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FOR INTERNATIONAL POLICY

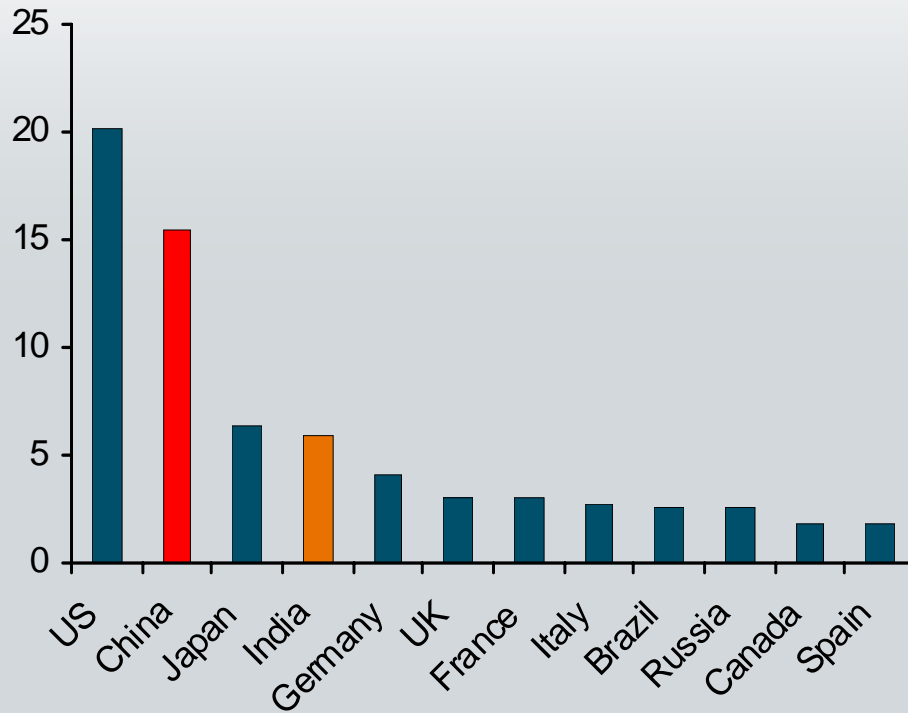
**The Great Convergence:
China, India and the new global economy**

Mark Thirlwell
Program Director, International Economy
July 2006

Two views of the largest economies in 2005

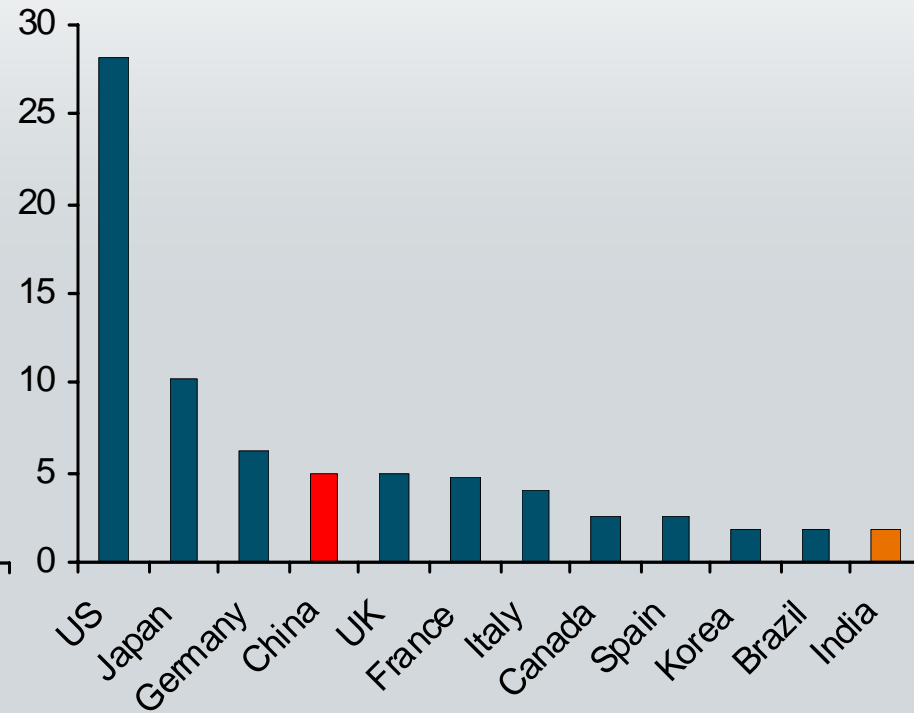
Top 12 economies by GDP, PPP

% of world GDP



Top 12 economies by GDP, US\$

% of world GDP



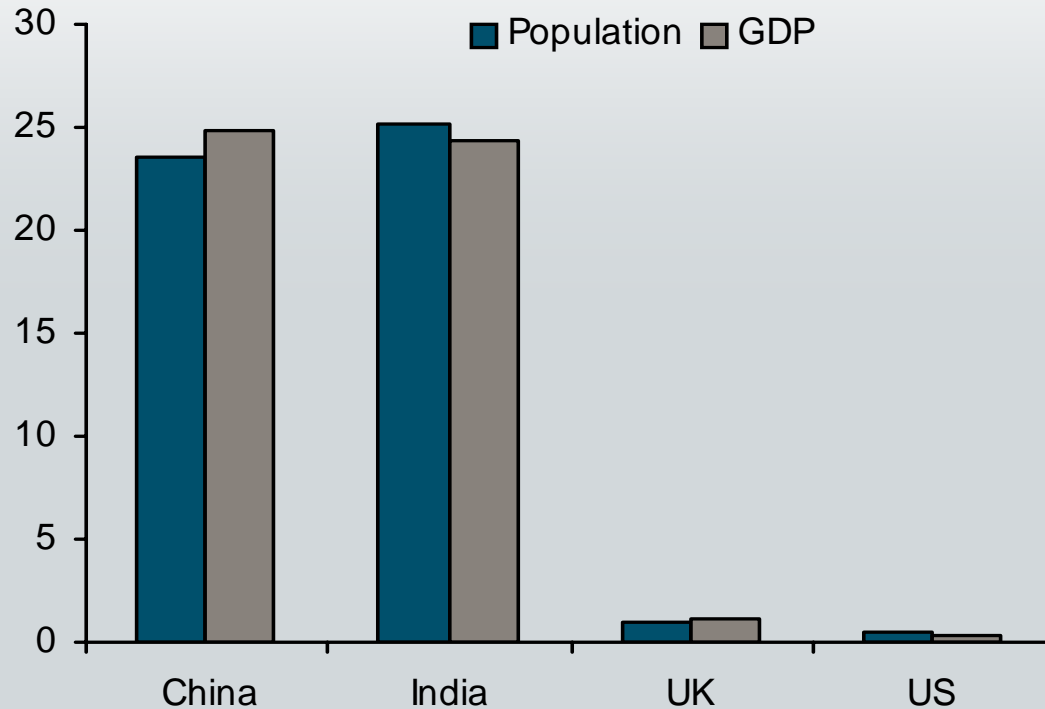
Source: IMF World Economic Outlook April 2006 database

