Asia’s reform report card is a mixed bag

For Prime Minister Narendra Modi, what a difference nine days make.

On 23 January, the world got a dose of the India it most craves. That day, in Davos, Switzerland, Modi attacked protectionism and touted India as ready to step into a key global role. That message, though, seemed surreally at odds with the road map presented in New Delhi nine days later.

Davos Modi slammed those who “want to reverse” globalization’s “natural flow”. New Delhi Modi reverted to the typical tokenism and vague populism for which he criticized predecessors before taking office in May 2014. Not only does the latest annual budget hike tariffs almost across the board, but its handouts to farmers and rural poor do more to wreck Modi’s reputation for fiscal restraint than hasten growth.

It’s this tale of two Modis that lowers India’s grade slightly in our periodic report card of Asia’s key reformist leaders, ranked best to worst.

Modinomics: In our last assessment of Asia’s four biggest economies in June, India was best in the class, earning a “B”. The prime minister’s progress still compares favourably to that of Japan’s Shinzo Abe, China’s Xi Jinping and South Korea’s Moon Jae-in. Modi’s successes in increasing the tax base and opening key sectors from defence to insurance are noteworthy. So is the splashy way he sold the “New India” narrative. But the latest budget smacks of timidity, opportunism and damage control from a weak election in his home state Gujarat. Critics tend to highlight Modi’s Hindu nationalism and botched move to remove 86% of currency notes overnight.

Modi’s real sin is overselling his ability to achieve double-digit growth and employ the roughly 1 million Indians who enter the labour market each month. This government may indeed be the best chance India has had in decades to transform the landscape, China-style. But with national elections on the horizon and Modi’s talk outpacing action, investors have reason to worry. Modi’s grade: “C+”.

Moononomics: Grading Korea’s restructuring process is a bit awkward. Our last report card cycle gave the policies of Moon’s predecessor an “F”. Park Geun-hye had just recently gone to jail on bribery and influence-peddling charges. She pledged to take on the giant family-run conglomerates running roughshod over the economy. Instead, she got co-opted and undone by the same scandal that put Samsung heir apparent Lee Jae-yong in jail (he has since been freed). Moon acted fast to raise the minimum wage and implement Korea’s first corporate tax hike since 1991. The latter, aimed at top-earning companies, was a down payment on taking conglomerates down a peg, catalyzing a start-up boom and building a “trickle up” growth model. Moon hasn’t moved as rapidly as many hoped. To be fair, he’s had to balance North Korea’s antics with US President Donald Trump’s trade war threats and hints of military action. Yet, Seoul gets the most-improved award among Asian reformers. Moon’s grade: “C+”.

Xiconomics: The Chinese president earned a “C-“ back in June, mostly because his efforts to wean the economy off excessive credit and debt lacked urgency. While that’s still true, there’s reason to be optimistic Xi is finding his economic-disruptor mojo. One is the widening crackdown on the $16 trillion shadow-banking monster at the root of asset bubbles and dodgy policy decisions. In December, crackdowns curbed trading activity in the opaque, largely off-balance sheet wealth-management products. Curbs implemented last year halved interbank holdings—about $520 million in December. Sudden reversals in these highly leveraged trades can slam broader stock and debt markets—quite suddenly. Beijing, meantime, is finally serious about opening its $11 trillion bond market to global investors (luring $55 billion in 2017). One huge demerit: Beijing's fixation on achieving 6.5% growth continues to warp incentives and reduce the political tolerance for the shock therapy needed to recalibrate the economy. Xi's grade: "C".

Abenomics: Japan is on a tear at the moment, enjoying the second-longest expansion since World War II. But wages, sadly, aren't. Five-plus years into Prime Minister Abe's reflation gambit, his weak-yen policy boosted corporate profits and cheered exporters. Incomes remain stagnant, though.

One reason executives lack confidence to fatten paychecks: the structural shock therapy Abe promised hasn't materialized. Companies are still waiting to see what Abe can achieve in revitalizing industry, boosting productivity, shaking up labour markets and supporting entrepreneurship. Since Abenomics has been mostly about aggressive monetary easing, Japan lacks the virtuous cycle needed to defeat deflation and give long-suffering salarymen a raise. It's important, too, to recognize that most of Japan's growth is coming from the outside—from buoyant demand from the US, China and even Europe. That explains why domestic consumption remains moribund—and why Japan is last in the class. Abe's grade: "D".

With global growth buoyant, the year ahead offers an ideal window of opportunity for Asia's four biggest economies to raise their games. Will they? We'll find out when it's report card time again.

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