as oil and metals. The dependence on these resources exposed these economies to external market fluctuations.

Transition economies, exemplified by Vietnam and former Soviet states, underwent challenging reforms before experiencing substantial growth take-offs. These reforms were often characterized by significant structural adjustments and policy changes.

Sub-Saharan Africa continues to grapple with institutional weaknesses that hinder its development. These challenges have posed obstacles to achieving sustained economic growth and prosperity in the region.

Overall, many emerging economies confront issues of inequality and exhibit low Human Development Index (HDI) indicators relative to their per capita income. These persistent challenges underscore the diverse economic landscapes and development trajectories within the global context.

III. FINANCIAL SYSTEM EVOLUTION

A. Advanced Economies

1) Banking Systems

analysing the development of sophisticated financial institutions involves assessing the growth, structure, and regulatory framework of banking systems in advanced economies. This includes examining the emergence of large commercial banks, investment banks, and other financial institutions, as well as the evolution of banking services, technology adoption, and risk management practices.

2) Capital Markets

Examining the evolution of stock and bond markets delves into the historical development, regulatory changes, and technological advancements that have shaped these markets in advanced economies. This includes exploring the establishment of stock exchanges, the growth of secondary markets, innovations in financial instruments, and the role of capital markets in facilitating corporate financing and investment.

3) Regulatory Frameworks

Understanding the role of regulations in shaping financial systems involves a detailed analysis of the regulatory landscape governing banking and capital markets in advanced economies. This encompasses studying the formation and evolution of financial regulations, compliance requirements for financial institutions, and the impact of regulatory changes on market stability, investor protection, and overall financial system integrity.

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B. Emerging Economies

1) Financial Inclusion

Assessing efforts to expand access to financial services in emerging economies involves: Examining initiatives aimed at increasing the availability of banking and financial services to a broader segment of the population. analysing the implementation of inclusive financial policies, such as microfinance programs and mobile banking, to reach unbanked or underbanked communities. Assessing the impact of financial inclusion on economic development, poverty reduction, and overall financial stability.

2) Market Reforms

Analysing the liberalization of financial markets in developing countries includes: Studying the process and timeline of financial market liberalization, which may involve deregulation, opening to foreign investments, and easing capital controls. Assessing the role of regulatory bodies and government policies in shaping the reforms and ensuring market efficiency. Examining the impact of market reforms on capital flows, investment patterns, and the overall economic growth trajectory of the emerging economy.

3) State Dominance

Understanding the persistence of state dominance in financial systems in emerging economies involves: Investigating the extent of government ownership or influence in major financial institutions, such as banks and regulatory bodies. analysing the implications of directed lending policies, where the government directs funds towards specific sectors or industries. Assessing the balance between state intervention and market-driven forces in shaping the financial landscape.

IV. MONETARY POLICIES

A. Advanced Economies

1) Central Bank Independence

Examining the autonomy of central banks in advanced economies involves: Assessing the legal and institutional framework governing central banks to determine the extent of their independence from political influence. Analysing the tenure and appointment processes of central bank officials to understand the insulation of monetary policy from short-term political considerations. Evaluating the historical instances where central banks exercised independence in setting interest rates and implementing monetary tools.

2) Quantitative Easing

Analyzing unconventional monetary policies adopted during economic crises includes: Investigating the circumstances under which quantitative easing (QE) was employed, such as during financial crises or periods of economic downturn. Assessing the specific quantitative easing measures implemented, including asset purchases and liquidity injections, to gauge their effectiveness. Examining the short-term and long-term impacts of quantitative easing on interest rates, inflation, and overall economic recovery.

B. Emerging Economies

1) Exchange Rate Policies

a) *Historical Evolution:* Analyze the historical development of exchange rate policies in emerging economies. Explore shifts in policies, such as transitions from fixed pegs to floating rates.
b) *Influencing Factors:* Examine factors shaping the choice of exchange rate regimes, including economic variables and external influences. Assess how trade dynamics and capital flows impact exchange rate decisions.
c) *Effectiveness Evaluation:* Evaluate the effectiveness of exchange rate policies in maintaining economic stability. Investigate the role of these policies in promoting or hindering export competitiveness.
d) *Challenges and Trade-Offs:* Identify challenges associated with different exchange rate regimes. Explore the trade-offs faced by emerging economies, especially in the context of globalization.