Convergence, divergence and the onset of modern economic growth (MEG)

GDP and population before MEG

GDP and population shares (1500)

% of world total

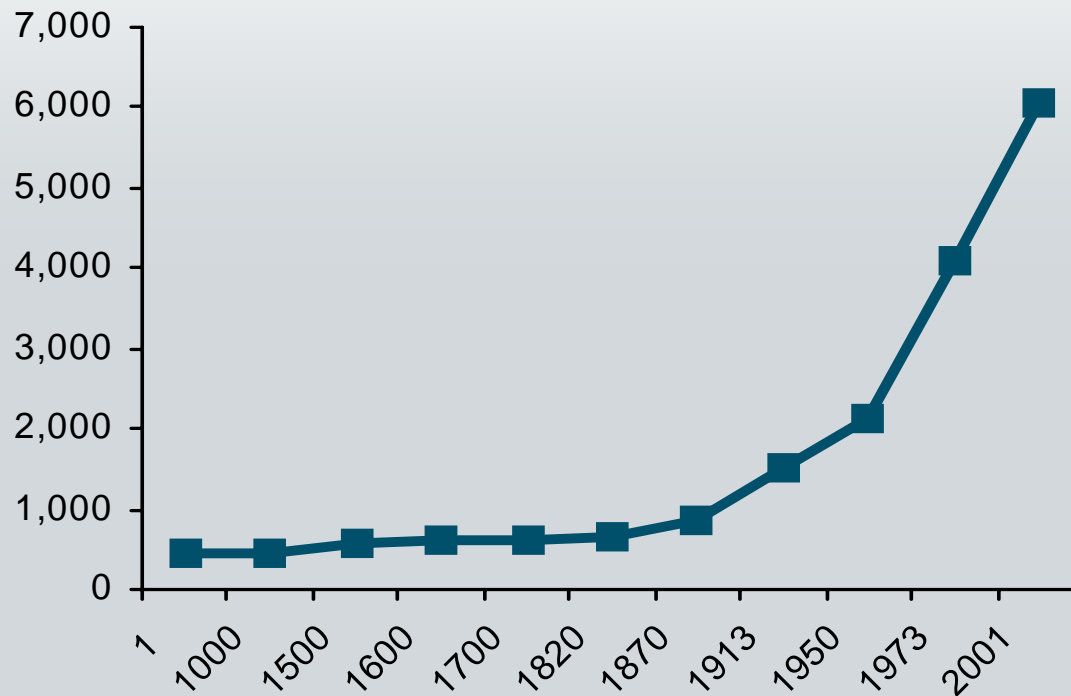


Source: Angus Maddison, *The world economy: historical statistics*, 2003

Escaping the Malthusian trap

World GDP per capita

1990 dollars, PPP basis

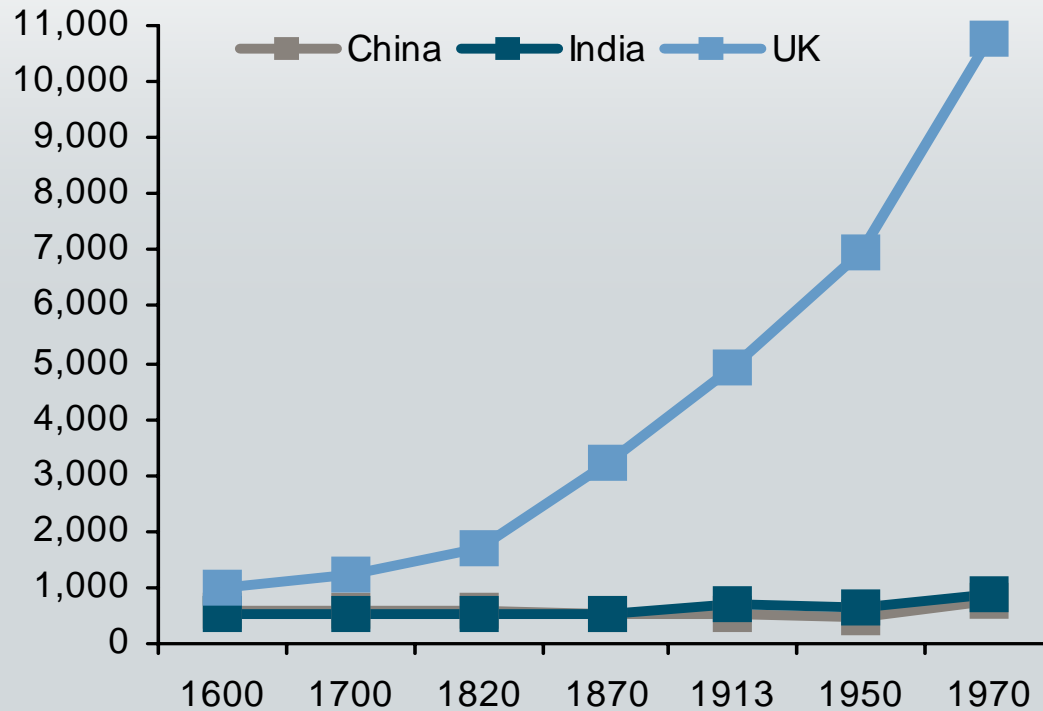


Source: Angus Maddison, *The world economy: historical statistics*, 2003

The Great Divergence

GDP per capita

