

Institute of Chinese Studies

WEDNESDAY SEMINAR

*Geopolitics to
Goeconomics: Democratic
Dividend to Demographic
Dividend?*

REPORT

Speaker :

Manoj Pant

1 May 2024

EXECUTIVE SUMMARY

- The seminar examined the evolving dynamics of global trade, departing from the conventional emphasis on the “democratic dividend” (political freedoms leading to economic prosperity) to foregrounding the potential of the “demographic dividend” (large young population driving economic growth) as a critical factor shaping international economic relationships.
- Prof. Pant argued that the current global economic system is characterised by geoeconomic competition, which is in sharp contrast to the geopolitical bipolarity of the Cold War era. For instance, the relationship between China and the US demonstrates this complex interplay, where cooperation and competition are intertwined.
- Developed countries often have abundant capital but struggle with labour shortages. In contrast, developing countries have a large young workforce but may experience brain drain due to a lack of opportunities, hindering their ability to capitalize on this demographic advantage. Traditional trade theory doesn't effectively address this challenge of moving labour and capital together.
- Prof. Pant critically evaluated India's limited participation in regional trade agreements and restrictions on foreign direct investment (FDI). He argued for a more open approach to attract investment and create jobs to retain India's skilled workforce and harness the demographic dividend.
- The chair, Dr. Sanjaya Baru, highlighted the growing importance of South-South trade, with India improving its economic relations with Latin America and Africa. Interestingly, he suggested that trade relations between India and China may continue to grow despite political tensions.

**GEOPOLITICS TO GEOECONOMICS:
DEMOCRATIC DIVIDEND TO DEMOGRAPHIC DIVIDEND?**

REPORT

Speaker: Prof. Manoj Pant, Visiting Professor, Department of Economics, Shiv Nadar Institution of Eminence; and, former Vice-Chancellor/Director, Indian Institute of Foreign Trade, New Delhi.

Chair: Dr. Sanjaya Baru, Founder-Trustee, Forum for National Security Studies; and, Distinguished Fellow, United Services Institution of India & Centre for Air Power Studies, New Delhi.

Date: 1 May 2024

Venue: Zoom Webinar

The seminar explored the evolving dynamics of global trade relations. Prof. Pant’s presentation delved into the changing nature of global trade, specifically focusing on the concept of a “demographic dividend” as a potential successor to the “democratic dividend” in shaping international economic relationships.

Prof. Pant outlined the fundamental differences that characterize the current global economic system from that of the Cold War era. He argued that a stark geopolitical rivalry between the US and the USSR defined the Cold War. In contrast, the current system is driven by geoeconomic competition, where nations vie for economic dominance through trade and investment strategies. Prof. Pant emphasised the complex economic relationship between China and the United States, highlighting how cooperation and competition are often intertwined within this dynamic.

The chief argument made by Prof. Pant pertained to the contrasting situations of developed and developing countries regarding labour and capital abundance. He pointed out that traditional trade theory, which focuses on comparative advantage regarding production costs, needs to adequately address the challenge of moving labour and capital together. Despite having a large, young workforce (often called the demographic dividend), developing countries experience brain drain due to a lack of opportunities, hindering their ability to capitalise on this advantage fully. He argued that this phenomenon reflects a failure of the education system and the economy to create sufficient opportunities for skilled workers within the country.

Prof. Pant then focused on India's trade policy, critically evaluating its limitations. He noted India's limited participation in major regional and bilateral trade agreements, suggesting that this approach hinders India's economic potential. Professor Pant advocated for a more open approach to foreign direct investment (FDI), arguing that it is crucial for India's growth. He cited the strong correlation between bilateral trade and FDI, suggesting that a more welcoming environment for foreign investors would stimulate trade flows. Professor Pant further recommended eliminating the distinction between trade and FDI policies, streamlining the process of attracting investment.

The Q&A session provided a platform for further exploration of the presented ideas. One question raised the intriguing contradiction of India's situation: abundant labor but a struggle to capitalize on the demographic dividend, while China has abundant capital but may face a consumption problem. Prof. Pant acknowledged the pressure on India due to the brain drain and emphasized the need for a domestic environment that encourages job creation and utilizes the country's skilled workforce. Prof. Pant also addressed the issue of China's potential consumption problem, acknowledging the lack of clear evidence but emphasising the importance of FDI for both countries.

In his closing remarks, Dr. Sanjaya Baru shifted the focus to the growing importance of South-South trade. He noted India's improving economic ties with Latin American and African

countries, suggesting that South-South trade is crucial for future growth. Dr. Baru acknowledged the ongoing political tensions between India and China, but interestingly, he indicated that trade relations between the two countries could continue to grow despite these tensions. This observation aligned with Prof. Pant's assessment regarding the potential for economic forces to outweigh political considerations in driving trade relations.

Prof. Pant reiterated that economic forces often trump political considerations in shaping trade relations. He provided a specific example, suggesting that opening Chinese foreign investment in India could be a solution to reducing the trade deficit between the two countries. Both Prof. Pant and Dr. Baru highlighted the need for further research on navigating the complexities of trade relations in the current globalised world. Overall, the discussion provided valuable insights into the evolving landscape of global trade, flagged the problems in taking advantage of the demographic dividend, the growing importance of South-South trade and the intricate relationship between economic and political considerations in shaping international commerce.

This report was prepared by Shikhar Sharma, Research Intern, Institute of Chinese Studies.

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