2) Inflation Targeting

a) *Adoption and Implementation:* Examine the process of adopting and implementing inflation targeting frameworks. Evaluate the commitment of central banks to achieving and maintaining specific inflation targets.
b) *Macroeconomic Indicators:* Analyze the impact of inflation targeting on key indicators, such as inflation rates, interest rates, and economic growth.

c) *Transparency and Communication:* Evaluate the transparency of central banks in communicating inflation targets to the public and financial markets. Assess the effectiveness of communication strategies in shaping expectations.
d) *Challenges and Limitations:* Identify challenges faced by emerging economies in implementing inflation targeting. Explore limitations of this approach, considering external shocks and structural factors.

V. THE GROWING INFLUENCE OF CHINA AND INDIA

A. Regional Economic Integration

The hypothesis suggests that both China and India actively engage in regional economic integration initiatives. China's participation in forums like the Regional Comprehensive Economic Partnership (RCEP) and India's involvement in regional trade agreements may have implications for the economic dynamics within their respective regions. Analyzing the influence of these regional integration efforts contributes to understanding their broader global impact.

B. Infrastructure Development

It is hypothesized that the extensive infrastructure projects undertaken by China, especially through the Belt and Road Initiative (BRI), contribute not only to trade facilitation but also influence the geopolitical landscape. The hypothesis suggests that India's infrastructure development initiatives may similarly impact regional connectivity and trade. Evaluating the scale and strategic implications of these infrastructure projects enhances the understanding of China and India's economic influence.

C. Technological Cooperation And Innovation

It is hypothesized that both China and India leverage technological cooperation and innovation to enhance their economic influence. This includes collaborations in areas such as artificial intelligence, 5G technology, and space exploration. analysing the impact of technological advancements and cooperation on their global standing provides insights into their roles as contributors to the global knowledge economy.

D. Energy Security And Resource Diplomacy

The hypothesis suggests that China and India, as major consumers of energy resources, engage in resource diplomacy to secure their energy needs. This includes investments in energy projects abroad and diplomatic efforts to ensure a stable supply of resources. Examining their approaches to energy security and resource diplomacy contributes to understanding the broader geopolitical dimensions of their economic influence.

VI. HYPOTHESIS

The accelerated rise of developing economies, with a particular focus on China and India, can be attributed to a combination of robust growth trends, dynamic evolution of financial systems, and adaptive monetary policies. This hypothesis is based on the premise that the unique development models, demographic dynamics, and policy frameworks of emerging economies have played a pivotal role in their economic ascension, differentiating them from advanced economies.

A. Growth Trends

The remarkable growth exhibited by developing economies, exemplified by China and India, is a result of strategic development models. China's investment and export-led approach, coupled with India's emphasis on the services sector and domestic consumption, have contributed to sustained high growth rates

B. Financial System Evolution

The hypothesis suggests that the evolution of financial systems in developing economies has been instrumental in their rapid rise. Financial liberalization reforms, increased bank penetration, and expansion of stock market capitalization are expected to feature prominently in the analysis.

C. Monetary Policies

In terms of monetary policies, the hypothesis expects variations in exchange rate management approaches, including China's adherence to fixed pegs and India's adoption of flexible policies, and examines how these strategies contribute to the overall economic resilience of each country.

D. Demographic Dynamics

It acknowledges the significance of demographic factors in the rise of developing economies. It posits that the demographic dividend, particularly in India with its young workforce, is a key driver of economic growth.

E. Environmental And Inequality Implications

The examination of these implications is expected to contribute insights into the sustainability and inclusivity of their economic ascension. In conclusion, this hypothesis suggests that a comprehensive analysis of growth trends, financial system evolution, and monetary policies in developing economies, with a focus on China and India, will reveal intricate patterns that distinguish them from advanced economies. Understanding these nuances is crucial for shaping future economic strategies and fostering sustainable development in the global landscape.

