

Asia's poor billions – Saviors of the global Economy

“Blessed are the meek, for they shall inherit the earth” (MATHEW 5:5)

It is a sad reflection of the state of affairs that people actually get surprised, even shocked at the recent events in global financial markets. The collapse of one financial giant after the other, all intricately and inextricably linked through a very complicated web of financial dealings is hardly rare or unexpected. The phenomenon of individual traders or gamblers getting carried away by delusions of their own cleverness and over-extending themselves to death is as old as money itself. As hindsight will show, these were text book cases and as usual, those who ignored history were doomed to repeat it.

There will be tremendous retrospection in the days to come – for the sole unfortunate reason that most experts and analysts seem to be masters of post-mortem analysis. There are extremely few voices of caution, reason or wisdom and these are usually drowned out in the roar of the greedy. It makes no sense therefore to add one more autopsy report to the pile. The important question is what happens next.

Given the current turmoil and omens rising from it – the outlook for the global economy looks unnerving. Everybody agrees unanimously that we are headed for a long and hard credit crunch. It will soon begin to look like a market without customers – or with very few customers, with very limited money in their pockets. And you cannot have a market without sound customers.

The US looks headed for a very hard time in the years to come – from every angle. Twin bursting bubbles of Credit and Housing, rise in unemployment, inflation, the few remaining industries like retail, aviation, automobiles shrinking – all factors point to a mess that will take at least some years to unravel.

Europe is at the brink of a recession – and the macro indicators don't give any reason for optimism in the short or the medium term. Rapidly dwindling populations, saturated markets, severe scarcity of skilled workforce and a host of other factors don't really inspire confidence. The Middle East continues to rake in riches from its petroleum resources, and is persistently haunted by the attached curse of violent strife.

At the other end of the world, Japan continues to be stagnated, while Australia is into its sixth year of drought. In fact, they have had practically no rain in the last three years. What this essentially means is that all the capacity to spend and consume of all these nations is directly under threat and can no longer be relied upon to sustain demand for material, goods and services. So who will get impacted the most?

The large Latin American countries, Russia and rest of the erstwhile Soviet bloc states, India and China (the greater BRIC club) have so far played the role of providers of raw material, finished goods and services. Despite their large populations, their own domestic Demand has been far lower than the potential due to a lack of purchasing power. All these countries have tried to build their economies around exports to 'rich' countries and will soon find themselves stuck with falling revenues.

Mankind can face typhoons, earthquakes and wars – but it cannot afford the failure of the global entire economic machine due to Demand destruction on this scale. The problem is to identify alternate customers, to replace Demand from the developed nations.

And let us not make the very common error of mistaking Need or Potential for Demand. Both the beggar and the customer have need. The sole difference between them is that the customer has purchasing power. People have to eat. They need clothes, houses, medicines, education, power, water. They need movies, books, cars and computers. The need, the potential will always be there, but it has to be backed up by purchasing power before it is transformed into Demand – the kind that drives economies. Huge needs - like India or Africa have - are quite worthless without purchasing power. Huge 'wants' (as different from needs) coupled with huge purchasing power drive mindless consumerism and speculation like we are witnessing in the West. It also follows logically that even with adequate need and commensurate purchasing power, real economic demand of significant scale will only happen when there is a large (and ideally, growing) population involved. And that would narrow down the search for the next Big Consumer primarily to India and China. Both India and China have huge populations with lots of needs, mostly basic. The potential is mind boggling. All that remains is to figure out how the bottom two-thirds of both these nations get the purchasing power to fulfill their basic needs of

food, clothing, healthcare and housing. We are not even talking of conspicuous consumption and luxury spending here.

Spirited attempts by governments of both these nations to stimulate growth have yielded spectacular results, but only in isolated areas – and even they look threatened by the slowdown in developed countries. On the other hand, these measures have also worsened disparity, fuelled inflation and given rise to a host of socio-economic problems. The per capita income of India is less than \$ 1000. So how can the poor Indian (and Chinese etc) replace the American consumer?

First of all, he needs easy access to cheap credit. Secondly, the weaker sections – and in our country that number runs to hundreds of millions – need state funded social security, until enough economic activity takes off and there is widespread job creation. Finally, sustainable, long-term Demand can only come from a strong agricultural base, healthy Industry and efficient financial systems.

Economic activity also depends on many factors apart from Demand – we need a simple and fair taxation system, we need social stability, strong and transparent systems of governance, cheap and easy access to capital. Industry also needs reliable infrastructure and power supply. In short, an environment that enables innovation, creativity and excellence without having to grapple with corruption at every step.

'But that is impossible!' you say. 'The fiscal deficit refuses to go away, so where is the money coming from after all?' Don't be so sure, gentle reader... There is an answer – to all these and many more problems. It is entirely possible to transform the poor Indian 'beggar' into the great Indian consumer in the global marketplace. There is a solution which will simplify the taxation system and generate abundant revenues for the Government. It will merge the parallel economy with the formal one – and give an unprecedented boost to Industry and Trade in India. And the millions of Indian poor will generate enough Demand to drive local, and then global industry.

Check out the ArthaKranti© Proposal at www.arthakranti.org. There is a way out of this mess after all!