Dancing with Giants
China, India, and the Global Economy

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# Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreword</td>
<td>vii</td>
</tr>
<tr>
<td>Contributors</td>
<td>x</td>
</tr>
<tr>
<td>Acknowledgments</td>
<td>xi</td>
</tr>
<tr>
<td>Background Papers</td>
<td>xiii</td>
</tr>
<tr>
<td>Acronyms and Abbreviations</td>
<td>xv</td>
</tr>
<tr>
<td><strong>CHAPTER 1</strong> Introduction: Dancing with Giants</td>
<td>1</td>
</tr>
<tr>
<td>L. Alan Winters and Shahid Yusuf</td>
<td></td>
</tr>
<tr>
<td><strong>CHAPTER 2</strong> China and India Reshape Global Industrial Geography</td>
<td>35</td>
</tr>
<tr>
<td>Shahid Yusuf, Kaoru Nabeshima, and Dwight H. Perkins</td>
<td></td>
</tr>
<tr>
<td><strong>CHAPTER 3</strong> Competing with Giants: Who Wins, Who Loses?</td>
<td>67</td>
</tr>
<tr>
<td>Betina Dimaranan, Elena Ianchovichina, and Will Martin</td>
<td></td>
</tr>
<tr>
<td><strong>CHAPTER 4</strong> International Financial Integration of China and India</td>
<td>101</td>
</tr>
<tr>
<td>Philip R. Lane and Sergio L. Schmukler</td>
<td></td>
</tr>
<tr>
<td><strong>CHAPTER 5</strong> Energy and Emissions: Local and Global Effects of the Giants’ Rise</td>
<td>133</td>
</tr>
<tr>
<td>Zmarak Shalizi</td>
<td></td>
</tr>
<tr>
<td><strong>CHAPTER 6</strong> Partially Awakened Giants: Uneven Growth in China and India</td>
<td>175</td>
</tr>
<tr>
<td>Shubham Chaudhuri and Martin Ravallion</td>
<td></td>
</tr>
<tr>
<td><strong>CHAPTER 7</strong> Governance and Economic Growth</td>
<td>211</td>
</tr>
<tr>
<td>Philip Keefer</td>
<td></td>
</tr>
<tr>
<td>References</td>
<td>243</td>
</tr>
<tr>
<td>Index</td>
<td>265</td>
</tr>
</tbody>
</table>
Figures

Figure 1.1 China and Previous Growth Spurts Compared 9
Figure 2.1 Product Structure of Exports 40
Figure 2.2 Product Structure of Imports 41
Figure 3.1 Exports of Goods and Nonfactor Services as a Share of GDP 70
Figure 3.2 Share of Commercial Services in Total Exports 71
Figure 3.3 Composition of Services Exports 72
Figure 3.4 Export Shares of China and India, 2001 80
Figure 4.1 Net Foreign Asset Positions, 1985–2004 106
Figure 4.2 International Financial Integration: Sum of Foreign Assets and Liabilities 108
Figure 4.3 Top Foreign Asset and Liability Holders, 2004 110
Figure 4.4 Selected Financial Sector Indicators 114
Figure 5.1 Primary Energy Use of Coal and Total CO₂ Emissions from Fossil Fuel Consumption, China and India, 1980–2003 141
Figure 5.2 Air Quality Comparison, Selected World Cities, 2000 143
Figure 5.3 Increase in Crude Oil Use Relative to First Quarter 2001, Various Countries 147
Figure 5.4 OPEC Spare Production Capacity 148
Figure 5.5 China’s and India’s Shares of World Oil Consumption and Trajectory of World Oil Prices, BAU and BAU-H Scenarios 159
Figure 5.6 Extent of Energy and Emission Decoupling in the Case of Final Energy Consumption 165
Figure 6.1 Growth and Poverty Reduction, 1981–2003 176
Figure 6.2 Growth Rates at the Subnational Level 182
Figure 6.3 Sectoral GDP Growth Rates, 1980–2003 184
Figure 6.4 Growth Incidence Curves for China (1980–99) and India (1993–99) 189
Figure 6.5 Trends in Income Inequality, 1978–2003 190
Figure 6.6 Growth Rates at the Subnational Level Plotted against Initial Poverty Rates 196

