

ECONOMIC OUTLOOK

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III. SOME OBSERVATIONS ON INDIA

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I. SOME FACTS

GDP for four major countries, billion dollars, 2009:

| | |
|-------|--------|
| USA | 14.270 |
| Japan | 5.049 |
| China | 4.758 |
| India | 1.243 |

1978: China embarks upon economic reform

1991: India does likewise

Kilde: CIA World Factbook



II. MORE ON THE CHINESE MODEL

1. Economics

“Open up and reform”, Deng announced in 1978

Pragmatic: “It does not matter whether the cat is black or white as long as it catches mice.”

“Seeking truth from facts”, is another slogan

What works is the point.

1979: Household responsibility system (bottom-up)



China grew out of the planned economy, by allowing private businesses to develop *alongside* the planned one. People in SOEs did not protest.

Incredibly high rate of savings. Finance own investments.
Finance American consumption

130 SOEs under the umbrella of SASAC

BUT: How to make them pay dividende?

Power is distributed more subtly than imagined

Consumption has to increase to maintain demand



2. Politically, a vulnerable empire?

Lack the legitimacy of a democracy. But the CCP is popular. And the top leaders likewise. Legitimacy: Accepted by the people that those in power are in power

Obtain legitimacy by:

- Economic growth
- "Harmonious society" – uneven income distribution
- Attentative to peoples demands and feelings
 - Mr. Hu back from Lat.Am to attend earthquake
- Make China and the Chinese proud



CCP will not give up its monopoly on power.
Then, cannot have a fully independent judiciary
PLA takes order for the Party. Not from the State.

In 2005 there were 87.000 "mass incidents".
Make Beijing uneasy.
First priority is STABILITY. To maintain power

Corruption is widespread. Follows from lack of
alternatives. Scandal in Chongqing out in the open.
Local Party boss, Mr. Bo Xilai, is making a name for himself.
New leadership in the fall of 2012.



3. China's view on the Chinese model

Financial crisis " Made in America"

China managed the crisis quite well

Increased confidence in own model

BUT: NPLs in banks are likely to increase

Rest of the world looks to China

More power. How to use it?

Predicated on what China wants. Hard to tell.

Do the Chinese know themselves?



4. Longer term goal

Regain (not gain, but regain) her position and role in the world. That is the Chinese Project

Hundred years of humiliation are still felt.
And put to use, if need be.

Robert Zoellick, September 2006:
China should be a responsible stakeholder.
What does that mean? What about America?
Who to decide?



The demise of the USSR 1989-1991
Only one game in town?

Francis Fukuyama: *The End of History*

Liberalism, democracy, and secular societies

BUT: Do we still believe in this?

Martin Jacques: *When China Rules the World*



For how long can econ growth at 7-8 per cent continue?

- For quite some time. People are moving. People are saving.
People are getting better educated

How will China develop politically?

- Democracy – with Chinese characteristics – as a suitable “technology”
when interests increasingly diverge?
- Democracy from within CCP?
Fractions that create independent political parties?



5. Challenges for Rest of the World

Try harder to understand the Chinese.
Leave your prejudices behind, cf. book by Jacques.

Americans have some way to go here (as do Norwegians,
but that is not so important)

”Can ou learn anything from China”, I recently asked an
American who has worked on the Middle Kingdom for a
long time. ”No”, he replied. Is that a bit scary?



III. SOME OBSERVATIONS ON INDIA

India, the world's largest democracy

"Hindu rate of growth" of three per cent belongs to the past

1962: Border war with China

Uneasy with a more powerful China.

"Sandwiched" between Pakistan and China is India's nightmare.



1. Earnings of foreign exchange

| | | | |
|--------------------|--|-------------------------|------------------------|
| <i>Textile</i> | 20 billion dollar | 50 millioner employees | 400 dollar per head |
| <i>Outsourcing</i> | 60 billion dollar | 1.6 millioner employees | 40.000 dollar per head |
| <i>Remittances</i> | 50 billion dollar from Indians living and working abroad | | |

The old and the new, side by side, to a greater extent in India than in most other nations

50.000 people working in IBM in India. "Cutting edge research", is being done, cf. Palisamo

Infrastructure needs upgrading. From five to nine per cent of GDP. Manufacturing will also increase significantly



2. Hope and self confidence

India succeeds. She stays the course. Much to be proud of

Can grow by 8-9 per cent for many years (Martin Wolf, FT)

Savings rate has increased impressively and needs to remain at around 35 per cent of GDP to finance real investments

Pragmatic – like the Chinese. What works?



IV. WHAT IS GOING ON IN GREECE?

To have a common currency, countries must have same preferences for the rate of inflation. If this is not the case, a monetary union across countries will not survive

Greece has a short run and two long run problems.

Short run problem: Bridge finance over the next two-three years

Long run problems:

- Same preference for low inflation as the Germans.
- And secure economic growth so that the debt becomes bearable.

Not succeeding in the long run, and default in the making.



V. A FEW OBSERVATIONS ON THE US

USA on a long run downward trend? Without realising it?

16 per cent of GDP spent on health in the US

10 per cent in Norway – as number two

5 per cent of GDP on defence in USA

Fiscal prudence – are Americans unable to deal with the issue?

McCain: USA needs seven years to get down to business

Advantage USA: Demografics and Melting Pot

USA is down, but not out.

Will for a long time remain "the indispensable nation".

