

Bullish America, bearish EU, China

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US PRESIDENT Barack Obama was recently re-elected, China has a new leadership, and the European Union is negotiating a new budget while trying to save the euro.

Given that the United States, the European Union and China are the Big Three in the world, it is timely, therefore, for a three-way comparison at the beginning of a new year.

Since the global financial crisis, the conventional wisdom is that the US and EU are in decline, while China races ahead. I would turn this conventional wisdom on its head.

The EU and China are beset with alarming structural economic problems and sclerotic politics. Despite its current doom and gloom, the US has a dynamic economy and political system whose engines are individual freedom and an open society. This bodes well for a US economic renaissance and for the revival of American leadership in the world. Let's take the Big Three in turn.

The EU is fighting a triple crisis of the common currency, banks and sovereign debt. To save a monster, dysfunctional currency, the EU faces perpetual fire-fighting for many years, perhaps decades, ahead. Or the euro will break up sooner or later. Worse, the EU has made scant progress on pro-market structural reforms.

Sclerotic politics compounds economic and social malaise. In Brussels and most national capitals, the elite comprises politicians and bureaucrats who have done nothing else since university, and who have dreamt of politics and officialdom since high school. They are masters of the political and bureaucratic process, and of incremental policy-making – “disjointed incrementalism”, in Whitehall jargon.

They are generally uninterested in big policy ideas and evade major policy choices. Their limited life experience enables them to communicate in internal jargon, but they are hopeless at communicating with a broader public.

A striking visual metaphor of the EU elite is the annual gathering of the heads of Brussels' leading think-tanks. Ten grey-haired, paunchy, 60-something men say almost exactly the same thing for the whole day. That is what passes for “debate” in Brussels.

Despite the current slowdown, China is growing at close to 8 per cent of gross domestic product (GDP), compared with negative growth in the euro zone. It still has large catch-up growth potential. Ambition, hard work, thrift and enterprise are abundant in China – in contrast to what one sees in much of Europe.

But, like the EU, China has mounting structural economic problems that, if not addressed, presage a major growth slowdown and possibly a crash.

The “Chinese model” generates over-saving and over-investment while repressing private consumption, real wages and employment growth. Massive capital wastage by state-owned banks and state-owned enterprises drives “unbalanced growth”. Hence China's economy needs to “rebalance”. Savings and investment need to decrease as a proportion of GDP, and the efficiency of investment needs to increase, as does private consumption.

This demands difficult supply-side reforms, mainly in “factor” markets for capital, labour, land and natural resources. But these reforms are elusive, for they would strike at vested interests at the heart of China's party-state.

This is where the imperatives of a fast-changing market economy collide with an unreformed, strait-jacketed political system.

In some ways, China's Communist Party seems like a vastly exaggerated version of the EU elite. Super-cautious apparatchiks dominate the party machine. Their life experiences and vested interests, oiled by nepotism and corruption, are a world away from the lives of ordinary Chinese, with whom they seem unable to communicate.

The spectacle of wooden identikit leaders in the same suits and ties and hair dyed jet-black, giving mind-numbing speeches in Orwellian Newspeak, jars with the reality of modern Chinese society.

The conventional view of the US is depressing. It has escalating public debt and a gridlocked political system.

There is a giant question mark hanging over the US' public debt. Nevertheless, its economy is undergoing three structural transformations not seen elsewhere.

First, it is in the early stages of an energy revolution, with a massive increase in domestic production of shale oil and gas, and crude oil.

Secondly, it is on the verge of a manufacturing revolution based on advanced-materials technology.

And thirdly, US multinationals, mainly in services, are poised to reap huge gains from catering to the burgeoning middle class in Asia and other emerging markets.

These transformations are no accident; they spring from the foundation of secure private property rights, free enterprise and the free circulation of ideas; in short, from a culture of individual freedom and an open society. That is, and always has been, the US' superior advantage in the world.

Similarly, the “brokenness” of the US political system is exaggerated.

First, the US is having an open and vigorous debate on the economy, with competing philosophical and moral visions on display. The EU and China, in contrast, are having no such public debate.

Secondly, US policy elites are more varied in their background and experience than their counterparts in the EU and China. Many are in a “revolving door” between government, business and academia. That enables ideas and solutions to circulate more freely. It encourages flexibility and nimbleness.

And thirdly, the US federal system decentralises governance, allowing problem-solving experiments to blossom and cross-pollinate in cities and states across the land. All this is testament to the continuing vitality of American democracy.

How do domestic conditions in the Big Three translate in the theatre of international relations?

The EU's internal economic weakness and political divisions render it incapable of exercising global leadership.

Besides, it has no “hard power”. Its substitute of “soft power” is mostly postmodern hot air. China's autocracy lacks the willingness and capability – and above all the legitimacy – to exercise global leadership. Increasingly, its attentions will be consumed by domestic problems.

Hence the world will continue to rely on US leadership on security, economic and other issues. As Alexander Hamilton foresaw in the early days of the Republic, American leadership abroad depends foremost on economic strength at home. An American economic renaissance, were it to materialise, would translate into reinvigorated leadership abroad.

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President Barack Obama touring the Daimler Detroit Diesel Plant in Redford, Michigan, last month. The US still has a dynamic economy and political system whose engines are individual freedom and an open society. PHOTO: AGENCE FRANCE-PRESSE

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