VII. RESULTS AND DISCUSSIONS

The comparative analysis between China and India reveals distinctive economic trajectories shaped by diverse development models and demographic dynamics. China, propelled by its investment and export-led model, has witnessed remarkable economic growth, averaging over 6% for the past three decades. This approach has doubled per capita incomes and positioned China as a major player, contributing significantly to the rapid expansion of emerging markets, which now constitute over 50% of global GDP based on purchasing power parity (PPP) measures. In contrast, India has pursued a more service-oriented and domestically driven growth strategy. With an average growth rate exceeding 6% over the same period, India has focused on leveraging its services sector dynamism and stimulating domestic consumption. This approach reflects a deliberate departure from the export-heavy model embraced by China. Both countries, however, grapple with environmental consequences and rising inequality stemming from uneven growth patterns, showcasing the complex challenges associated with their respective developmental paths.

A crucial differentiator lies in the demographic trajectories of China and India. China faces the repercussions of an aging population and demographic decline, posing potential challenges to sustaining its economic momentum. In contrast, India boasts the youngest workforce globally, presenting a demographic dividend that can fuel economic growth if effectively harnessed through strategic policies and investments in education and skill development. Furthermore, the monetary policy approaches of these nations highlight their adaptability in navigating economic challenges. Advanced economies, faced with below-trend growth around 2%, resorted to unconventional policies such as zero interest rates and quantitative easing. Emerging markets, historically plagued by high inflation, achieved price stability through central bank independence. Notably, China and India exhibit divergent exchange rate management strategies, with China maintaining fixed pegs and India allowing flexibility to cushion shocks.

Despite their distinct paths, both countries have implemented financial reforms. Emerging economies have increased bank penetration and expanded stock market capitalization through financial liberalization. However, state dominance persists, particularly in public sector bank assets and directed lending policies. Meanwhile, advanced economies witnessed the rise of non-bank financial institutions in the shadow banking system, introducing new risks. In response to frequent financial crises, emerging markets have enhanced regulatory frameworks and accountability mechanisms to bolster financial stability.

In summary, the comparative analysis of China and India underscores the multifaceted nature of economic development, influenced by growth models, demographic trends, and policy choices. While both nations have contributed significantly to the rise of emerging markets, their distinct approaches and challenges necessitate nuanced strategies for sustained and inclusive growth in the future.

VIII. CONCLUSION

This research paper has provided a comprehensive understanding of the contrasting growth trends, financial system evolution, and monetary policy responses in advanced and emerging economies. It has focused extensively on elucidating the transformative impact China and India have exerted on the global economic landscape across multiple dimensions.

As the world's two most populous nations, China and India have become lead drivers of global growth, trade and investment flows. Their state-directed, investment-intensive development models have lifted over 850 million people out of poverty, constituting a human achievement unparalleled in history. With expanding middle classes, their consumption appetites will further shape worldwide production networks and supply chains.

Emerging economies like India and China have been at the forefront of powering global growth since the 2008 financial crisis while advanced nations grappled with crises management and stagnation tendencies. Their financial sector liberalization and maturation have attracted growing capital inflows while accumulating vast foreign exchange reserves. Yet their expanded global footprint has also transmitted geoeconomic risks that engulfed worldwide markets.

Looking ahead, policymakers and businesses in advanced strongholds must adapt to the changing dynamics of an increasingly multipolar global economy where emerging regions exert growing influence. This entails reforming international institutions to better reflect the economic significance of the Global South after decades of Western dominance. It also warrants reshaping global value chains by adopting progressive industrial strategies that balance competitiveness with resilience against external shocks.

Moreover, with sustainability and inclusive growth taking center stage amid converging global crises, development pathways steering emerging economies like India and China warrant scrutiny. Their energy, infrastructure and governance policy choices made today will lock the world into climate trajectories and environmental outcomes for future generations. And their ability to construct adaptive, equitable societies capable of meeting citizens' aspirations will reverberate worldwide.

