

MEETING THE CHALLENGE OF CHINDIA

Many believe that the rise of the developing economies, and in particular that of Chindia -- China and India -- presents a significant threat to the UK. A new report by the Advanced Institute of Management Research, however, suggests that such fears are misplaced. Instead, policymakers, powerbrokers and thought leaders across the globe are convinced that the UK can benefit from the growth of the new economic superpowers - as long as business and government acts now, and adopts the appropriate strategies.

Leading global investment bank Goldman Sachs estimates that China will overtake the USA as the world's largest economy by 2039. India will be close behind.

The figures are impressive:

- Chindia produced 125,000 computer science graduates in 2004. The UK just 5,000;
- India is second to the USA in software production/database design and management;
- China is the world's manufacturing hub, producing over 50 per cent of the world's cameras, 30 per cent of air conditioners, and 25 per cent of washing machines.

"Understandably many in business and government, at a local, regional, national and multinational level, see the rise of China and India as a challenge and threat," says Rupert Harrison, AIM Research Fellow at Institute of Fiscal Studies. "Yet while such rapid growth undoubtedly presents many challenges to the developed economies, we must not overlook the many benefits and opportunities it offers."

For example:

- Growth in China and India increases demand for goods produced in the UK;
- China and India provide investment opportunities for UK companies and individuals;
- Sourcing goods and services from China and India enables UK companies to become more competitive in global markets;
- China and India provide opportunities for innovation and scientific collaboration that can benefit the UK.

For their research the authors travelled across the globe observing the rapid economic expansion of China and India at first hand, and seeking opinion from those best placed to comment on this century-defining phenomenon. The trip provided a valuable insight into what the UK must do, at a business and policy level, in order to make the most of the opportunities that are and will become available.

In particular, policymakers, and business where appropriate, must focus on:

Flexibility: Flexible economies, where hiring and firing costs and the costs of market entry are low, are most successful in creating new jobs to replace old ones.

Integration: The UK appears to be disadvantaged by not being sufficiently integrated into the global value chain. Industries and institutions have not yet opened up enough to international networks and collaboration.

Education: Preparing the workforce includes helping workers to acquire the right skills at the right time, and ensuring that regulations and policies support labour market flexibility. This includes a focus on language skills, and the role that colleges, universities and employers can play in lifelong learning.

Labour market flexibility: Policies to promote labour market flexibility must go further than labour market regulation; considerations might range from the housing market – and obstacles that the housing market and regional price differentials place on people's abilities to

move in response to changes in jobs – to pension provision and the ability of workers to transfer benefits, such as pensions, between jobs.

Science and innovation: Policy should aim to make the most of collaboration opportunities with emerging centres of excellence in India and China. The flows of people across countries are crucial in building and maintaining research networks, and this should be a focus for policy and incentive structures for scientists. At the same time policy should continue to make the UK an attractive location for research, both in terms of costs and skills, but also the regulatory and social environment for cutting edge research.

The role of institutions: Governance systems in the UK offer a competitive advantage over India and China. It is important to continue to monitor these systems to avoid any unnecessary adverse impact on cost and efficiency.

Other institutions with a role to play include universities and regional bodies. The report recommends that these agencies and institutions be located together in China and India, instead of scattered in different locations.

Support: Finally, there is the social impact to be considered. Although the economy as a whole may gain, individual citizens and workers may suffer greater job insecurity and/or wage loss. The challenge is to effectively ease this transition for those most adversely affected. Attention should be given to how to support workers dealing with greater uncertainty, risk and change.

The bottom line is that the economic boom in India and China presents tremendous opportunities for the UK. It is essential that the UK is well placed to take advantage of these opportunities. If not, the fears of those who talk in terms of "challenges" and "threats" may prove well-founded.

The report: THE ASIAN CENTURY: Opportunities and challenges for the UK

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Notes for Editors

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