Dancing with Giants

Shahid Yusuf, Alan Winters
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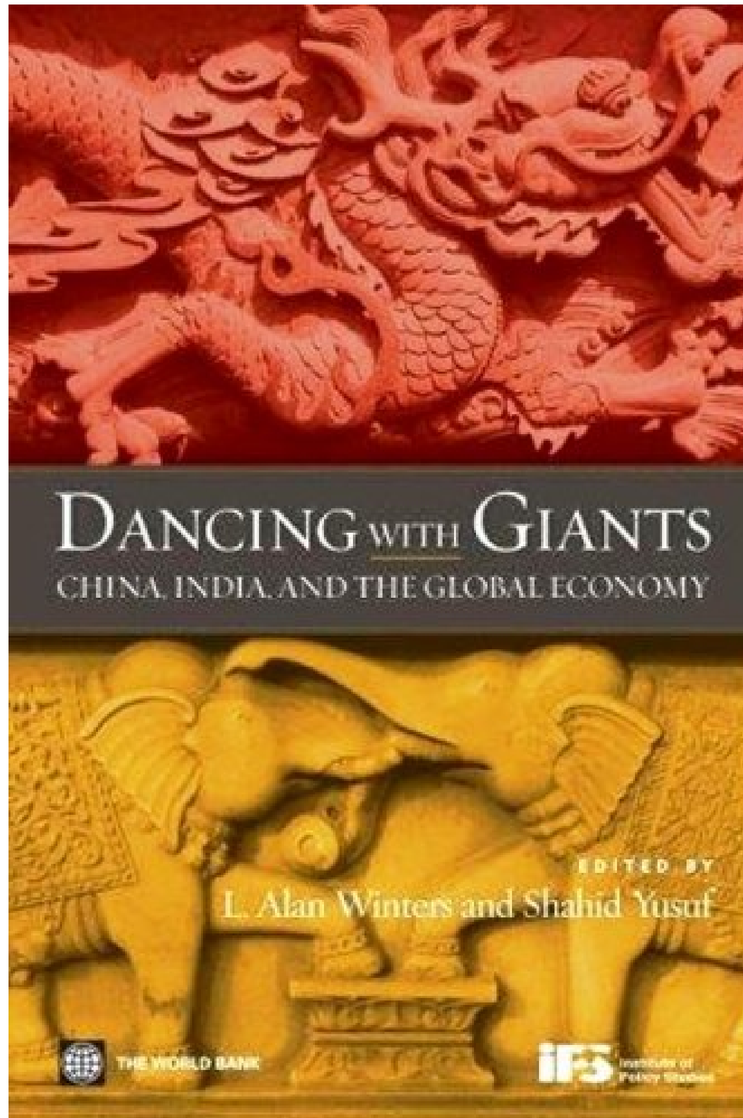

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Shahid Yusuf, Alan Winters : Dancing with Giants before purchasing it in order to gage whether or not it would be worth my time, and all praised Dancing with Giants:

19 of 21 people found the following review helpful. From the perspective of one of the Giants......By T. R. SanthanakrishnanThis is a report by the World bank (and a think tank) to study the impact of the growth of China and India on other countries in the World.Provides a good insight into the China and India story:(a) Sorry, China and India are not Giants. Though they house 38% of world population they account for 6.4% of World GDP (yes, purchasing power parity is not useful in evaluating your impact on other countries since size of trade and exchange rates are more important than price levels).(b) Sorry, this will not change even after sustained growth in the next decade. India would

