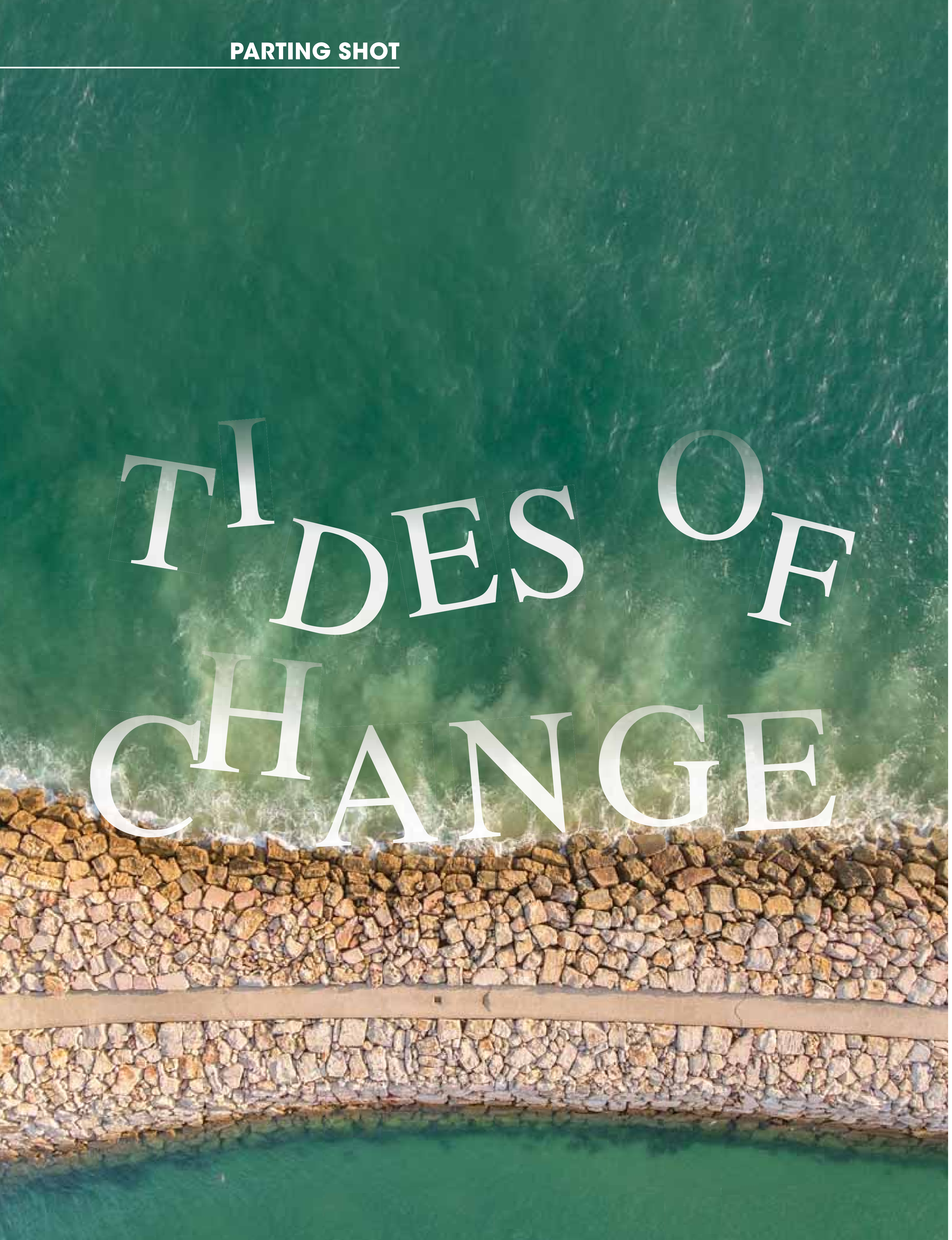

Farsighted policies and progressive ideas will stand Asia in good stead as it embraces disruption with confidence.