1990 dollars, PPP basis

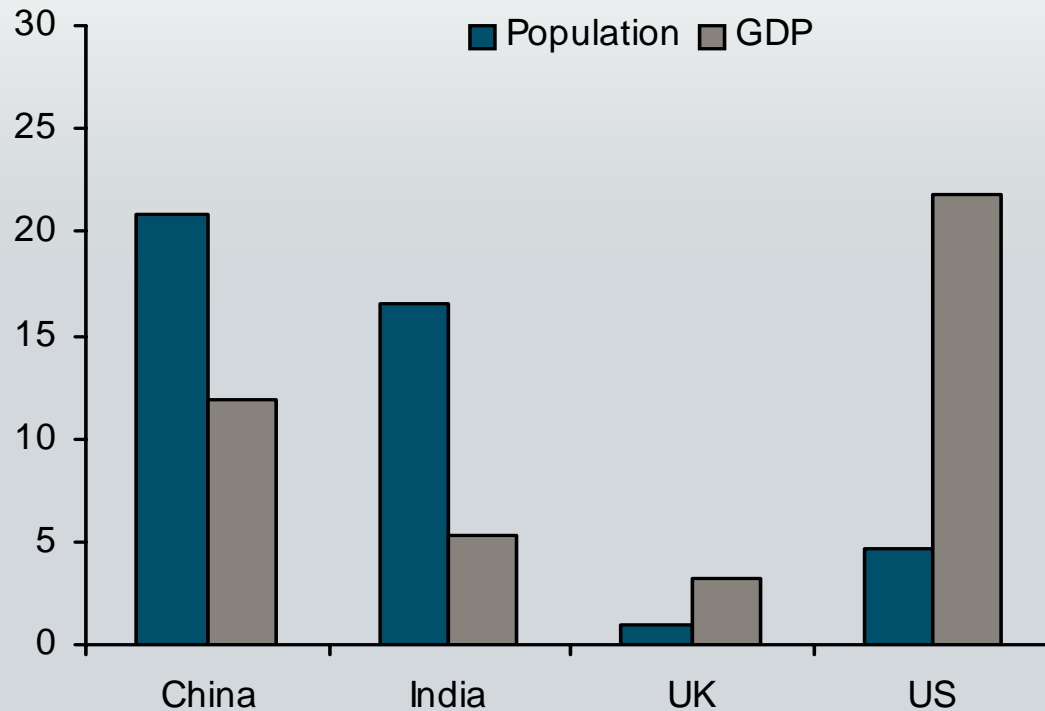


Source: Angus Maddison, *The world economy: historical statistics*, 2003

GDP and population after MEG

GDP and population shares (2000)

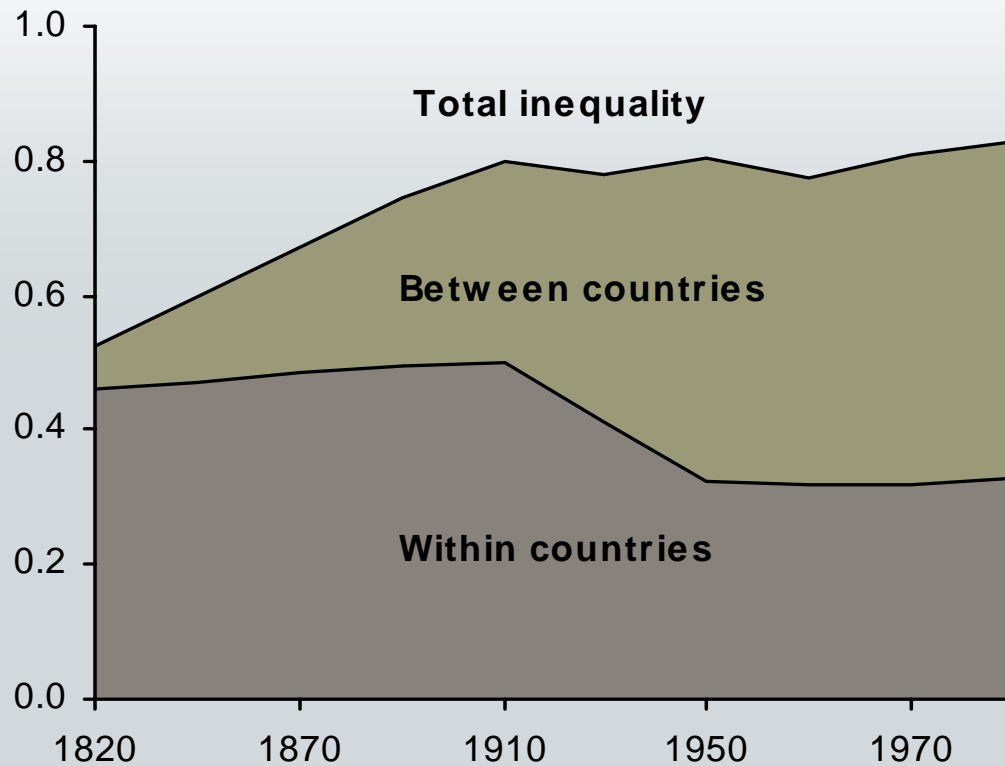
% of world total



Source: Angus Maddison, *The world economy: historical statistics*, 2003

A big rise in global inequality

Global inequality: within and between countries

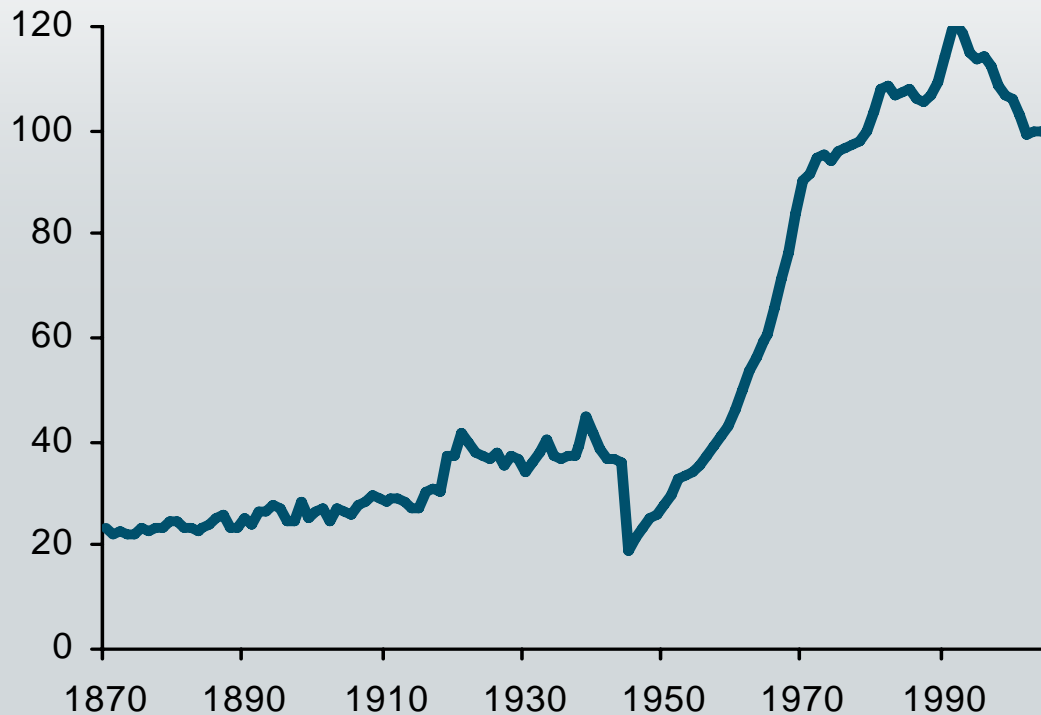


Source: Bourguignon and Morrisson (2002)