grow from being 1.7% of World economy to 2.4% in 2020 (okay, 3.2% if you are optimistic). China would grow from 4.7% now to 7.9%.(c) Sorry, India is not a dominant player in providing services to the world. India's export of services is just 1.8% of global trade in services.(d) Sorry, IT just accounts for 6% of India's service revenue. Nope, it is a myth to believe growth in IT sector would transform Indian economy. It did not. It may not.(e) Nope, energy economists don't need to worry. India accounts for just 3.4% of global oil usage. In the next ten years any hike in oil price is more likely to come from supply side hitches than from increased demand for oil in India or China.(f) Nope, US current account deficit is not due to China's import barriers or an undervalued currency. US is just not saving enough.(g) Nope, China and India are not competing head on for their products. The top 25 exports of China and India have only one product in common! (Yes sire, refined petroleum).(h) Nope, Dhirubhai Ambani alone is not enough to reform our textiles industry. Our textile exports is $ 10 billion a year. Wal Mart alone buys $ 18 billion textiles from China. Did you know one major impediment is the delivery time from India to US? Yes, 24 days!(In passing, the economists say that the movie industry in India is not known to produce world class movies; though one did come recently: "Bend it like Beckham"! Apologies Mani Ratnam, economists do not know as much about movies as about GDP!)Have we handled our economy well? We made some mistakes in the way we managed our economy.(a) We started with one major disadvantage. Inequality.(b) Economic growth is rarely balanced. It often results in enhancing inequality.(c) There are good inequalities (differences in income and wealth because some earned more than others) and bad inequalities (lack of access to education or credit to pursue an economic activity). Good inequalities are necessary to maintain incentive for growth. Bad inequalities prevent people from escaping poverty.(d) We got our philosophies mixed up. Instead of attempting to eliminate bad inequalities by providing access to opportunities for the poor, we went after good inequalities by suppressing incentive for economic growth.(e) We restrained firms from freely pursuing economic activity (by reserving several activities for the State or for small enterprises and by introducing a license raj that required government permission to start or expand a business).(f) We prevented efficient allocation of resources (by protective trade policy that perpetuated advantage to existing players, by a directional tax policy, by state control of all funding and by restrictive labor laws).(g) On the other hand, we did not provide access to education or market driven micro finance delivery to the poor to acquire human capital to escape poverty.(h) End result: We did not grow enough; but the inequality went up. The poor did not benefit from economic growth at all.(i) Since our political system depended on popular support, political administrations "blamed" a variety of targets (businessmen, upper caste, land holders, foreign hands) for the failure to eradicate poverty and used the resultant "popular anger" to consolidate their power base.(j) Thank God we had a crisis in 1991. Debt service rose to 21% of receipts. Interest burden rose to 20% of expenditure. We ran out of spendable currency. No one was willing to lend.(k) Prime Minister Narasimha Rao went beyond curing the immediate disease. Rao government cut back industries reserved for State; removed licensing requirements; devalued rupee; allowed current account convertibility; removed quotas and reduced tariffs; and lifted restrictions on foreign investment.(l) Fortunately the reform process, despite vigorous debate, has developed sufficient consensus to stay on track in succeeding administrations.(m) We have some more miles to go:(1) We need to provide access to education and credit to facilitate people escape poverty. Spending money on rural infrastructure alone will not kill "bad inequality". If this is not done, India would continue to be a miracle of "jobless growth" and political consensus for reform would evaporate diluting growth prospects. Equality is not just a nice thing to do; it is essential for going after growth.(2) We need to get "government" out of "business" even more. Subsidies will have to reduce. Buredensome state enterprises cannot be funded by public expenditure. Bad loans in banks will have to reduce. Regulatory rigidity in labor market will have to reduce.(3) We need to step up "governance". We need to step up government effectiveness and bureaucracy quality.(4) We need to manage our "balance sheet" well. We cannot be an economy whose liabilities are in "high cost equity" (FDI and portfolio investments) and whose assets are in "low yield reserves". This asymmetry is expensive.China has one advantage over us. An early start. China has built a strong manufacturing base with an eye on the global market (40% of its GDP is from exports vs 15% for us). However, in the end, China has one disadvantage. In China the State is determining who will pursue economic activity and who will not by its "hukou" system (license to live in special zones) and "TVE system" (town and village enterprise owned by local governments with limited authority to retain and reinvest super profits). This was useful in creating "private firms" in a socialist economy.However, this past success is going to be a millstone for China in the future. A very large population got left out in the growth process (though inequality is not as sharp as in India because the inequality in landholding prevented growth in agriculture from reducing inequality in India). Building political consensus to the reform process is going to be even toughter in China when the ability of the government to maintain control over the population reduces. This may hamper growth.India has a higher chance of sustaining and growing political consensus for reforms because it has developed mechanisms to let differing voices debate vigorously before building consensus. The pace is slow but the traction is firm.It is nice to think that Left leaders Prakash Karat and Sitaram Yechury, with their wisdom and ability to disagree, may help India build the consensus on a firmer track and perform better than China!

China is now the world's fourth largest economy and growing very fast. India's economic salience is also on the rise.

Together these two countries will profoundly influence the pace and nature of global economic change. Drawing upon the latest research, this volume analyzes the influences on the rapid future development of these two countries and examines how their growth is likely to impinge upon other countries. It considers international trade, industrialization, foreign investment and capital flows, and the implications of their broadening environmental footprints. It also discusses how the two countries have tackled poverty, inequality and governance issues and whether progress in these areas will be a key to rapid and stable growth.

It is difficult to cover the similarities and differences of two "giants" within the confines of a relatively small book, but this edited work manages to examine an impressive array of issues and concerns. Organized into seven chapters, it covers topics ranging from the impact of Chiness and Indian growth on global markets and industries, to the risk of growing income inequality and the potential for social instability. The text also probes the impact of China and India on international financial markets, including not so subtle hints that exchange rate policies and accumulations of foreign reserves could be potentially desabilizing if mishandled." --CHOICE, Auguest 2007"This book shows the immense value of World Bank research. Without being simplistic, it makes a complex subject accessible and comprehensible. Its seven chapters, each authored by leading researchers in their fields, offer deep insight into the prospects for Chinese and Indian growth and its likely impact on the world economy. The analysis is thorough, thoughtful, and apt; it brings a welcome dose of clarity to a debate characterized more by rhetoric than by rrealism." --Lawrence H. Summers, Charles W. Eliot University Professor of Harvard University, John F. Kennedy School of GovernmentThe rise of China and India arouses deep concerns about the chances of development for poor countries and the impoverishment of richer ones. Dancing with Giants puts these fears in perspective. With its excellent authors and its disciplined and detailed analysis, it shows that, in some dimensions, these Giants are not so significant, and in others their growth offers at least as many opportunities as threats. There is no book on this critical subject that I would recommend more highly." --Justin Yifu Lin, Founding Director, China Center for Economic Research, Peking University