By Amit Gupta

In the last few years, the world has witnessed dramatic geopolitical activity, and ongoing technological progress is producing equally dramatic changes around the globe. While the pace of change is staggering, making it increasingly difficult to predict the future, one thing is clear—there are, and will be, winners and losers. Jobless growth, little or no inflation, and increasing technological disruption in several sectors will accentuate economic disparities between the rich and the poor, and among nations. The mood of the public is reflected in the recent election results in the U.S. and Europe, which seem to indicate that we have come full circle from rapid globalisation to the re-emergence of tight national boundaries.

These trends have the potential to cause intense social strife and therefore addressing income inequality needs to be the number one priority for governments and public policy, not just in developing and less developed countries, but also in developed nations.

Countries like Singapore thrive on these changes, viewing them as productivity gains. Meanwhile, wealth creation is flourishing in China, India and Indonesia, the three Asian nations that account for almost half of humanity. China's focus will be on technology-driven growth in coming decades; India's growth is likely to be services driven; while Indonesia continues to have the potential to reap productivity gains associated with industrialisation and urbanisation. What else do these nations—among others in Asia—need to do, or what are they already doing, that will help them to embrace the current tsunami of change and ride the wave to becoming potential global superpowers?

Corruption clean up

China and India have strong and stable political leadership currently in power. In recent times, both nations have taken some fairly decisive actions to weed out corruption from their systems. The two countries are aggressively using technology and the digital revolution to bring in transparency through foolproof identity recognition and by banning illegitimate financial transactions. In the short term, removing or reducing the parallel economy causes growth hiccups and large-scale unemployment. It may even give rise to political opposition, given how significant this grey economy has been. It is to be noted that there are long-standing and well-entrenched vested interests existing in the polity against this clean-up. This is why political stability and electoral confidence are critical to achieving sustainable success. The majority seems to be supporting these measures, which in the Indian context, is a pleasant surprise and a huge vindication of the democratic system.

In the medium term, success achieved effectively means bringing the large erstwhile cash economy into the mainstream, elevating the amount of capital available to the financial sector, and sharply lifting the number of taxpayers. This will provide significant fiscal stimulus and unburden the economies by eliminating leakage and creating more efficient resource utilisation, and improving governance by bringing in accountability and transparency in awarding projects and capital allocation.

China's visionaries

Beyond this clean-up, China seems to be rather successfully navigating a transition in its economic model, from simply being the world's factory to increasing domestic consumption. While there are clear risks and cracks in its financial/credit system, the country has the wherewithal and resources to manage this economic transition without experiencing a hard landing. Opinion is divided on this but Western observers and experts have famously and derisively predicted nearly half a dozen recessions or crises in the last decade in China, of which only two have actually occurred.

While the recent activity in the form of Initial Public Offerings (IPO) of mainland Chinese technology companies in Hong Kong may look like bubbles, only time will tell whether they will evolve into a paradigm shift for a transformational economy. The fact is that the level of entrepreneurship and digital transformation in several Chinese towns and cities is staggering and is much higher compared to Europe and even the United States.

Furthermore, the political leadership in China is astute and progressive; many of them are educated in hallowed Western universities. However, the Chinese do not just blindly adopt Western principles. Given the belief that a market-oriented system may have led to a sharp rise in economic inequality, China's President Xi during his marathon keynote speech at the 19th National Party Congress in October 2017 emphasised making state-owned enterprises bigger and stronger, yet more efficient. Accompanied by the fight against corruption, this works well for the economy because it allows for a faster transmission of stimulus from the government.

As we saw in the Global Financial Crisis, a misallocation of resources and build-up of risks is possible even in a market-driven economy. The bailout of U.S. financial institutions (and its automotive industry), and monetary intervention through quantitative easing are not dissimilar to state support. Furthermore, the West was unable to bounce back because of the political logjams and its inability to make quick decisions towards real infrastructure spending and fiscal stimulus for creating jobs or economic activity. It is evident that the sustained monetary stimulus over the last decade and injection of liquidity may have resulted in financial asset bubbles and wider income inequalities.

So, an honest and visionary leadership applied to China's undemocratic system has proven to be a very powerful way to deal with crises and lift the masses out of poverty. Interestingly, there is a lot of trust among the wider population on the Centre, and a belief that a strong Centre works well

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for the benefit of the people. So there is outrage against corrupt or inefficient local governments, with loud complaints made to the Centre.

