Introduction

China and India in the Age of Globalization

The two Asian giants, the People's Republic of China (PRC) and the Republic of India, are home to some 2.3 billion people or two-fifths of humanity and are currently the world's fastest-growing economies. Over the past three decades, China's move from an autarkic, centrally planned economy toward a socialist market economy underpinned by global economic integration has generated robust economic growth. With a gross domestic product (GDP) growth rate averaging 9.5 percent per year between 1980 and 2004 and 9 percent between 2005 and mid-2007, and endowed with a GDP of US$1.65 trillion, China is now the fourth largest economy in the world in terms of GDP at the current exchange rate. However, when adjustments are made for the differences in domestic purchasing power parity (PPP) of national currencies, China is the world's second largest economy.[1] If China maintains its current level of growth, it could overtake the U.S. economy as early as 2025 (Maddison 1998; Organisation for Economic Co-operation and Development 2005; World Bank

[1] GDP is the value of all final goods and services produced in the economy during the course of a year. China now ranks fourth behind the United States, Japan, and Germany. However, in terms of GDP measured by PPP (a metric constructed to permit international comparisons across countries because it adjusts for the relatively low price of services in developing countries), the World Bank ranks China as the world's second largest economy – behind only the United States. The simplest and most popular PPP conversion is *The Economist*'s "Big Mac Index," which compares currencies on the basis of the relative prices for a McDonald's Big Mac in different nations. That is, in PPP terms, China's economy (at almost US$9 trillion) was already much larger than that of Japan (US$4 trillion) and not so far behind the United States (more than US$12 trillion). By the same measure, India's economy (US$3.6 trillion) is almost as big as Japan's. However, it is important to note that there is some debate regarding the accuracy of China's official statistics. According to Rawski (2001), official data greatly exaggerate China's economic performance. Similarly, Young (2000, 2003) argues that Chinese statistics overstate growth. After making adjustments in the GDP, investment, and labor data, he finds a much less striking growth rate in total factor productivity. Others have noted that that the pre- and post-reform differences in growth are more modest when the disastrous Great Leap Forward and Cultural Revolution periods are excluded from the pre-reform period. However, Lardy (2002) claims that the data are basically correct. For a recent overview, see Wu (2007).

Table I.1. *Growth rates in GDP: 1980–2007 (percent per year)*

Period	China	India
1980–92	8.4	5.8
1992–2004	7.1	6.7
1980–2004	7.6	6.3
2003–7	9.5	8.6
2006–7	10.0	9.4

Source: World Bank Development Indicators (various years).

2006). Although the Communist Party still rules China with an iron hand, the regimented Orwellian landscape of austere monotony with men and women in their drab Mao jackets cycling silently by have long melted into obscurity. The streets of China's cities and towns are now congested with BMWs and Mercedes and bustling with people dressed in a kaleidoscope of the latest designer clothing. Even the once "sacred" public spaces reserved for ubiquitous posters displaying defiant socialist iconography have disappeared. As if in a perverse act of desecration, they now avariciously advertise consumer products such as Internet service, cell phones, credit cards, exotic vacations, automobiles, and designer couture, among other symbols of modern affluence.

Although not as spectacular as China's, India's post-1991 economic reforms and global integration have helped the economy grow at more than 6 percent per year (on average) since 1992. This has laid to rest the ghost of the anemic "Hindu rate of growth" of 3.5 percent under which India seemed perennially trapped from the early 1950s to the mid-1980s. India's average annual growth in GDP reached 7.3 percent in 2003 and fluctuated between 8.5 to 9 percent since 2004, placing it among the world's fastest-growing economies. If, as expected, India maintains this growth momentum over the next several years, it will propel the country's US$800 billion economy (the world's tenth largest and third largest in Asia in 2006) into the ranks of the world's five largest economies (Tables I.1, I.2, and Figure I.1)

