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Opportunities for South Asia in the Revolutions in the West

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Abstract

The knowledge-intensive goods and services the world's more developed countries will continue to need but may not be able to produce if the states fail to invest in human skill development and physical infrastructure improvement, India and its sister South Asian states could fill the gap. Once again, the South Asian diaspora can help. They have the financial resources and knowledge and management expertise to develop new industries in what was once their homelands. But they will need help from the South Asian states to develop the instruments of finance and transfer of knowledge and management practices that would help to bring new industries to this part of the world.

There are times in human history when those who have been put in charge of public policymaking can take their societies in one of two possible directions. They can read the environment in which they are operating, see opportunities in it for their people, and adopt policies and practices to realise them. Or, like the proverbial deer in the headlights, the fast-moving events with which they must deal with paralyses them and they let the moment pass. This is such a time for the policymakers in South Asia. Their counterparts in Europe and America are taking their societies and economies in the wrong direction.

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The great ideological divide in most of these countries have resulted in the rise of leaders who, by redefining the role of the state, will have their countries lose the centuries-old momentum that have taken their societies to unimaginable heights. The space they seem happy to vacate can be occupied by the populous countries of South Asia. These nations have a demographic advantage that economists have only lately begun to recognise. Their populations are not only large; they are also very young. If the states get properly organised they can become large exporters of goods and services that use knowledge rather than brawn and which the nations in the West will not be able to produce since the states that must help to do that, are being made to pull back.

Two revolutions appear to be in the making in many parts of the West – in America and several countries of Europe. One is aimed at reducing the size of the Western state; the other to keep it large and have it focus on the deprived and the underprivileged. Most revolutions in the past were aimed at wresting the control of the state from those who possessed it by those who were excluded from it. The first of these, on the other hand, aims to achieve the opposite. The governing elite want the state to step back and create the space in which private enterprise can step in. The private sectors should now do what the state has always done.

The push towards downsizing the state is not new; it was first made during what came to be called the Reagan-Thatcher revolution. The American president who had won the office by famously declaring the state was not the solution, but the problem to deal with the malaise that his predecessor, President Jimmy Carter, had said afflicted the American society. But Reagan's pragmatism saved him from himself. As Fareed Zakaria wrote recently, the outcome of the Reagan revolution 'reflected the American public's basic preferences. They want big government but lower taxes'². During his eight years in office (1981-89), government spending averaged 22.4 per cent of GDP, well above the 1971-2009 average. But taxes came down. By the time he left office, taxes were 18 per cent of GDP, down from about 20 per cent. Only one-half of his rhetoric, therefore, was translated into action – he reduced the tax burden but increased the size of the government. The Tea Party movement now wants to complete the other half. Its members are 'motivated by the core belief that government has grown much too big and expensive, undermining the Constitution and individual liberty and invariably does more harm than good.'³

Revolutions in the past were country or society specific. The French Revolution was confined mostly to Paris, the American Revolution to the 13 colonies in North America. Although, Marxism spread beyond several national borders, it was ultimately confined to a limited geographic space. Both revolutions – the one aimed at limiting the state's role to a few, well-

² Fareed Zakaria, 'The debt deal's failure', *Time* (15 August 2011), p.21.

³ Michael Crowley, 'The Tea Party's Triumph' *Time* (15 August 2011), p.25.

defined functions, the other to take care of those the society and the economy are leaving behind – have quickly spread to many parts of the world. As Thomas Friedman, who coined the phrase ‘the world is flat’⁴, wrote recently: ‘...this same globalisation/I.T. revolution enables the globalisation of anger, with all of these demonstrations now inspiring each other. Some Israeli protesters carried a sign: “Walk like an Egyptian”. While these social protests and their flash-mob criminal mutations rise in London are not caused by new technologies per se, they are fuelled by them.’⁵

According to Dominique Moisi, founder of the French Institute for International Relations, ‘the riots in Britain do appear less socially and economically motivated than was the case in France [in 2005]. Even so, both cases show you can only ask for sacrifices from your citizens if they feel that these efforts are going to be equally shared. If not, beware the social explosions that will surely follow.’⁶

The pressure for changing the size and role of the state came at a time when both America and Europe – in particular Europe – were in the process of absorbing within their economic systems an unprecedented demographic transformation. All developed societies are seeing drops in the rates of fertility that have no historical precedence. This reduction in the rate of increase in population – in some cases populations have, in fact, begun to decline – has inverted the population pyramid. The old now account for a larger share of the population than the young. As the populations grow older, those no longer in the working-age group are demanding services that they do not have the means to pay. Only the state can deliver the needed help. If the Tea Partiers succeed, they will reduce the size of the government but this change cannot last for long since the old have the votes to make sure that the state continues to provide for their care.