India's impetus for reforms

The developments in India are of a somewhat similar nature, although execution is not as orderly or speedy as in China. Ironically, there is a significantly bigger overhang of socialism in India, at least in the bureaucracy, although the level of entrepreneurship and innovation in the larger populace is evident and impressive. India started economic reform much later than China, has a much higher level of complexity, disparity, and it lacks infrastructure. The potholes on the roads can be an economic opportunity as the government has accelerated the execution of building physical infrastructure, including roads, railways, airports and waterways. Also, India has a much-touted demographic dividend—about two-thirds of the population is below the age of 35, which can be a real asset, provided job opportunities and appropriate skill development opportunities are being created. There is much baggage and some headwinds towards execution, with an active political opposition serving as a brake for economic progress.

Like China, the Indian banking sector is riddled with non-performing assets and potential capital shortage, along with the baggage of several decades of crony capitalism. There is meaningful clean-up in progress and a resolve to recapitalise the banking sector, but both of these initiatives risk falling short given the enormity of the problem. Success achieved here can provide a tailwind to realising potential economic growth.

Two other recent structural reforms implemented are a nationwide Goods and Services Tax (GST) and the Bankruptcy Code. Both serve to create uniform laws and develop a common market, and lead to reasonable upgrades in the ease of doing business in India. Both reforms have been long overdue and, along with the anti-corruption drive, will prove to be serious game changers to provide long-term impetus to the economy.

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The other economic transition that is taking place in both India and China is the increasing role of the small and medium enterprises and the private sector, as opposed to the earlier phase where state-owned enterprises were responsible for investments and creation of economic activity. There is also a plan for a stricter regulation of banks and other parts of the financial system, as a reaction to the surge of borrowing by both companies and local governments.

Global influence

Economic progress has allowed China to gradually increase its influence, not only among its immediate neighbours, but also in farther away places like Africa, and Latin and South America. Several decades ago, with an eye to securing commodities, China started to use its growing prosperity to give developmental financial aid to countries rich in minerals and metals. It was some 15 years ago, when on a trip as a sports spectator, I came across a remarkable but amusing incidence of witnessing a 'Made in China' cricket stadium in the Caribbean! A US\$50 million stadium gift goes a long way strategically for a small nation with natural reserves, and that too under the very nose of the world's largest economy!

The Chinese role in developing roads, bridges and ports in several African countries with concessional (read 'free') finance is now more the norm than an exception. And the Chinese visitors never leave; giving true meaning to infrastructure being long-term projects! It is important to note that they are considered benevolent employers and benefactors, not as imperialists in these countries—almost like visitors who come with gifts. The Chinese government also sponsors scholarship programmes for aspiring African high school students to attend summer courses in Oxford and Cambridge in the United Kingdom. While China does not seem to have a desire for hegemony, these actions help to establish its hold as a major global superpower.

Chinese policymakers are also looking to education as a key asset in gaining global influence. They have opened up a number of Spanish-speaking school districts (from kindergarten to grade 12) in Chinese cities to develop the next generation of Spanish-speaking global leaders. The teachers in these schools have been recruited from Spain to authenticate the accent.

Two other significant moves are the establishment of the Asian Infrastructure Bank and the state-led One Belt One Road initiative, which can substantially increase China's influence over Eurasia in the next decade. Additionally, the internationalisation of the Renminbi that started over 10 years ago, has gained pace with trade settlement, financing, borrowing (popularly referred to as 'dim sum bonds') and capital management. Using the leverage of its size in global trade, China has managed to influence over a quarter of global trade to shift

away from the U.S. dollar to the Renminbi. This is very significant and by the time China becomes the world's largest economy, it seeks to have a fully convertible currency, rivalling the U.S. dollar in terms of popularity and ubiquity.

Entrepreneurship and innovation

Over the last 10 years, Shenzhen, touted as the Silicon Valley of technological hardware, has transformed into a smart city. Entrepreneurship and innovation thrive in China, with technology playing a lead role. The state has actively promoted industry innovation and it is now spreading to many newer cities. The focus is that the 'Made in China' label should denote innovation, rather than a copycat industry comprising efficient large-scale components manufacturers. The Chinese thirst for learning has made this transformation from copying to innovation a flourishing start-up industry in the country.

