THE GROWTH NET

2nd Annual Meeting
23-25 March 2014
New Delhi, India

“REVIVING GROWTH: REVERSING THE TIDE”

Executive Summary

ananta centre
(Formerly part of ASPEN INSTITUTE INDIA)

smadja & smadja

Background

About The Growth Net 2014

Jointly convened by the **Ananta Centre** (*formerly part of Aspen Institute India*) and the **Smadja & Smadja Strategic Advisory**, the 2nd annual meeting of '**The Growth Net**' was held in New Delhi from March 23-25, 2014.

Themed "***Reviving Growth: Reversing the Tide,***" the three-day meeting featured more than **100 speakers** and nearly 300 representatives from over **25 countries**, including policy makers, heads of institutions, academics and corporate members. The key issues raised in the meeting included energy and water challenges; common global priorities; innovations and new technologies; education and healthcare; and foreign investment opportunities.

Co-Chairs

- Stanley M Bergman, Chairman of the Board and CEO, Henry Schein Inc. (US)
- Canan Celebioglu, Vice-Chair, Celebi Holding (Turkey)
- Ronnie Chan, Chairman, Hang Lung Properties (Hong Kong);
- Wendy Luhabe, Founder and Chairman, Private Equity Fund (South Africa)
- S Ramadorai, Vice-Chairman, Tata Consultancy Services and Adviser to the Prime Minister of India.

Outcome

The Summit ended with consensus on boosting cooperation among emerging economies in the areas of infrastructure development, capacity building, technology and good governance. Concluding the meeting, thought leaders from **Africa, Latin America, Asia** and **Europe** unanimously **shared their optimism on the growth potential** in the developing markets despite the slowdown.

One of the key take-aways from the discussions between participants was that the economic fundamentals for sustainable high growth are in place in most countries. These fundamentals are stronger than ever before, despite the economic slowdown. Discussants concurred on the need to address common challenges like leadership, skills development, good governance and technological integration.

Key statements made at the meeting:

1. Common priorities and concerns:

- There are no emerging markets crises, it's just slowdown. What we need actually are much stronger economies, stronger foreign exchange and stronger domestic development to come reverse the trend of slowdown. The growth in emerging markets will be high than developing countries in coming years.
- In the last five years the average growth in advanced economies is around 3% to 4%. Whereas the average growth in the developing Asia and emerging markets is around 6.5% and 5% respectively. There will be more instability in the global markets in coming years. The economies must expect it because of changing polices of the Federal Reserve.
- We need to gain acceleration from both monetary and fiscal managers. The macro managers and corporate managers need to be prepared for the financial market difficulties in coming years.

2. **Dealing with the changes in the global security environment**

- Non-traditional security threats, such as cyber issues, terrorism and extremism, and internal security are one of India's top challenges. Internal security also includes gender and personal security issues.
- Newer technologies have brought on newer risks for States. Terrorists are increasingly using smartphones for recruitment, for communication and even though with much less success, so far, as a weapon.
- There are three ways to look at the security threats: Hedging, which is safe low risk strategy with low gains; surfing, which is riding the waves of change; and shaping the future, which involves greatest efforts with the highest risks and highest gains. In the Indian context, hedging is no longer safe because we lack capability in shaping our own environment.

3. Reviving Growth: Reversing the Tide

- Energy security and infrastructure are key areas that will power India's '8% growth rate' aim in the coming years.
- Economic slowdown is evident in India, but the current growth rate is an aberration. India's current savings rate is 30 percent, which is quite good. A sustainable path for India is to have an economic growth rate of 7-8 percent for the next 20 years. A ten percent growth rate path is unrealistic.

- Energy supply is one of India's biggest constraints. We are battling high costs, and are hugely import dependent for energy resources.
- The goods and services tax is also an important reform to help the current fiscal situation.

4. India's Right to Growth

- The upcoming elections are India's most important polls in recent history. However, the basic ideas of India, democratic values, freedom of speech and social inclusion, are being challenged. India has to be built through social inclusion, and not by alienating one group of people. We cannot have growing inequality all the time.
- People are ignorant if they think nothing has been done by the government. We have achieved a lot in the last ten years. In 2004, only 10% youth went to schools. Today, we have doubled the number to 20%. Polio has been eradicated. We are working towards democratising knowledge, since poverty has a lot to do with poverty of information.
- India's diversity is given, unlike China. We cannot ignore social inclusion. India would rather have development and freedom than high GDP and growth. India should not be judged solely by GDP.