In both countries, such sustained levels of economic growth have translated into significant increases in per capita GDP. For India, the 1978 per capita GDP of US$1,255 (in PPP terms) increased to US$2,732 in 2003 and US$3,452 in 2005; in China, it skyrocketed from US$1,071 in 1978 to US$4,726 in 2003 and US$6,757 in 2005 (World Bank 2007). The experience of both countries confirms that the most powerful force for the reduction of poverty and improvements in living standards is sustained economic growth. The proportion of Indians living in "extreme poverty" (on $1 a day or less) has fallen from 40 percent in 1990 to about 25 percent in 2007, although the overall population has increased. This means that about 100 million people have been lifted out of extreme poverty. In China, poverty reduction has been simply unprecedented. On the eve of the

Table I.2. *World's ten largest economies: share of world GDP valued at purchasing power parities (in percent)*

	1975	1980	1990	2000	2005
United States	21.8	21.5	21.4	21.2	20.3
China	2.8	3.1	5.5	11.0	14.1
Japan	8.2	8.3	8.8	7.4	6.5
India	3.6	3.4	4.4	5.4	6.3
Germany	5.8	5.6	5.0	4.6	4.0
United Kingdom	4.4	4.1	3.8	3.5	3.2
France	4.2	4.0	3.8	3.4	3.0
Italy	4.0	4.1	3.7	3.2	2.7
Brazil	3.0	3.5	2.9	2.8	2.7
Russian Federation	–	–	4.6	2.3	2.6

Source: Organisation for Economic Co-operation and Development (2007, 28).

reforms, the incidence of poverty in China was among the highest in the world. However, between 1981 and 2001, the proportion of people living in extreme poverty fell from 53 percent to just 8 percent. This means that across China, there were more than 400 million fewer people living in extreme poverty in 2001 than there were twenty years earlier (Gulati and Fan 2007). Few countries have grown so fast over such a prolonged period of time or reduced poverty so sharply (Table I.3).

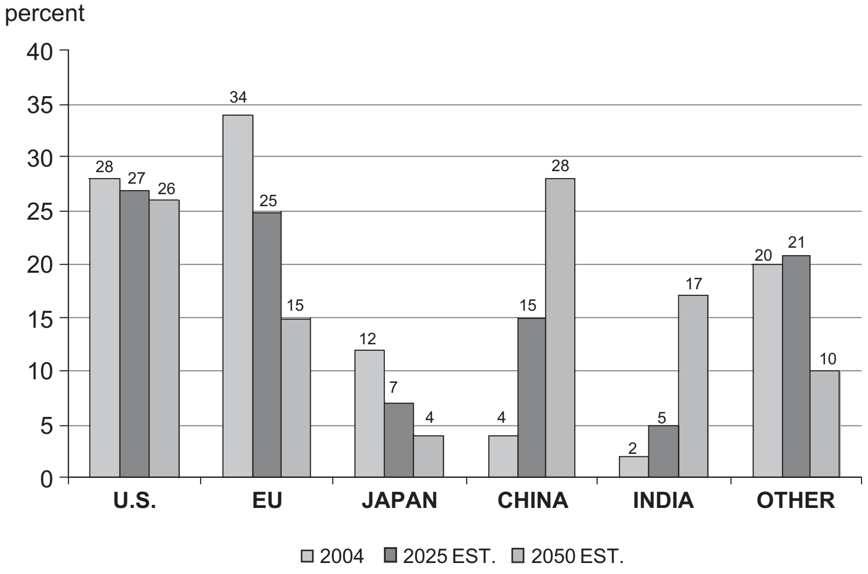

Figure I.1. Percentage of world GDP. *Source:* Calculated from World Bank Development Indicators (various years).