The possibility of catch-up . . . and overtaking

Japan: GDP per capita

% of UK level

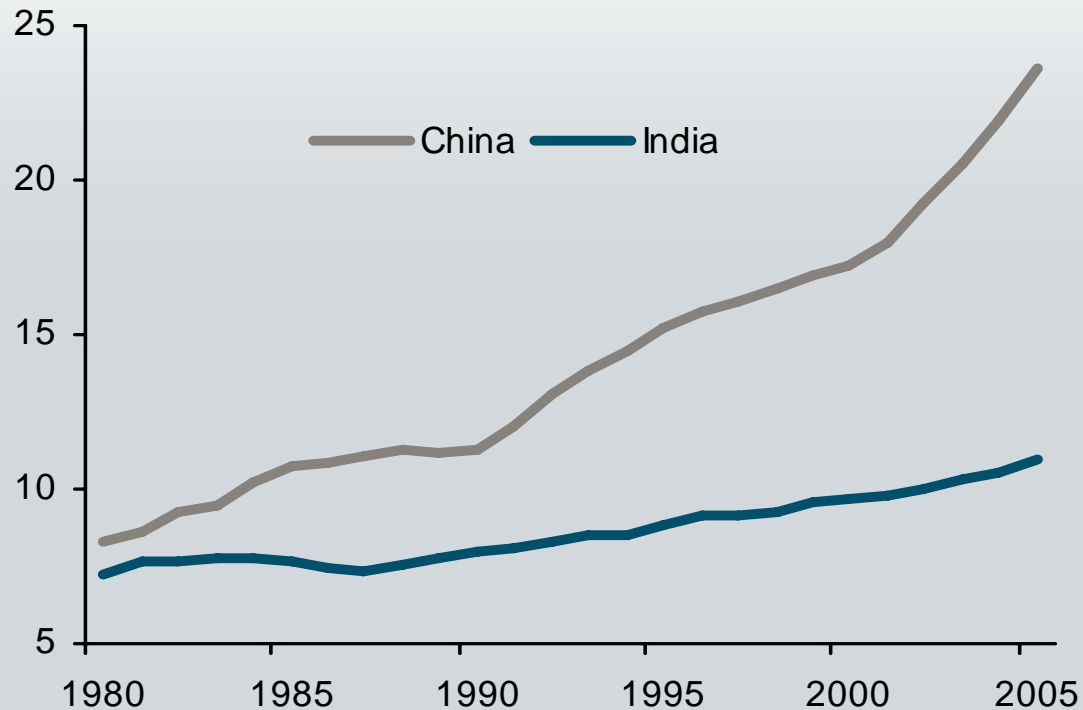


Source: Angus Maddison, *The world economy: historical statistics*, 2003. IMF World Economic Outlook April 2006 database

The start of the Great Convergence?

Relative GDP per capita

% of UK level



Source: Angus Maddison, *The world economy: historical statistics*, 2003 and IMF World Economic Outlook database (April 2006)

**Why *Great* Convergence?
A question of scale**

Ten largest countries by population

		1950			2005			2050	
		Pop'n (bns)	Cumul. %		Pop'n (bns)	Cumul. %		Pop'n (bns)	Cumul. %
1	China	0.56	22.0	China	1.32	20.4	India	1.59	17.5
2	India	0.36	36.2	India	1.10	37.4	China	1.39	32.9
3	USA	0.16	42.5	USA	0.30	42.0	USA	0.40	37.2
4	Russia	0.10	46.6	Indon	0.22	45.5	Pak	0.31	40.6
5	Japan	0.08	49.9	Brazil	0.19	48.4	Indon	0.29	43.7
6	Indon	0.08	53.0	Pak	0.16	50.8	Ngeria	0.26	46.6
7	Ger	0.07	55.7	Russia	0.14	53.0	Brazil	0.25	49.4
8	Brazil	0.05	57.9	Bangla	0.14	55.2	Bangla	0.24	52.0
9	UK	0.05	59.9	Ngeria	0.13	57.3	Congo	0.18	54.0
10	Italy	0.05	61.7	Japan	0.13	59.2	Ethpia	0.17	55.9

How big a footprint?

<i>2005, % of world . . .</i>	China	India	US
population	20.4	17.0	4.6
GDP (US\$)	5.0	1.7	28.1
GDP (PPP)	15.4	6.0	20.1
merchandise exports	7.3	0.9	8.7
merchandise imports	6.1	1.2	16.1
commercial services exports	3.4	2.8	14.6
commercial services imports	3.6	2.9	12.2
manufacturing value added (2003)	6.9	1.2	23.3

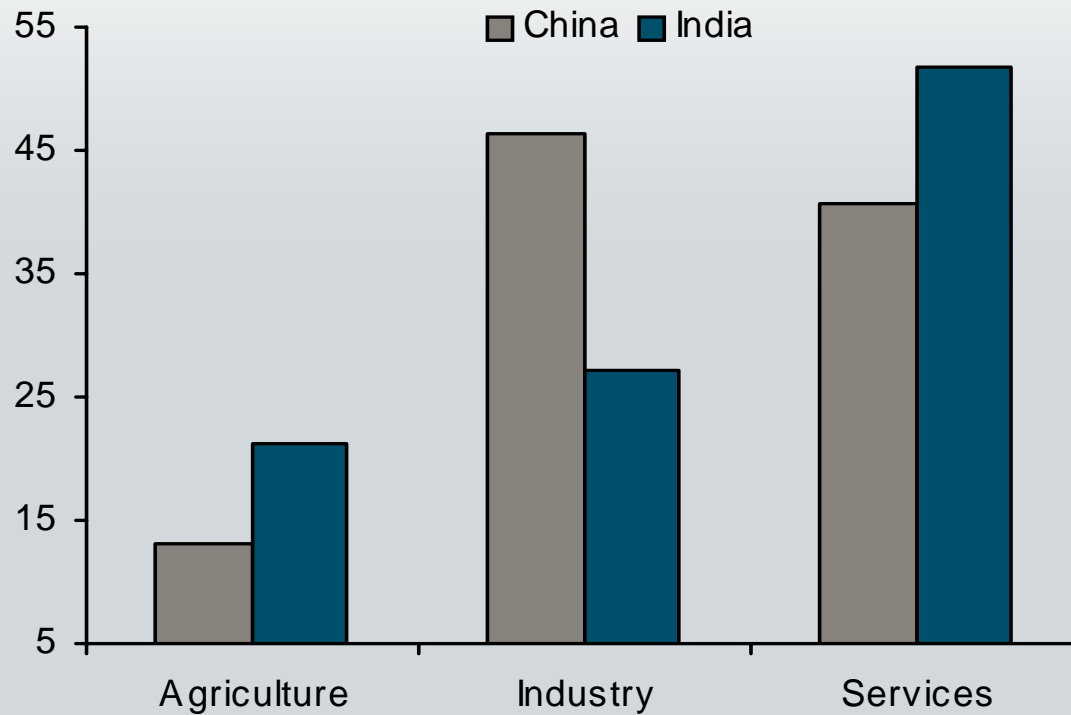
Sources: World Bank on line indicators. Rank reported for top 20 economies only.