5. Education

- For India to grow, it is a must that the real India should be educated. Aspire to Achieve should be our motto. With this, enhancing the role of women in this sector can spur the process at various levels.
- There has been significant progress in primary education in India. The largest progress is in reducing the number of the out of school children. We have 1.5 million schools and 35000 higher education systems.

6. China's Rise

- Chinese GDP will be around 7.5 percent this year, which will be good for the economy. However, true development cannot be merely single-minded GDP growth.
- The problem of shadow banking has been efficiently handled in the past, despite the dearth of resources in China. Contrary to what many countries feel, China is not a free market economy.
- Despite the high GDP growth, the per capita income is roughly just 1/3rd of Israel due to population explosion. Chinese economy is very complex, but the country is

taking a pragmatic stand which is surprising. Integrating technology with employment is a political dilemma prevailing in every country, including China.

7. Africa

- Key factors that have driven the growth in Africa are emergence of middle class; dynamic domestic growth; improved governance; proactive interest groups; better economic growth management and encouragement to private sector investment. What has been the real opportunity creator is that government is creating space for private investment to boost the economic development process.
- The following points are the factors that have driven the growth in the Africa -- expansion of demographic ideas; allowing the market to allocate the resources, rather having the state control over the market; greater public private enterprises, smoother regulations, and greater investment in education. However, the biggest roadblock to the growth in the Africa is the lack of investment in infrastructure in rails and roads.
- Following are the factors that have shaped African economics development: participation of women in industries which are historically male dominating; innovation and social enterprise as key drivers; investment in development of new generation leadership and investment in small scale farming.

8. New growth companies :When going global becomes a must

- There is an urgency to globalize particularly in India where there is shift from 15% to 22% in CEO wanting to expand abroad. One of the biggest hurdles by emerging in global market is to overcome the abilities of origin and trust of brands and how do you acquire company and culture.
- Market competitiveness is essentially logistical efficiency. Globalization is not a luxury but a necessity. The right time for a firm to go global is to be determined based on its own internal capacity. The most important factor for a company to go global is to identify its core competence. The next focus should be on the operating framework, and the market relevance.
- The management should be clearly defined and structured. The important factor of globalisation is creative marketing of the product and ideas. Educating the target audience plays the major role in dealing with the challenges of globalization.

9. Water Challenges

- Developing countries stand to face serious water challenges. However, local solutions are possible. Industries should look at ways in which they emit water out of their factories rather the intake. While water is needed for factories, consumers also need water for the products produced there. We need to encourage human intervention and symbolic actions and find cost effective ways to conserve water resources.
- Through various means, polluted water, especially the one that carries heavy metals, is getting into our food chain, that is, vegetables and grains. Especially, in the footprint area of Delhi and its NCR region, it is coming back to our homes and affecting our power to think and to act. These toxins, over a period of time, affects intelligence and leads to fall in production and hence the GDP.
- Looking at the global state of fresh water, water crisis is the fourth biggest challenge that the corporate sector fears worldwide, thereby affecting growth.
- We need to control population. In agriculture, cropping pattern needs to be changed, as it is crucial to release some water from agriculture to other sectors.
- Perceptions need to be changed. At present, water is associated with concept of freedom and right. Hence, people want it free and in abundance, without accountability. This inefficiency is depleting our water resources.

10. Trade Facilitation

- In the present context, trade facilitation is concerned with processing and for processing, time is the essence. Developing countries need to be cautious and with assistance from the developed countries, trade facilitation among nations can trigger multilateral agreements.
- Trade Facilitation is important and associated with global value chain, but India ranks low in the global supply chain. Trade Facilitation will have a great influence on consumer products and materials etc.
- Excessive documentation, inefficient border crossing procedures, scarce use of IT, lack of transparency and coordination are crucial setbacks to trade facilitation. A country should have a “strong dispute resolution system” that will signify high political commitment. For India, the challenge is that faster clearance of goods does not rely with government but also with the private sector to a large extent.
- Trade Facilitation is about democracy. Too many endorsements, signatures, lack of trust different government agencies are the main challenges to the whole discourse of trade facilitation. Article 10 of the Bali agreement is a big disappointment.

11. Address the policy challenges

- India needs funds to the tune of 1 trillion US dollars per year for infrastructural development. Efficient project management and trust development is required between the government and the private sector. PPP model is important for Indian growth.
- The growth of aviation industry in Turkey is due to its strong terminal infrastructure. This has had a direct impact on the economy of Turkey. In emerging economies, governments should involve private sector to make investments in infrastructure.