Table I.3. *Basic profiles of the People's Republic of China and India*

		China	India
1.	Annual average GDP growth (%, 1980–2005)	9.6	5.9
2.	Per capita GDP (at constant 2000 US$, 2005)	1,445	586
3.	Per capita GDP (at current US$, 2005)	1,709	705
4.	Share of world GDP at market prices (%, 2005)	5.2	1.8
5.	Share of world trade (%, 2005)	6.8	1.1
6.	International reserves (billion US$, 2006)	1,066	177
7.	Cumulative inward FDI flow (billion US$, 1986–2005)	629	53
8.	Proportion of population below $1 (PPP) per day (%, 2003)	13.4	30.7
9.	Literacy rate, 15–24 years old (%, 2004)	98.9	76.4
10.	Gross primary enrollment ratio (%, 2004)	117.6	116.2
11.	Gross secondary enrollment ratio (%, 2004)	72.5	53.5
12.	Infant mortality rate under age 5 (per 1,000 live births, 2003)	31.0	85.2
13.	Composition of GDP (2005)		
	Agriculture (as % of GDP)	13.1	18.6
	Manufacturing (as % of GDP)	46.2	16.1
	Services (as % of GDP)	40.7	53.8
14.	Fixed line/mobile phone subscriptions per 100 population (2004)	49.7	8.4
15.	Internet users per 100 population (2004)	7.2	3.2

FDI = foreign direct investment; PPP = purchasing power parity.
Sources: Kuroda (2007) and World Bank Development Indicators (various years).

The extraordinary economic transformation of these two Asian giants has captured the imagination of our times, making both countries veritable poster children for globalization. Indeed, the numerous unabashedly celebratory accounts of the symbiotic link between globalization and China and India's economic renaissance that proliferate in the popular media, not to mention the duller renditions in official and scholarly tomes, have made this claim so commonplace that it is hardly contested. The message is powerfully simple and also suggestive: the universalizing impulse of globalization and its inexorable ability to "lift all boats" finally freed China and India – both of which were, not long ago, pejoratively dismissed as either chronic basket cases doomed forever to depend on the generosity of others or as the "sick men of Asia," trapped in an extravagantly wasteful and coercive Oriental despotism of their own making. The implications are also enticingly explicit: current underperformers can learn valuable lessons from these two successful exemplars on how to navigate their way to prosperity in an increasingly enmeshed, integrated, and interconnected world.

No doubt, globalization has been and continues to be the singular powerful engine behind China's and India's spectacular economic rise. The numbers portray a compelling picture. The relative weights of China and India in the global economy have increased substantially. In 1980, China represented only 1 percent of world GDP, and India constituted a mere 0.9 percent. In 2005, these weights increased to 5.2 percent and 1.8 percent, respectively. In the same period, China's share of global trade rose from 0.9 percent to 6.8 percent and India's from 0.6 percent to 1.1 percent. Equally impressive, between 1980 and 2006, China's foreign reserves grew from US$2.5 billion to US$1,066 billion (or just over 1 trillion dollars) and India's from US$6.9 billion to US$177 billion over the same period, and to over US$300 billion in May 2008. China is now the world's leading creditor nation (replacing Japan in 2003) while the United States is the world's largest debtor. In addition, China is the largest foreign holder of U.S. government debt (mostly Treasuries) passing Japan in September 2008. This had made China, in effect, the U.S. government's largest foreign creditor.

Although we know the forces that propelled both countries to embrace globalization in the first place, what is not well understood are their particular approaches or strategies to globalization or how each country has, and is, integrating into the global economy. Just as puzzling, what explains the two countries' successful integration (or at least their ability to derive tangible benefits) from a highly competitive global economy, especially when many other better-placed candidates have not done as well or have faltered? What about the risks and challenges posed by global economic integration and what each country must do to strike the proper balance between the opportunities and the vagaries and uncertainties of globalization. This book fills these gaps by capturing the immutable process of change spanning across time and space, intimately explaining and documenting how the complex interplay of social, political, and economic forces (both global and domestic), including initial conditions and factor endowments, have sometimes worked in tandem to transform these once economically backward societies into global pacesetters. The following pages show a keen appreciation of how both countries, despite their markedly different political inheritances, have successfully ridden the globalization wave. However, contrary to the conventional view, this book also highlights that in both countries, at different times, the power and sway of globalization has ebbed and flowed, sometimes rather unpredictably, making the claim of the seamless link between globalization and each country's miraculous economic transformation far more ambiguous, complex, and multifaceted. Moreover, the following pages discuss both the palpable and the more ostentatious contradictions exemplified by globalization and the various attempts to mitigate its unpredictable effects.