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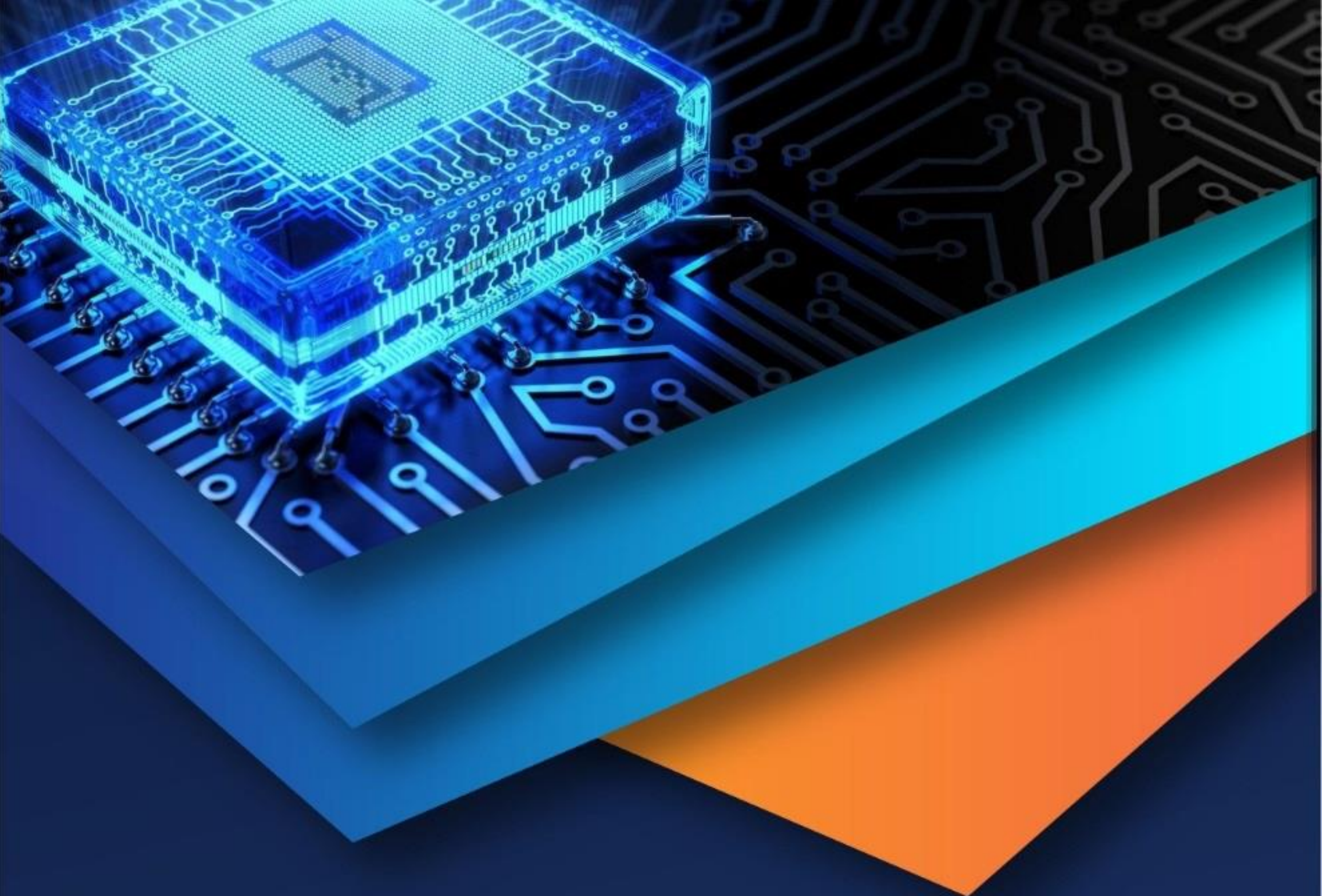

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