Two paths to convergence

Industry v Services model

Structure of GDP

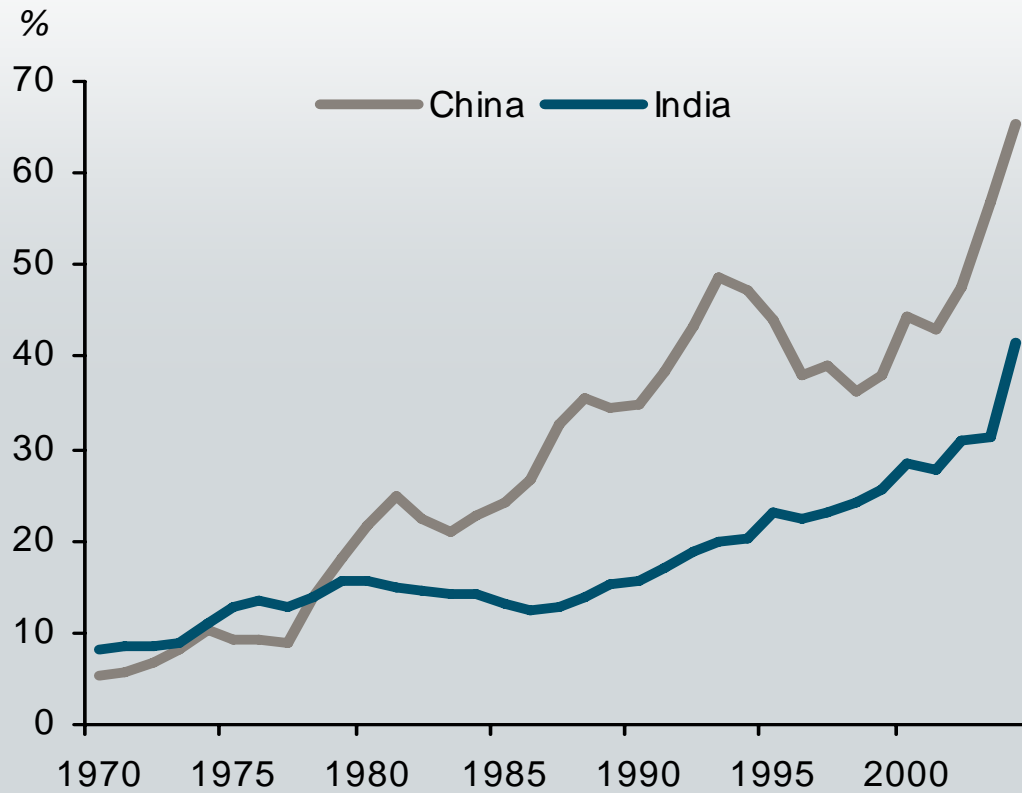
% of value added



Source: World Bank World Development Indicators

Openness compared

Ratio of trade to GDP

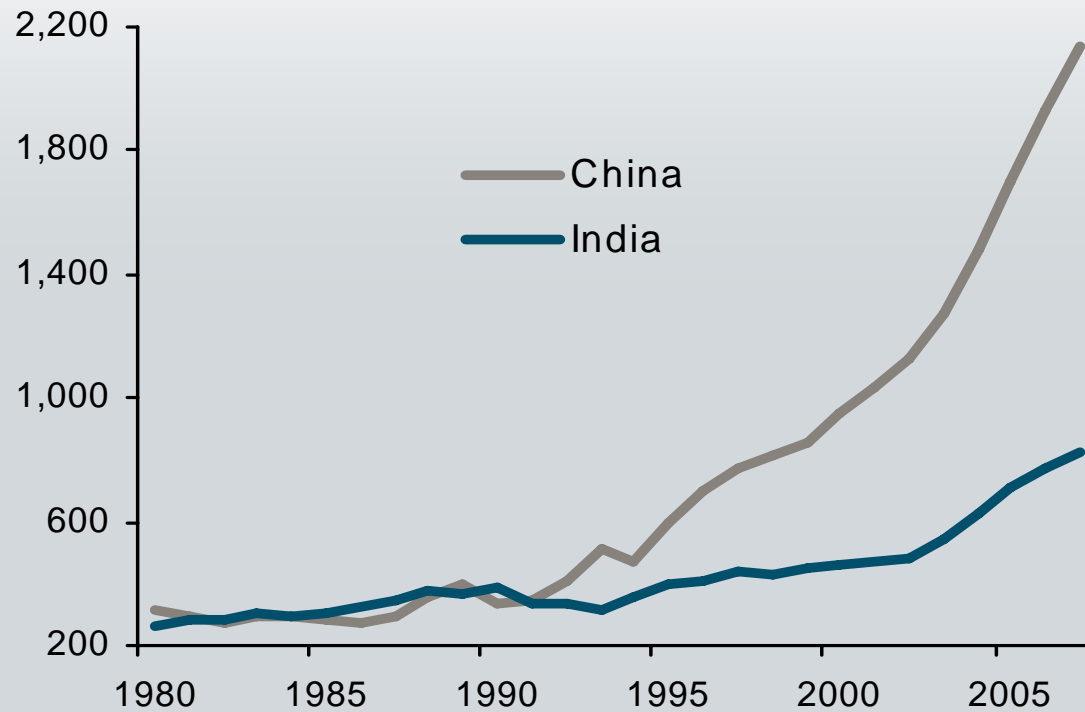


Source: World Bank World Development Indicators

The results

GDP per capita

US\$ terms, current prices



Source: IMF World Economic Outlook April 2006 database

**China's convergence story:
'The world's factory'**

China's rising share of world trade . . .

