

Institutional cultures pose challenges for China and India's re-emergence

By Jonathan Manthorpe, Vancouver Sun, December 7, 2009

One of the great environmental disgraces of our age may well be the number of trees that have died to provide paper for the hundreds of speculative books about the future of the Chinese and Indian economies.

Far too many of this oeuvre are utter guff that appear to have been written for ideological or hubristic reasons.

So it is doubly pleasant when someone writes and publishes a book about the emerging economic giants India and China -- or re-emerging, because they dominated the world economy until a couple of hundred years ago --that says useful things based on sound research and judgment.

One would, of course, expect nothing less from Wendy Dobson, co-director of the Rotman Institute for International Business at the University of Toronto, but it's always nice to have expectations satisfied.

In *Gravity Shift: How Asia's New Economic Powerhouses Will Shape the Twenty-First Century*, Dobson looks at the institutional and political cultures of India and China for insights into how these may affect their futures.

Her conclusion is that both countries have significant, persistent weaknesses, which, if not addressed, are going to seriously constrain their potential.

Dobson says that even with conservative assumptions, by 2030 China's economy will be a third larger than that of the United States and double the size of India's. Together, they will account for a third of the world's economies.

But it is a step too far, Dobson says, to project that economic dominance in 20 years' time will bring with it political power or continuing speedy growth.

China is already facing one of its major future challenges, stemming from the One-Child Policy instituted 30 years ago. The number of 15-to 24-year-olds entering the work force -- about 230 million now -- will have shrunk to 178 million by 2030.

In India, by contrast, the number of young people in the workforce by 2030 will be 242 million.

To compensate, China is going to have to use its resources more wisely and productively, Dobson says.

But this means a major overhaul of its monetary and financial systems, which are badly in need of deregulation.

Continued government ownership of banks and industry, as well as Beijing's overwillingness to intervene in the marketplace, inhibit the transparency and fluidity needed, Dobson says.

"State-owned enterprises continue to enjoy privileged positions with the regulatory authorities ... dominating rail and air transport, finance, energy, telecom, utilities, and heavy and defence industries."

Meanwhile, private small and medium-sized enterprises are usually refused loan capital for expansion.

Finally, there's the problem of the Communist Party's determination to remain at the helm of a one-party state with no real rule of law and independent judiciary. Or, as Dobson puts it: "China's political institutions are still primarily preoccupied with control."

But she predicts that as China progresses down the path of technological advance, "tensions will increase between political control and the increasingly market-based-economy."

It's an interesting irony that democratic and theoretically free-market India is caught in the briar patch of its doggedly socialist past more firmly than is communist China.

Since independence in 1947 and especially during the tenure of the nannyish prime minister Indira Gandhi in the 1960s and 70s, India followed a policy of virtuous poverty and self-reliance.

Since current prime minister Manmohan Singh became finance minister in the 1990s, much has been done to dismantle India's stupefying bureaucracy, known as "The License Raj."

The labyrinthine quest Indian entrepreneurs must take was put in place to protect workers from despotic capitalists. The result has been the opposite.

Sixty per cent of India's people remain tied to agriculture for lack of education and a stultifying caste system. About 90 per cent of India's labour force has only casual employment without job security or benefits.

Meanwhile, only about three million skilled Indians work in the industries for which the country is most famous: information technology and various services sectors.

Dobson says these industries have become so prominent only because entrepreneurs realized The License Raj hadn't figured out ways to regulate them.

She says that unless India modernizes its infrastructure, educates its people and encourages the development of wide-ranging manufacturing industries, it will not achieve its potential.

And as for the notion that China and India are about to take world leadership from a declining America, Dobson is not convinced. "Never underestimate the Yanks," she says.

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