Tables

Table 1.1 Gross Domestic Product in Six Large Economies 6
Table 1.2 Comparative Industrialization 8
Table 1.3 Trade in Goods and Services for Six Large Economies 15
Table 1.4 Shares in World Consumption of Primary Commodities 16
Table 2.1 China’s and India’s Shares of World Exports 36
Table 2.2 China’s and India’s Shares of World Imports 36
Table 2.3  Households Owning High-income Consumer Durables in China, 2004  
Table 2.4  Households Owning Selected Assets in India, 2001  
Table 2.5  Industry Exports as a Percentage of Total Exports, China and India  
Table 2.6  Indicators of All State-owned and Non-state-owned Enterprises in China, by Industrial Sector, 2004  
Table 3.1  Composition of Nonfuel Imports and Exports by Broad Economic Classification, 1992 and 2004  
Table 3.2  Top 25 Exports for China and India, 2004  
Table 3.3  Impact of India’s Integration with the World Economy, 2020  
Table 3.4  Output, Factor Inputs, and Population Projections, 2005–20  
Table 3.5  Changes in Key Economic Indicators as a Result of Global Growth, 2005–20  
Table 3.6  Welfare and Trade Changes as a Result of Global Growth, 2005–20  
Table 3.7  Impact of Improved Growth and Quality Exports in China and India, Relative to Base, 2020  
Table 3.8  Manufacturing Output: Effects of Improved Growth and Quality Exports in China and India, Relative to Base, 2020  
Table 3.9  Industry Effects of Improved Sectoral Productivity Growth in China and India, Relative to Base, 2020  
Table 3.10  Export Volume Changes under Various Scenarios, Relative to Base, 2020  
Table 4.1  Composition of Foreign Assets and Liabilities, 2004  
Table 4.2  Asymmetries in the International Balance Sheet, 2004  
Table 5.1  Energy Balance in China and India, 1980–2003  
Table 5.2  Changes in Energy Intensity in China, India, and the United States  
Table 5.3  Sectoral and Fuel Shares of Energy Consumption in China and India  
Table 5.4  Summary of ALT Scenarios Relative to BAU for China and India, 2005–50  
Table 5A.1  Energy Balance, 1980–2003  
Table 6.1  Poverty Reduction and the Sectoral Composition of Growth  
Table 6.2  Poverty Reduction and the Urban–Rural Composition of Growth  
Table 7.1  Correlates of Growth, 1980–2004
Hardly a day passes without a newspaper article, television show, or Internet blog story about the rise of China and India in the global economy. There are many reasons for this public interest. Never before have such large economies—with a combined population of 2.3 billion—grown so fast for so long: GDP growth in China averaged 9.1 percent over the last decade, and India averaged 6.1 percent. Some people are fearful: Will China and India dominate the world economy? Will they consume the earth’s scarce resources? Will they bid down wages elsewhere? Others are curious: Can China and India sustain such impressive growth rates, especially in light of perceived fragilities (China’s financial sector and India’s public debt being notable examples)? Others seek lessons: Noting that neither China nor India is pursuing an “orthodox” model of development, they want to know how these economies did it, and whether there are lessons for other developing countries.

Because of this heightened interest among the general public, media coverage of China and India tends to emphasize the human dimension—stories comparing a factory worker in China with a software designer in India, or interviews with foreign investors comparing the two countries’ prospects, or pictures contrasting the booming worlds of Shanghai and Mumbai with abject poverty in rural China and India.

Dancing with Giants considers the story from a different vantage point. It takes a dispassionate and critical look at the rise of China and India, and asks some difficult questions about this growth: Where is it occurring? Who is benefiting most? Is it sustainable? And what are the implications for the rest of the world? By bringing to bear the best available data and analytical tools, the book can provide answers that are much more nuanced than the typical news story. To take one example, the book demonstrates that, despite their similar size, the two Giants are not the same—China’s role in the global economy is much greater than India’s, with important implications for other countries.
Dancing with Giants considers whether the Giants’ growth will be seriously constrained by weaknesses in governance, growing inequality, and environmental stresses, and it concludes that this need not occur. However, it does suggest that the Chinese and Indian authorities face important challenges in keeping their investment climates favorable, their inequalities at levels that do not undermine growth, and their air and water quality at acceptable levels. Discussion of how these issues affect the Giants has relevance as well to policy makers elsewhere. For example, despite their very different structures and traditions of governance, both countries have generated effective constraints on executive power, and that has played an important role in their growth.

