

Inevitable? I Think Not

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1500 word limit – Response to prompt: Is the decline of the West inevitable?

Trajectories of China and India, the two largest newly industrialized countries (NICs), ensure that long-term decline of the West's power is not inevitable. The foundations of modern power rest upon a bedrock of economic strength (GDP) and vitality (rate of growth). Economic growth, in turn, relies on three critical factors -- stability, adaptability of institutions and policies, and the rule of law. Although these three characteristics are possessed in varying degrees by many countries, no governmental system, other than liberal democracy, is simultaneously endowed with the triad. Liberal democracy is a defining characteristic of the modern West, and this governmental system, rather than geographic location, distinguishes its member nations. This paper examines recent growth in China and India, its relation to the characteristics of liberal democracy, and potential impact for the West.

Currently, the West's economy is growing slower than that of the NICs; therefore, the West can be said to be in relative decline compared to the NICs. However, recent economic gains of China and India (as well as their future growth) are threatened by lack of the three aforementioned factors which define modern liberal democracy. Failure to obtain liberal democracy (and these essential characteristics) is likely to lead to a relative economic decline of these NICs, changing the decline of the West into a relative ascendance. Likewise, having attained liberal democracy will be sufficient for these NICs to be recategorized as "western," adding to the western economy and again changing the West's relative decline into an ascendance.

To demonstrate the importance of these reforms, it is necessary to examine the primary cause of growth in China and India. Current development in both nations is mainly due to what is known as "catch-up growth," rather than the brilliance of central planners in China or politicians in India. Catch-up growth occurs as a result of implementing foreign technology and practices which are more productive than existing ones. Over time, nations "catch up" to the productivity level of other countries; growth due to catching-up declines, requiring something akin to technological innovation to sustain development. The aforementioned three characteristics (adaptability, stability, and rule of law) reduce barriers to enhanced technological innovation, improve economic growth, and become essential for maintaining economic strength as catch-up growth inevitably slows or ceases.

The first key characteristic is adaptability. Governments which are unaccountable to the public for great lengths of time tend to be poor at adapting both institutions and policies to changing circumstances or evidence of failure. State supported (or owned) businesses (still common in China) are kept afloat, even when highly inefficient, wasting valuable resources which might be used more productively. Projects more suited to a bureaucrat's vanity and ego (such as China's recently constructed high-speed rail systems) are implemented, rather than a less headline-grabbing but more cost-effective version (lower speed rail, but more lines constructed), again wasting vitally needed resources. Other examples of such excess include China's much vaunted airports and the "mega-city" project in the Pearl River Delta (intended to become the world's largest city). These problems all stem from a lack of political accountability and could best be solved by democratic reforms.

India has a corresponding stricture on its ability to adapt. Though a democracy, India has a widespread system of discrimination known as the caste system. This system harms the long-

term adaptability of India's government and businesses by reducing the extent to which jobs, political positions, access to credit, and other important allocations of goods and jobs are determined by merit. Rather than leading to choosing the most qualified person (or firm), the caste system determines hiring/distribution based upon an accident of birth. This process reduces the likelihood that the most efficient or innovative firms are founded and succeed, reducing growth in the long term. Like previous Western aristocracies, India must drop the caste system like the weight it is, and as a result, become increasingly western.

Turn now to the next key characteristic - stability. Stability's importance stems from its provision of certainty to investors and savers. Certainty allows both groups to have greater confidence in what will happen with their money; as a result they are more willing to invest in various undertakings, rather than only those which have high and/or largely certain returns (to compensate for risk), ultimately leading to higher rates of innovation, and resultant growth.

The stability of China currently rests upon the Chinese people's willingness to grant legitimacy to the Communist party while accepting limited political freedom (in the form of a one party dictatorship) in exchange for high levels of economic growth. This stability is consequently threatened by any economic slowdown if reforms addressing both adaptability and the rule of law are not taken, as catch-up growth will eventually decline. Additionally, recent revelations have uncovered corruption amongst government officials concerning the use of shoddy construction materials to build the previously mentioned high speed rail lines, as well as those contributing to the widespread collapse of schools and subsequent deaths of many children during the Sichuan earthquake. Further revelations will become increasingly destabilizing as the calming panacea of growth declines.

India has a corresponding difficulty with maintaining stability. Long term societal and governmental stability in India is primarily threatened by tensions between various ethno-religious groups (most visibly between Hindus and Muslims). Ethno-religious violence leads to economic disruptions ranging from religious based murder to terrorism, both of which contribute to a decline in confidence that financiers will be able to recoup their investments.

The last key characteristic, the rule of law, like stability, provides certainty amongst investors (namely, the rules of the game). Without the rule of law, investors (or savers) cannot be certain that their assets will not be seized, their businesses nationalized, inventions stolen, or lives threatened. As a result they (again) demand higher returns as compensation.

In China the rule of law is largely nonexistent. People, as well as property, can be seized or held indefinitely without cause. In most cases, land is not owned by private individuals, but rather is leased out by the government for fifty-year periods, after which the lease may be extended or alternatively ended, with the land and its improvements reverting to the government. This lack of private ownership leads to uncertainty amongst investors (both foreign and domestic), causing them to demand higher returns on their investments for fear of losing them to highhanded government actions. As catch-up growth slows, the ease of finding investments with high returns becomes increasingly difficult, leading to a decrease in investment, which will hamper growth in the long term. It is not uncommon for high ranking government (and party) officials to get away with embezzling public monies, taking kickbacks, or violating various laws.

Unlike China, India has private property and its government lacks the ability to lock-up people on a whim. The rule of law in India, while stronger than in China, still suffers from several key flaws which, if unaddressed, will likely lower or possibly reverse growth. The most critical issue is that India, like China, suffers from corruption. This corruption ranges from low

level government bureaucrats requiring bribes when a citizen attempts to start a new business (making it more difficult and costly to found a business), to the far more appalling problem of judges being appointed as a form of political tit-for-tat. Corruption of this sort would be bad enough, but there is something even worse lurking in the shadows. A number of reports about India indicate that large numbers of politicians at the national level have been accused of, or engaged in, sordid practices ranging from taking bribes in exchange for favorable laws to the disturbing accusation that numerous members of the national legislature have been complicit in murder; they “got off” by subverting the judicial system. The negative economic effects of bribery-induced legislation is clear, however the subversion of the judicial system will have an even more negative effect. If investors are unable to rely on a relatively impartial judicial system, they will perceive greater risk that they might lose their funds and ultimately will only invest in prospects with higher levels of returns, thus lowering the long term rate of economic growth.

As has been shown, both major non-western nations currently grow at a rate which is faster than the western nations, leading to a state of relative decline for the West. However, in the long run, unless China and India become more westernized, their recent gains and future growth will both be threatened. Failure to westernize effectively reverses the decline of the West. In contrast, if they adopt characteristics of liberal democracies the westernization of India and China leads to their absorption into the West, also reversing the decline of the West. Therefore, in the short-term the decline of the West is inevitable, but in the long-run, regardless of whether China and India adopt a liberal democracy, the relative position of the West will improve.