Government policy, both from the Centre and the provinces, is focused on developing a service economy that is tech-oriented and brings in the youth as an important part of the movement, incorporating them into the economy to inspire another generation of young people who want to become hardworking factory owners and innovators. So this may be the brewing of another economic revolution, one more powerful and faster than generally being predicted by analysts. I believe that with this growing culture of innovation and sustainability, there is a real possibility that China may repeat its economic success of the last four decades at an even faster pace. Even though it is the world's second largest economy, President Xi and the leadership wants it to grow like a developing economy. At its current size, if China can grow at over 7 percent for over a decade, it will become the world's largest economy at a GDP of US$40 trillion before the year 2035, which is what is currently being predicted.

The final piece in this orchestra is the emigration of the Chinese populace to all corners of the developed world in fairly large numbers (relative to the host country's population), to acquire real estate and settle down as industrious and contributing residents/citizens. There has been a tendency for these non-resident Chinese to remain connected with their motherland and to invest back into it. Chinese students make up a significant proportion of the STEM (science, technology, engineering, or mathematics) PhDs in the United States. Though many of these scholars return to work in newly built and expanded Chinese universities, those that stay on in the U.S. or in Europe form the bridges to the first tier academic institutions.

Over the last 50 years, India too has been a significant exporter of labour/talent to all parts of the globe. They have generally done well in various fields and the talent is well recognised globally. The Indian diaspora has flourished everywhere and, quite akin to the Chinese, remains closely tied to the motherland, in the form of remittances and financial investments of significant order.

The 'Red Dot'

The current economic environment is enabling Singapore to further its smart city status and capabilities. It is focused on digital transformation, which in fact, further accentuates the jobless growth in the economy. It is also a viable and opportune solution supporting a change in its immigration policies, reducing dependence on foreign workers in construction and service industries like food and beverage and hospitality. Until a few years ago, this caution on immigration had received a pushback from the real estate and services sector as labour shortage was adversely affecting service standards and was becoming a constraint for growth. The substitution to online shopping and food delivery is alleviating the problem.

The challenge to finding a viable solution has been taken up well by industry. The Housing and Development Board, the statutory board of the Ministry of National Development responsible for public housing in Singapore, has set an internal target for a 25 percent improvement in productivity between 2010 and 2020. A transition to prefabricated homes will allow them to significantly reduce construction and delivery times, and raise productivity, while reducing dependence on imported labour. The recently opened Terminal 4 of Changi Airport is also fully automated, catering to an expanded capacity of travellers with no extra labour requirement. Similar trends are visible in the medical sector, where digitised records are shared across service providers. The efficiencies derived are plentiful and this initiative is rapidly helping Singapore cement its position as a regional and even international hub for medical tourism. The focus on privacy and data security is paramount and the government has instituted a Personal Data Protection plan that has been in place and under implementation for over five years.

A similar focus is seen across all industries, with start-ups and fintech solutions being promoted by the Monetary Authority of Singapore, and agencies like A*STAR playing a key role in scientific research, biomedical advancement and even education. It is not commonly known but one of the founders of the frugal online education offering, Coursera (popularised at Stanford and now the leading global higher education online hub), did his schooling in Singapore. As he was starting up the online portal, he attracted several young scholars at A*STAR to move to Silicon Valley, a move which was supported by A*STAR's management.

To further its impressive urban planning credentials, there is also a focus on creating clusters for the digital economy that will be 'enterprise districts' (emulating the ethos of Silicon Valley)—'vehicle-lite' areas to keep it environmentally sustainable, business support by providing government contracts for cybersecurity, potential venture capital funding by local quasi-government and university wealth funds, and other lifestyle benefits to provide work-life balance, including accommodation and education. Singapore has done this coordinated activity successfully over the decades on other initiatives, and will be successful at this too.

The transformation of the global economy and the shifting of sands from the West to East is fast becoming a reality as China and India maintain rapid growth rates. Even a small economy like Singapore is now taking aim at becoming an important technological hub of the future.

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