THREE TURNING POINTS?

By

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In the last two months there were three purported political turning points in three of the largest economies- the US, China and India. The recent US election was hoped would prevent the US falling over the “fiscal cliff”. In China the change of leadership at the 18th National Congress, was hoped would lead to rectifying both an “unbalanced, uncoordinated and unsustainable” growth model, and “social problems which have increased markedly” in Hu Jintao’s words. In India, the reforms announced in September, led to the hope of ending economic stasis, and restoring a high growth trajectory. Are any of these hopes justified?

It is easier to answer this question for the more transparent polities of the US and India than the opaque workings of the authoritarian Leninist party ruling China. For both the US and India the portents are unfavorable. Both countries are faced by the problem of unsustainable entitlements to politically determined income streams.

The US pre- election political stand-off on spending and taxation, to deal with its fiscal and debt problems continues with the same divided Congress, and little sign of an acceptable compromise. With the most likely outcome some fix which kicks the can down the road. For there seems to be little popular acceptance that, as the former US Comptroller General David Walker warned in 2007, it was primarily the health entitlements which made the US budget unsustainable. Obamacare will only expand the hole in the budget. As Walker warned, the crisis cannot be solved by growing out of the problem, wiping out fraud, ending the Iraq and Afghan wars or cutting defense expenditures, restraining discretionary spending or letting the Bush tax cuts expire. ( D. Walker at [www.gao.gov/new.items/d07389t.pdf](http://www.gao.gov/new.items/d07389t.pdf)). Nothing in the outcome of the elections suggests that the US is willing to bite the bullet on its unsustainable healthcare entitlements.

In India the public support by the Congress party dynasts of the reformers in its government at the Surajkund jamboree, does augur well for the needed corrections in economic policy. But they have probably left it too late, as the opposition to FDI in retail is coalescing to demand a parliamentary vote on the needed amendment to FEMA- an outdated law of the Nehruvian era which should be repealed. Whether the modest cut in fuel subsidies will stick, in the face of continuing populist agitation, remains to be seen. Nor can much hope be placed in the major opposition party-the BJP. It seems brain dead, and has seemingly repudiated Bajpai’s economic legacy, with its opposition to the various measures it had advocated when in government.

The basic problem is that India has chosen to reform by stealth. No public consensus has been developed for the needed classical liberal economy to replace the defunct Nehruvian model. When the former fiancé minister on his ascendancy to the Presidency announces that “trickle down” from rapid growth cannot redress Indian poverty, apart from displaying intellectual stagnation, it also shows a shocking failure to recognize the outcomes of the recent period of rapid growth in reducing poverty at a speed and rate that the failed Nehruvian model never delivered. What hope then of the current or prospective government undertaking the well-known second generation reforms of which the most important remains that of the archaic labour laws. This at a time when with the rise in Chinese manufacturing wages, its low skill manufacturing is shifting to Bangladesh, Vietnam, Indonesia, and even Pakistan, but not India. The much heralded demographic dividend is likely to turn instead to a demographic and political nightmare, as India sinks back to the Nehruvian pre-reform “Hindu rate of growth”.

There are serious geopolitical consequences of this economic stasis in the world’s two leading democracies. With China’s growing military assertiveness, there is a coming ‘struggle for the mastery of Asia’, reminiscent of the two century ‘struggle for the mastery of Europe’, which led Germany to start two world wars. Given the domestic problems of legitimacy that the CCP currently faces, it was hoped that at its latest Congress, it would reaffirm the ‘trading state’ strategy it had hitherto followed to attain global eminence- a path successfully charted by a defeated Germany to establish the European hegemony its guns had failed to deliver. We know little of the opaque internal workings of the CCP, and even less of the views of the successors to Hu Jintao and Wen Jiabao. But, from the former’s call for China to become a “maritime power”, and the new stealth fighters unveiled, the Chinese are aiming to challenge the US (and by association, India) militarily.

China’s economic prospects remain bright, largely because it has a lot of ‘catch up’ growth in the offing. It is unlikely to remain spectacular with the imminent ending of its demographic dividend and refusal, as emphasized in Hu Jintao’s address, to adopt the loosening of state controls as recommended by the Wen Jiabao controlled Development Research Center in *China 2030.* Instead, President Hu stated bluntly that, state enterprises would not loosen their control over the economy, or the party over the polity. China seems set to continue on its authoritarian state led “capitalist” path.

But, the legitimacy of the party is threatened by the corruption unveiled in the Bo Xi Lai affair, and the revelations of the vast wealth accumulated by the families of the incoming Xi Jinping, and the outgoing relatively liberal Wen Jiabao. James Andrelini of the FT reports (“Beijing Notebook”, Nov. 9) that drivers of official cars, academics in Beijing and even many of “those in the corridors of power” are whispering doubts about the survival of the party. This rot from within could be perilous for the party. Without economic and political reforms to ensure the legitimacy of its monopoly of power, the party may choose to play the nationalistic card to redress the humiliation if has suffered at the hands of ‘foreign devils’ since the Opium Wars.

With the two large democracies, the US and India mired in economic crises, the rise of authoritarian powers, particularly China, is going to make for a very dangerous world.