12. The new risk management playbook for business in emerging markets

- The world currently faces microrisks due to globalization, especially political risks and immigration risks. Other risks include corporate governance risk and the risk of capital flow, besides measurement and management risks.
- The solution does not lies on data but by having a 360 degree perspective on trends and by training people.
- A new aspect of risk is reputational risk, created by companies and NGOs using networking sites.

13. ASEAN

- South East Asia is one of the world's fastest growing regions, and, despite some risks and uncertainties, the growth is likely to remain strong in 2014. Therefore, New Delhi should articulate its position vis-a-vis ASEAN's growth and share its vision with regard to the scheduled implementation of the ASEAN Economic Community by 2015.
- ASEAN economies had experienced economic slowdown in 1996, but even then, the region appeared solid and diligently overcame the crisis. Therefore, the worst is over for the ASEAN. There exists an increasing volume of trade between ASEAN and China and it is a key factor for which 2008 economic recession of US, did not affect ASEAN. ASEAN should encourage more participation from every stakeholder namely private sector, Academy, NGO's and people's participation.
- Due to New Delhi's efforts and vision towards the East Asian countries, India is now a vital stake holder in this region. India's trade with ASEAN has the potential to touch $100 billion by end of the next year. India should concentrate more on Mekong Ganga Cooperation and BIMSTEC types of sub-regional groupings.

Key recommendations from The Growth Net 2014:

- **Trade facilitation:** Exports will remain stagnant thus we need the domestic demands to be stronger. Credit structure needs to enhance and leverage more. Instead of looking at the foreign financial resources, emerging markets need to accelerate and deepen their financial market. We need to understand the essentialness of the structural reforms, because they help us in differentiation. Implementation of the reforms, which is seen to be very bad in emerging markets. Efficiency of reforms will increase efficiency, productivity and profitability in public and private sectors. We need to understand the essentialness of south-south trade policies. South- south trade represents 5 trillion dollars and it is expanding.

- **Security**: India and China should start working together on strategic and security issues as both are threatened by regional instability across their peripheries. It is logical for both India and China to get on the same board to tackle bilateral challenges. The biggest sign of hope at present is that the level of cooperation is much better than it was earlier.

- **New Growth Companies**: It is imperative to create a better fiscal infrastructure for the developing countries. The need of the hour is to establish transparent procedures to encourage local companies going global. The current documentation procedures are cumbersome. India should concentrate more on updating the ground realities and should come up with the single coordinating body to look into trade facilitation mechanisms.

- **Water**: Even though the MNCs follow global standards, the change will not happen till we encourage Indian firms, big or small to make sure that they do a water audit. We must implement a self-sufficient water audit system and for this, we need to grow skill sets and capabilities. India as a powerful nation should put more focus on investing in devising new water recycling technologies than just giving subsidies. Efforts must be made towards adopting soil mapping and water catchment utilisation. Industries should look at ways in which they emit water out of their factories rather the intake. Not enough is happening with regard to industries taking action to save water.

- **Africa**: The biggest challenges in Africa are ignorance among capital providers and the ignorance of opportunities. We need to find the right investment models for Africa. The potential for entrepreneurship in Africa is mind boggling. The need is to look at the model that creates value locally while being receptive to foreign investors.

- **Energy**: Energy pricing needs to be examined, because India cannot achieve high growth rate with cheap energy. Energy efficiency, transportation, infrastructure and water security are other key areas that require greater attention.

- **ASEAN**: Connectivity is the key for the development of the ASEAN region. India should expand its horizon with regard to engage ASEAN. Keeping in mind the strategic importance of the region, New Delhi should interact strategically in the region. ASEAN should concentrate on improving the connectivity of the region and towards the development of the CLMV countries. The Grouping should focus on three I's and three E's i.e. Infrastructure, Industry and Investment - Energy, Education and Equity.

- **Education**: The major challenges that we face today are reversing brain drain and encouraging students to take up science and technology. The way forward is to bring about vocationalisation of the education system.

- **China**: At present, China's main focus should be on creating jobs in tertiary service sector. The latest statistics suggest that service sector growth in China last year out-rated the manufacturing sector. There is a need to make political economic system efficient and flexible. China can handle the practice of shadow banking but the real in danger lies in informal banking.