China's share of world merchandise trade

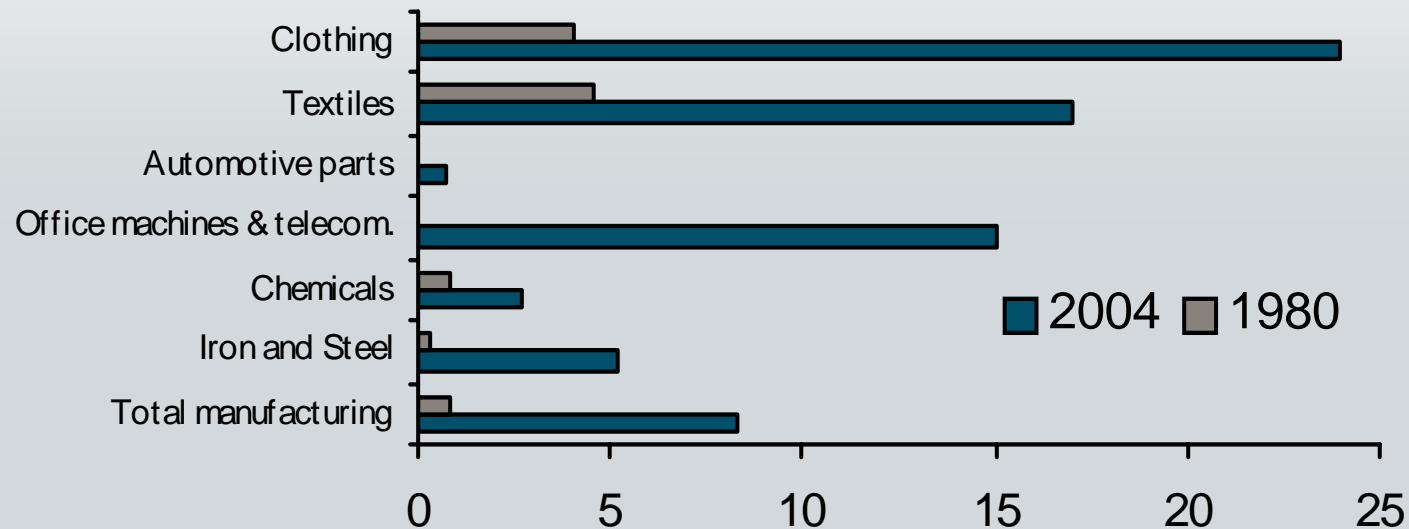


Source: WTO international trade statistics database

. . . and growing share of export markets

Share of selected world export markets

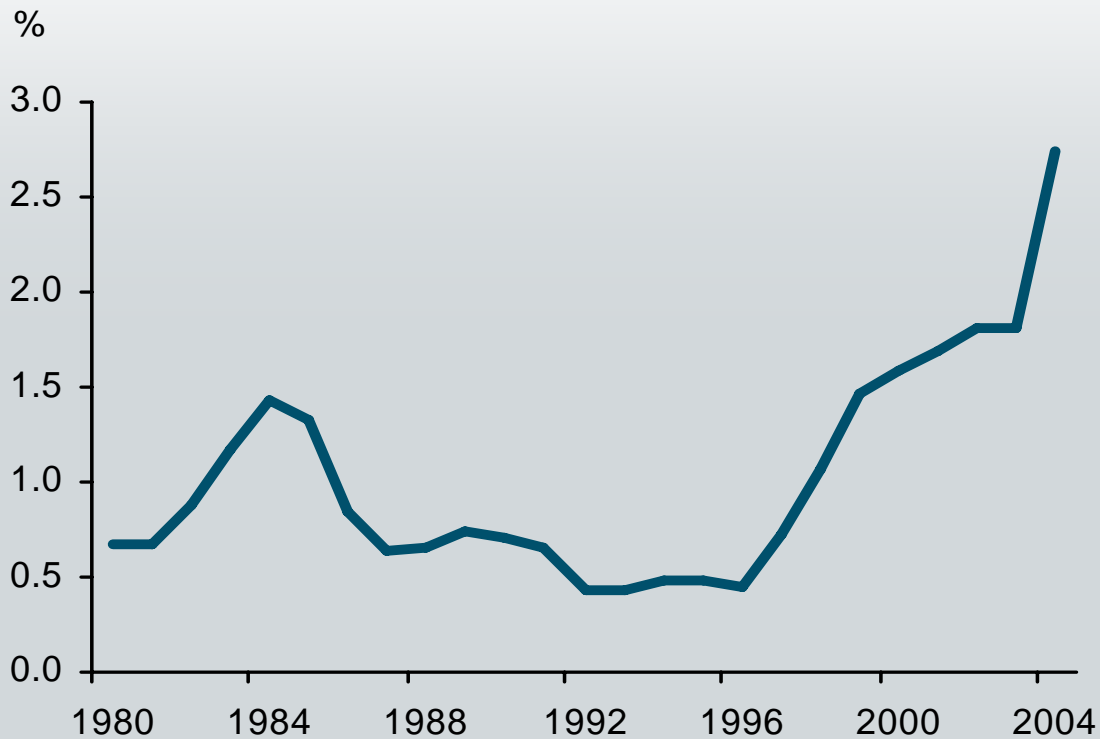
% of total



**India's convergence story:
'The world's back office'**

India's growing share of world services trade

India's share of 'other' world commercial services exports



Source: WTO international trade statistics database

Global labour arbitrage for white collar workers?

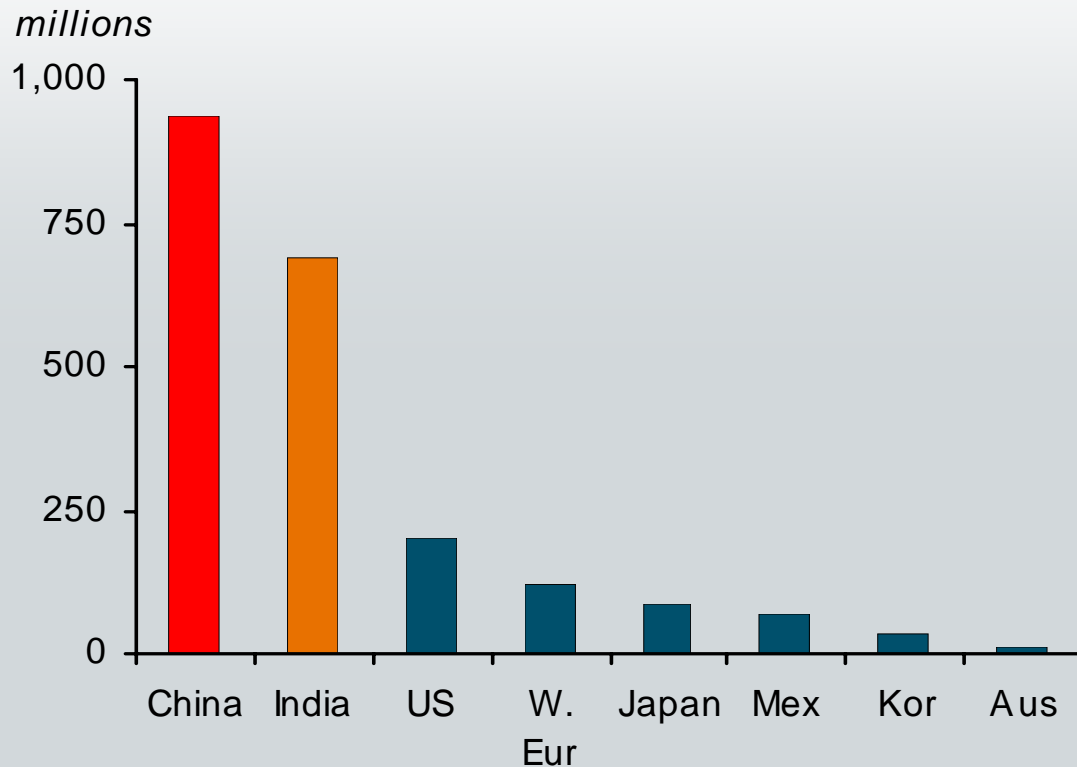
<i>Hourly wages in US dollars</i>		
(2002-03)	US	India
Telephone operator	12.57	Less than 1.00
Health record technologist	13.17	1.50-2.00
Payroll clerk	15.17	1.50-2.00
Legal assistant	17.86	6.00-8.00
Accountant	23.35	6.00-15.00
Financial analyst	33.00-35.00	6.00-15.00

Source: Table 3 in Bardhan and Kroll *The new wave of outsourcing* Fisher Centre Research Report, 2003

**Living with the Great Convergence:
Supply, demand, and geopolitical shocks**

The supply shock: more labour . . .