In a rather profound sense, this book evokes memories of another era when scholars and policy makers found comparing China and India irresistible, albeit their reasons and agendas were often different than those of today. More than sixty years ago, the merits and pitfalls of socialism, authoritarianism, democracy, and capitalism were passionately debated when these two Asian behemoths, having overthrown centuries of colonial rule and faced with similarly massive problems of economic backwardness, poverty, illiteracy, and human misery, boldly embarked on diametrically opposed developmental paths for human emancipation. Although in the shrill partisan atmosphere of the 1960s and 1970s, many observers – in particular, the metropolitan left – hastily declared the erstwhile "Chinese model" the winner, the passage of time has revealed a more nuanced reality. With the wisdom of hindsight and, of course, as more evidence became available regarding the callousness and grisly excesses of the Maoist era, there has been grudging recognition that India, the venerable and inchoate democracy, had not done that bad after all, and in some ways may have surpassed its more celebrated northern neighbor.

Today, the stakes are different, but the questions still have a striking resonance with the past and are just as fiercely debated. Observers once again are attempting to come to terms with the sheer scale of change unfolding in both countries and are asking a host of pointed questions, including which country's developmental path is more sustainable and why? Specifically, can the late-starter India overtake its giant northern neighbor? Will India's trajectory prove more enduring, given that its political order respects individual rights and representation in an open market economy based on private property rights? Is the sovereign authority (the state) in both countries up to the task of meeting its instrumental and moral obligations, guiding economic development in a productive and equitable manner, providing security to its citizens, negotiating and accommodating their proliferating expectations, and preserving the nation's far-flung territorial boundaries?

What about each country's towering – indeed, audacious – global ambitions? Will these complement or collide with the status quo? What does the rise of China and India mean for the United States, for the global economy, and for international security and stability? Finally, what lessons do each country's experience and transformation hold for the other, as well as for other developing and transitional economies? The following pages elucidate these deceptively simple, yet profoundly important, questions.

This book is thematically divided into eight chapters. Chapter 1 synthesizes the core ideas, policies, and actors, as well as the interplay of domestic and external events, that influenced and shaped the political economy of pre-reform India (1947–91) and China (1949–78). Specifically, Chapter 1 illustrates both the euphoria and trauma of nation-building during these momentous years and how it profoundly determined the developmental paths and outcomes in each country. The chapter underscores that each country's developmental outcomes were rooted not simply in the differences in their political systems or the decisions made by powerful leaders but were also the result of a zealously state-guided, inward-looking strategy of import-substitution industrialization (ISI) that was not just incidental but an integral part of each country's developmental strategy. Thus, elite politics combined with the pathologies of inward statism is at the heart of understanding both China's and India's miserably poor developmental legacies during the pre-reform period. In the end, it was also the failure – indeed, the rupture – of the eerily similar state-guided or commandist economic models and the sobering realization that statism and its wasteful extravagance had run its course that ultimately convinced the political elites in both countries that economic globalization and the quotidian discipline imposed by market utilitarianism were the wave of the future.

Chapter 2 provides a comparative review of China's and India's approaches to global economic integration – or the "transition to the socialist market economy," as it is officially referred to in China, and more modest "economic liberalization" in India. China's opening to the world, which began in earnest in 1978, has gone through a number of distinct, if not synchronized, phases. Each has been characterized by government policies allowing market forces greater influence over domestic economic activity and deeper global integration through the adoption of particular sets of "open-door" stratagems and policies. If China deftly adapted to the changing global circumstances and seized opportunities as they arose, India's liberalization program or "reforms" were literally forced on the country's political elites by a quickly hemorrhaging economy. Reform was hastily (and hesitatingly) introduced in early 1991. However, after the initial burst, neoliberal or pro-market policies have followed a tortuously meandering path, often losing a sense of direction and urgency – a problem usually attributed to the contingencies of India's democratic politics rather than economic prudence.