Dancing with Giants also considers China’s and India’s interactions with the global trading and financial systems and their impact on the global commons, particularly with regard to climate. Examining the effects that they will have on the economic circumstances and fortunes of other countries, the various chapters find that

- The Giants’ growth and trade offer most countries opportunities to gain economically. However, many countries will face strong adjustment pressure in manufacturing, particularly those with competing exports and especially if the Giants’ technical progress is strongly export-enhancing. For a few countries, mainly in Asia, these pressures could outweigh the economic benefits of larger markets in, and cheaper imports from, the Giants; and the growth of those countries over the next 15 years will be slightly lower as a result.

- The Giants will contribute to the increase in world commodity and energy prices but they are not the principal cause of higher oil prices.

- The Giants’ emissions of CO₂ will grow strongly, especially if economic growth is not accompanied by steps to enhance energy efficiency. At present, a one-time window of opportunity exists for achieving substantial efficiency improvements if ambitious current and future investment plans embody appropriate standards. Moreover, doing so will not be too costly or curtail growth significantly.

- From their relatively small positions at present, the Giants will emerge as significant players in the world financial system as they grow and liberalize. Rates of reserve asset accumulation likely will slow, and emerging pressures will encourage China to reduce its current account surplus.

Developed as a collaborative venture among the World Bank’s research department and East and South Asia regions, and the Institute of Policy Studies
in Singapore, this book is an important contribution to the global campaign for poverty reduction. With about a third of the world’s poor people living in China and India, these countries’ performance will be critical to alleviating global poverty. Moreover, the fact that China and India have been able to lift hundreds of millions of people out of poverty in the past few decades provides hope for the rest of the world. Dancing with Giants provides knowledge that will help turn that hope into reality.

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Background Papers

Cooper, Richard N. “How Integrated Are Chinese and Indian Labor into the World Economy?”
Kuijs, Louis. “China in the Future: A Large Net Saver or Net Borrower?”
Lane, Philip. “The International Balance Sheets of China and India.”
Li, David D. “Large Domestic Non-Intermediated Investments and Government Liabilities: Challenges Facing China’s Financial Sector Reform.”
Mishra, Deepak. “Financing India’s Rapid Growth and Its Implications for the Global Economy.”
Noble, Gregory W. “The Emergence of the Chinese and Indian Automobile Industries and Implications for Other Developing Countries.”
Srinivasan, T. N. “China, India, and the World Economy.”
Whiting, Susan H. “Growth, Governance, and Institutions: The Internal Institutions of the Party-State in China.”
Wilkinson, Steven I. “The Politics of Infrastructural Spending in India.”
Acronyms and Abbreviations

AGE  applied general equilibrium
ALT  alternate scenario
BAU  business-as-usual scenario
BAU-H business-as-usual scenario with high growth variant
BERI Business Environment Risk Intelligence
CGE  computable general equilibrium
CO$_2$  carbon dioxide
CPC  Communist Party of China
EFTA European Free Trade Association
EU25 25 countries of the European Union
FDI  foreign direct investment
FYP  five-year plan
GDP  gross domestic product
GE  General Electric
GIC  growth incidence curve
GTAP Global Trade Analysis Project
GtC  giga tonnes of carbon
HIC  high-income country
HS  Harmonized System
ICRG International Country Risk Guide
IEA  International Energy Agency
IIT  Indian Institute of Technology
IMF  International Monetary Fund
IT  information technology
LCD  liquid-crystal display
LIC  low-income country
mbd  million barrels per day
MFA  Multifiber Arrangement
MIC  middle-income country
MNC multinational corporation
Mtoe million tons of oil equivalent
NA national accounts
NBS National Bureau of Statistics
OPEC Organization of the Petroleum Exporting Countries
PC personal computer
PPP purchasing power parity
R&D research and development
SITC Standard International Trade Classification
TFP total factor productivity
TVE township and village enterprise
USEIA U.S. Energy Information Administration
WHO World Health Organization
WTO World Trade Organization

All dollars are U.S. dollars unless otherwise noted.