Working age population in 2005e

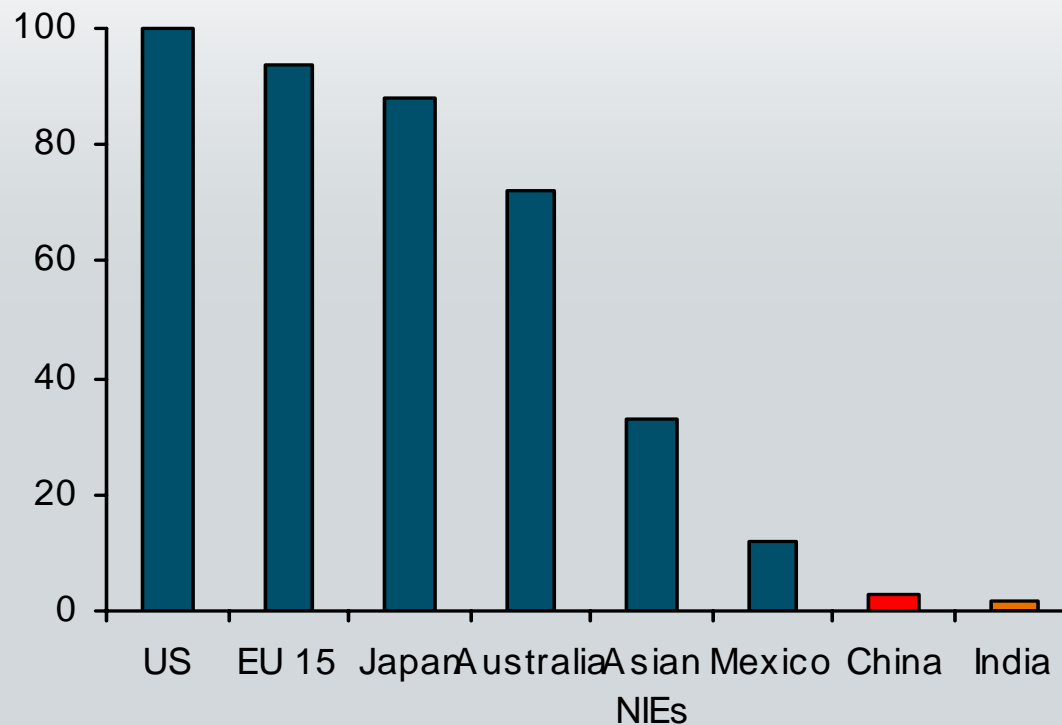


Source: United Nations Population Division (median variant). Working age population aged between 15 and 64.

. . . plus cheaper labour . . .

Hourly labour costs in manufacturing, 2002

Index US = 100 (US\$21.11)

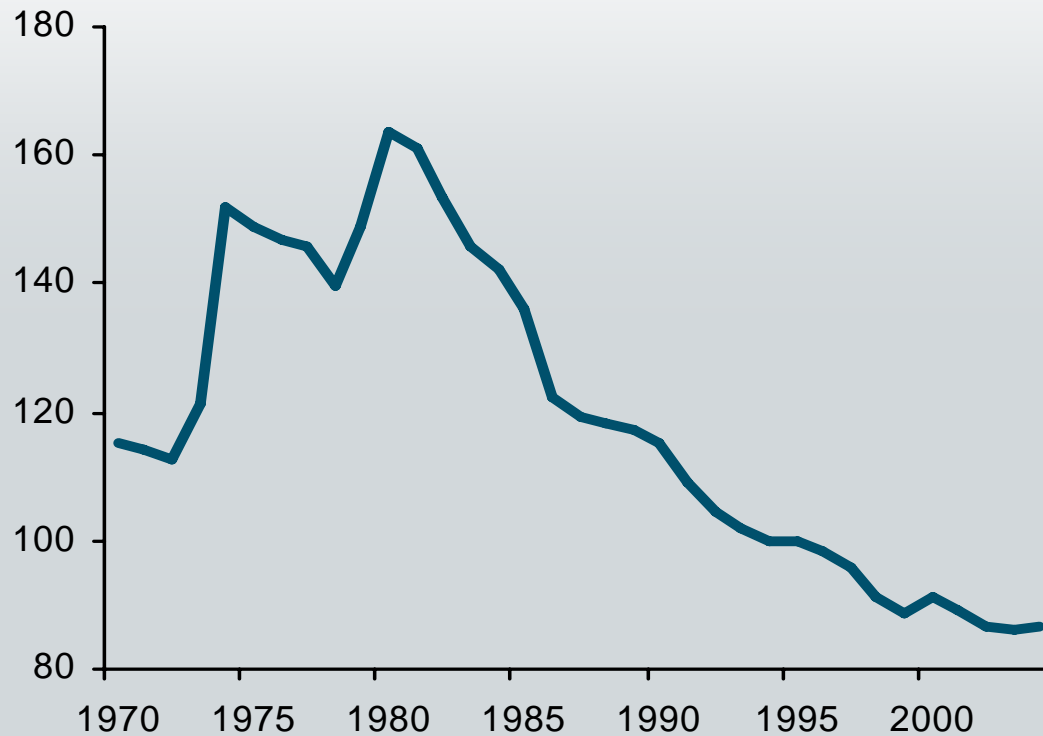


Source: Adapted from Chart 1 in Judith Banister *Manufacturing earnings and compensation in China*, Monthly Labour Review, August 2005. Australia from BLS web site, India Author estimate.

... equals cheaper goods

Real import prices for advanced economies

Index, 1995=100



Source: IMF World Economic Outlook April 2006

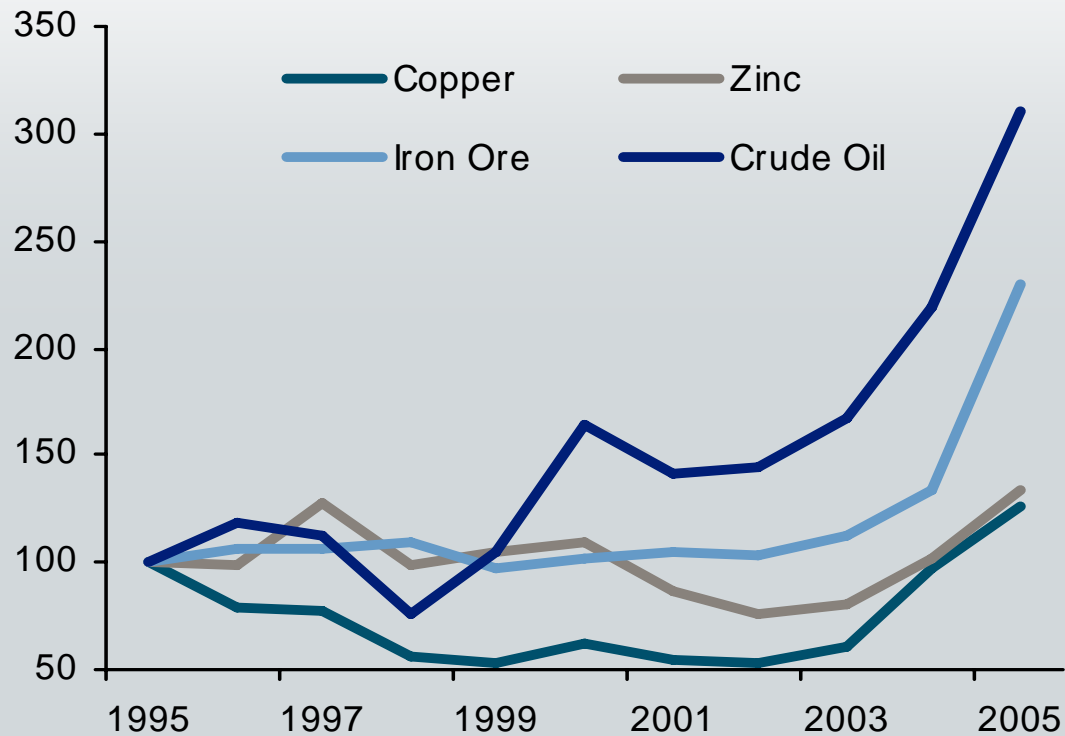
The demand shock: feeding the hungry dragon