Chapter 2 chronicles these shifting priorities through a comprehensive review of the various policies and programs that each country has instituted to integrate itself into the global economy. It explores the politics behind the policy making and how this has influenced and determined the nature, substance, and depth of the various pro-market policies, as well as how policies and programs have evolved and revised to meet the changing domestic and international political and economic circumstances. In addition, the chapter sheds insight on that perennial political-economy puzzle: why, in both countries but particularly China, was a certain approach to global economic integration – namely, "gradualism" – privileged over "shock therapy?"[2] Why, unlike the former USSR and the Soviet Eastern bloc, did market reforms and integration in China not result in economic and political implosion but in political stability and unprecedented levels of economic growth? Equally puzzling, what explains the Indian state's ability to abandon its long commitment to a statist and inward-oriented model for an unprecedented strategy of global economic integration? This despite the fact that a large body of scholarship has long claimed that democratic regimes (especially India's particularly "weak

[2] "Shock therapy" refers to implementing bold and decisive market-friendly policies in the expectation that only such aggressive measures can destroy the old command system and replace it with a market economy. "Gradualism" refers to a slow and methodical approach to the implementation of market-friendly policies.

state") lack the requisite capacity and autonomy to make dramatic policy shifts or implement market-friendly public policies, given their potentially negative impact on broad sectors of society?

Chapter 3 assesses the impact, outcomes, and implications of globalization on China's economy, polity, and society. Chapter 4 examines these same issues with reference to India, including why this contemporary era of globalization is qualitatively different from earlier ones and why it has proved to be particularly conducive to India's rise. Drawing on a wide array of data sources (official and academic, as well as from international agencies such as the World Bank and the International Monetary Fund (IMF), Chapters 3 and 4 document and critically appraise the complex and unequivocal patterns of change in each country's macroeconomic structures – agriculture, industry, banking, capital markets, and financial systems, including trade, business, and commerce. Special emphasis is given to explaining China's rise as the world's leading manufacturing hub and India's rise as a premier information-technology service center and outsourcing destination, and the implications of these issues for domestic and global political economies. The discussion underscores that global economic integration is not a linear and seamless process but brings with it new and unintended vulnerabilities and dangers. In both countries, although globalization has served as a catalyst to rapid economic growth, greater exposure to global markets has also made each economy more vulnerable to external market forces, in addition to creating numerous distortions and imbalances, with winners and losers. Both chapters highlight these glaring contradictions and their potential socioeconomic and political implications, as well as assess the efficacy of official policies designed to mitigate the potentially negative, if not malignant, effects of economic globalization – especially unprecedented prosperity amid endemic inequalities. Some of the core political-economic issues addressed in the chapters include how global economic integration has impinged on the ubiquitous powers of the central and subnational (state-level and local) governments and the implications this has for governance, economic growth, and redistribution. Further, why has sustained economic growth in a representative democratic polity like India been far less successful in alleviating socioeconomic inequalities than it has in authoritarian China? What particular challenges do each face in devising and implementing the more exacting "second-generation" reform measures?

Economic linkages and interdependence between China and India have increased exponentially over the past decade, underpinned by expanding investment, commercial, and trade networks. Despite unresolved border disputes and mutual suspicion and animosity rooted in China's seemingly unconditional support of Pakistan, few dispute that Sino-Indian relations have undergone a qualitative transformation since the late 1980s. Chapter 5 traces the evolution of Sino-Indian relations from the heady nostalgic years of the 1950s, characterized by the fortuitous slogan *Chini-Hindi bhai bhai* ("China and India are brothers"); the 1962 border war and India's humiliating defeat; the antagonism and hostility during much of the Cold War; and the gradual "thawing" of hostilities following Indian Prime Minister Rajiv Gandhi's historic visit to China in 1988, Chinese Primer Wen Jinbao's 2005 visit to New Delhi, and the signing of the landmark "strategic and cooperative partnership" between the two countries. Will this improvement in Sino-Indo relations – in particular, the growing economic convergence – further solidify their relations in other areas as well?[3] Chapter 5 highlights that although relations between the two countries will most likely continue to improve, with both cautiously practicing strategies of "flexibility and pragmatism" by deliberately downplaying issues that the other finds objectionable, the current Sino-Indian entente nevertheless remains delicate and fragile and could quickly deteriorate. After all, economic convergence does not necessarily mean cooperation, and it can lead to zero-sum competition and rivalry. Although both countries will try to avoid confrontations and recriminations, given their long history of bitter rivalry, jaundiced perceptions, and mutual suspicion, it seems that China and India are destined to remain strategic competitors. In other words, not fully at ease with each other, they will undoubtedly keep a wary eye on one another as they simultaneously try to improve bilateral relations and jockey for influence in the region and beyond.