Besides, a smaller government cannot deliver innovation and technological and management competence that must become the base of the new economies in the Old World. As Fareed Zakaria puts it, ‘some of these best practices used to be American. The world once looked at the US with awe as Americans built the inter-state highway system, created the best public education in the world, put a man on the moon and invested in the frontiers of knowledge. That is not the way the world sees America today.’⁷ What the world sees now is a dysfunctional political system and a dispirited citizenry. Even the Chinese who remain highly dependent on the American market for their exports and the American financial system for depositing their savings are demanding action from Washington.

⁴ Thomas Friedman, *The World is Flat: A short history of the 21st century*, New York.

⁵ Thomas Friedman, ‘A theory of everything (sort of)’, *The New York Times* (14 August 2011), p.19.

⁶ Dominique Moisi, ‘Burning cars in Paris and London’, *Financial Times* (12 August 2011), p.7.

⁷ Fareed Zakaria, ‘The debt deal’s failure’, *Time* (15 August 2011), p.21.

A rational approach of dealing with this demographic dilemma would have been to mobilise the energies of the remaining youth to work for the economy and the society. Only a strong and motivated state could have done that. But the political right is making the state move in the other direction. It is abandoning the youth. Numbers tell the story. Youth unemployment in the European Union is just over 20 per cent; in Britain it has risen from 14 per cent in the first quarter of 2008 to 20 per cent. In Spain 45.7 per cent of the young are unemployed. The disgruntled has coined a phrase for this and given it an acronym – NEETS, which stands for ‘not in education employment or training’. The NEETS came out in the streets of London and other British cities to communicate their message of despair to the political elite. David Cameron, the country’s patrician politician, drew the wrong message. The riots were not contained because his programme of austerity was cutting – and thus demoralising – the police force. But he attributed the rise of the street to the parts of the society that were ‘sick’ – his word – not in despair. As David Cohen of *The New York Times* puts it, ‘the anxiety grows when governments are slashing benefits and pushing back retirement ages in attempts to deal with spiraling deficits. A working gerontocracy hardly helps the young. Brits from Tottenham to Teeside have watched the most patrician cabinet since Macmillan cutting everything from libraries to youth counselling services. There is a “No Future” revolt.’⁸

Germany appears to be the only European country that seems to have figured out part of what needs to be done. It has been helped by remembering history when disgruntled youth, destroyed by the way the victors of the First World War, took their revenge on the German economy and reacted politically. The youth took their revenge and put the Nazis in power. According to Roger Cohen, ‘perhaps the society dealing best with these dilemmas is Germany. It has invested in a highly educated work force. It has matched workers’ skills to jobs. It has continued to make precision machinery others can’t make. It has fostered cooperation between industrialists and the government in defense of German jobs. The youth unemployment rate is under 10 per cent.’⁹

Only time will tell whether the two revolutions will neutralise each other and not produce a lasting change. But what they will not be able to deal with is the demographic transition that has opened up opportunities for the people-abundant countries in South Asia. India has already shown the way to go. The country is in the process of leapfrogging by crossing over from low-skill activities to those that demand highly developed skills. Much of its impressive performance of recent years is the result no so much of strategic design as of a series of happy circumstance. In the 1950s, Jawaharlal Nehru, the country’s first prime minister, had the state invest in and establish institutes of science and technology. These institutions produced more graduates than the slow growing Indian economy could absorb. With the less constrained immigration policies

⁸ Roger Cohen, ‘The age of outrage’, *The New York Times* (14 August 2011), p.19.

⁹ *Ibid.*

in North America in place at that time, thousands of highly trained Indians moved to the United States and Canada. There they rose in the ranks of several important corporations that specialised in new technologies. When the Y2K scare made the corporate world nervous and the old programmes had to be rewritten in the languages that were still in use in India, this work was outsourced to the firms in the country. The rest is history. In other words it was the state – the one under Nehru – that lit the spark that produced the remarkable transformation and modernisation of the Indian economy. The same kind of spark needs to be lit now and only the state can do the job.

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