<i>Chinese demand as % of world output</i>	1996	2000	2005
Cars	1	2	7
Steel	13	16	33
Iron ore	17	27	42
Aluminium	12	17	28
Copper	7	16	22
Cotton	22	23	41
Oil	5	6	8

Pressure on commodity prices

Selected commodity prices

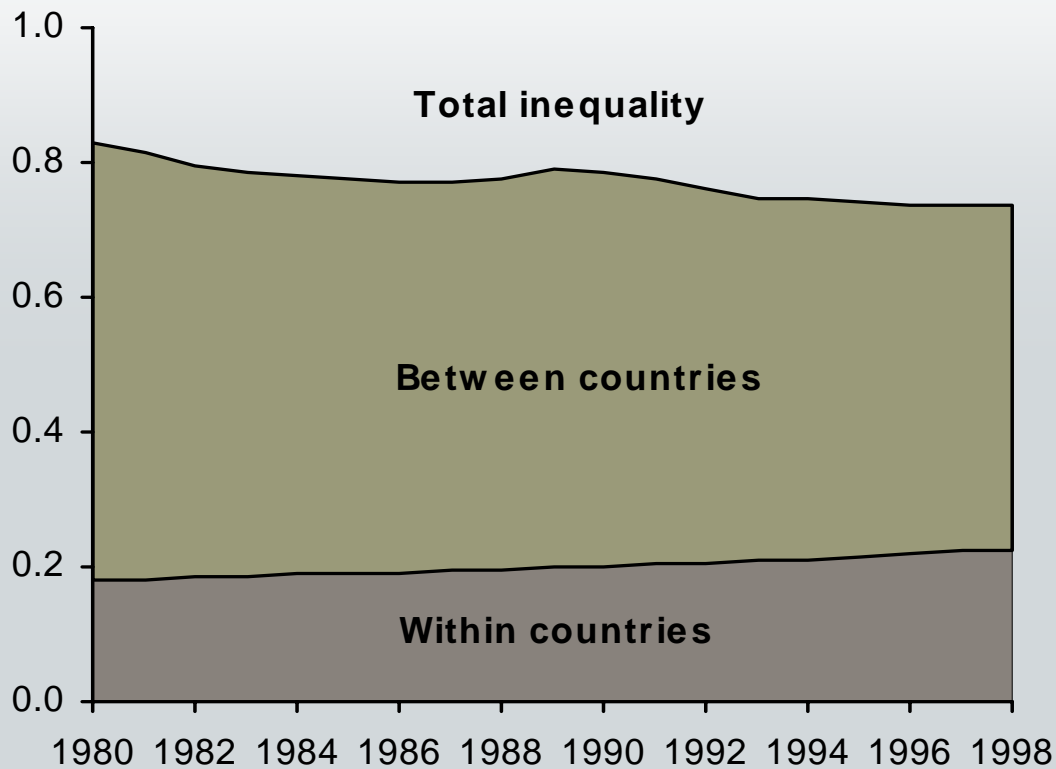
Index, 1995=100



Source: IMF World Economic Outlook April 2006 database

A more equal world?

Global inequality: within and between countries



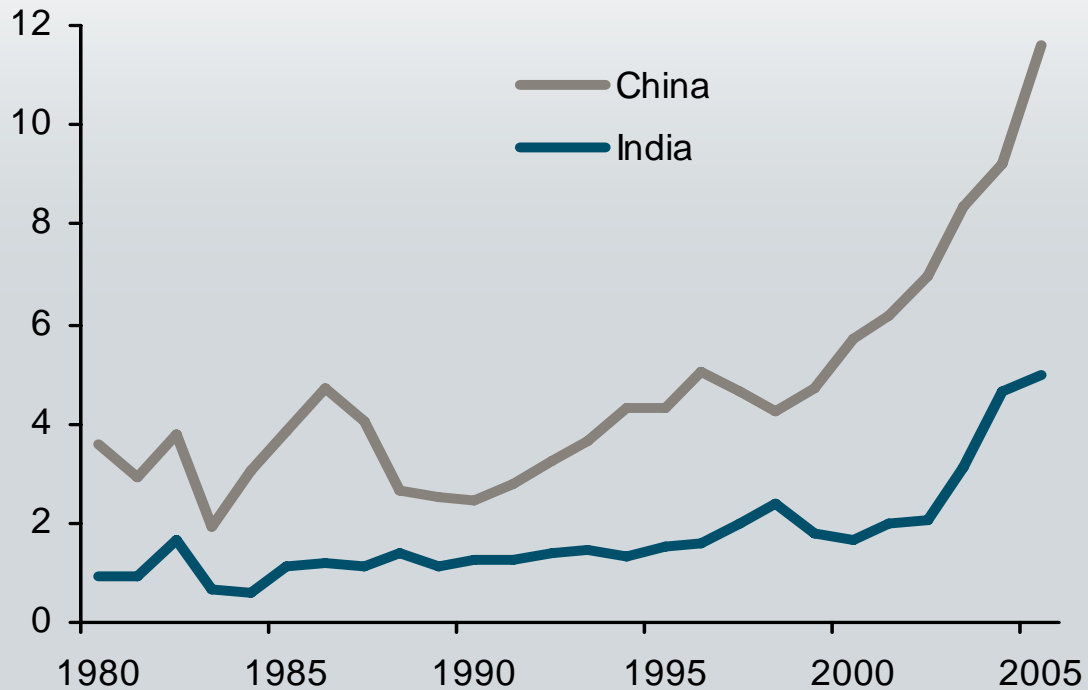
Source: Sala-i-Martin (2002)

**Australia:
Surfing another Asian development wave?**

Bilateral trade is booming

Australian merchandise exports

% of total



Source: IMF Direction of Trade Statistics

The lift to Australian income

Australia's terms of trade

Index, 2003/04=100



Source: Reserve Bank of Australia

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