A seismic shift in the balance of global economic and political power is currently underway as the rise of China and India has increased not only their regional but also their global influence and leverage. For India, its tireless efforts to overcome its long history of thwarted ambitions and elevate its global power and prestige now seems tantalizingly within reach as it is rapidly acquiring the power capabilities to influence developments both in the South Asian region and throughout the globe. Chapter 6 explores the evolving relationship between the United States, the world's most powerful democracy, and India, the world's largest democracy. It illustrates how, from a rather difficult beginning – indeed, estrangement – during much of the Cold War, Indo-American relations have greatly improved, gravitating somewhat serendipitously toward a more "productive engagement." Indeed, this shift has led some to suggest the flowering of a "beautiful friendship" between the two democracies. Chapter 6 confirms the growing convergence, if not broad congruence, of interests between India and the United States on a number of economic and security matters. Most prominent among these are joint commitment to a global strategic partnership (symbolized by the unprecedented agreement on civilian nuclear cooperation), democracy promotion, and counterterrorism. Relations

[3] The view that increased trade can lead to a reduction in conflict goes back to Immanuel Kant. The modern variant, often referred to as "commercial liberalism," suggests that increased economic linkage benefits all parties. It makes states increasingly reluctant to antagonize each other.

between the two countries will most likely expand in the coming years, given both their common interests and their common values.

Nevertheless, Indo-U.S. relations will not be without friction. If U.S. support of India is based on an expectation of automatic reciprocity, this may not always be forthcoming (at least not immediately) because democratic India has to balance other interests and domestic political constraints. Moreover, differences in trade and outsourcing issues, including demands that India further liberalize its trade regime, open up its retail and banking sectors, and make compromises on the Doha Round trade negotiations, not to mention how India resolves the debilitating conflict in Kashmir and joins the Nuclear Non-Proliferation Treaty (NPT) and the Comprehensive Test Ban Treaty (CTBT) will prove to be difficult issues – hardly amenable to quick fixes. Although it may seem axiomatic that Indo-U.S. relations based on a commonality of values and concerns about a rising China provide strong strategic motivations for collaboration, in reality, this may not always be the case.

Today, China's global power and influence rivals only the lone superpower, the United States. China's ambitious military modernization has transformed the country into a formidable power, as well as a genuine strategic competitor to the United States. Yet at the same time, the United States and China are major trading partners with expanding economic ties and interdependence. However, given the profound differences in their political systems, values, and national interests, palpable concerns (and considerable ambiguity) remain on both sides regarding the other's intentions. Beijing fears that the United States may try to preemptively subordinate China's rise; for the United States, there is concern about what future trajectory an ascendant China may choose. Chapter 7 examines the following intriguing questions: what does the rise of China mean for the United States – and indeed, the global community? In particular, will the strategic interests of China be compatible with those of the United States? Can China execute a "peaceful rise" to great-power status and become a "responsible global stakeholder," working constructively with the United States and other nations to accomplish common goals? Or will China, like previous rising hegemons, try to use its growing power and influence to defiantly reorder the rules and institutions of the international system in accordance with its own perceived interests? How best can the United States encourage and engage a rising China to act in a way consistent with U.S. (indeed, Western) interests and international norms?

Drawing on a large body of scholarship and empirical cases, Chapter 7 illustrates that, given the motivations and calculations that drive China's foreign policies, American and Chinese interests will both converge and diverge, making it hard to predict with any degree of certainty China's future behavior or the strategic choices it may make. Nevertheless, China and the United States will not be strategic partners. Rather, they will be strategic competitors engaged in a traditional great-power rivalry for security and influence. Yet at the same