

**Fourth Global Meeting of the Emerging Market Forum
India: June 23–26**

Forum Conclusions and Moving Forward

Introduction

The Fourth Global Meeting of the Emerging Market Forum comprised two legs. The Mumbai leg of the meeting was composed of three sessions on global issues and another four on the Indian economy, beside the concluding session and the CEO interaction session. The second leg included three panel discussions conducted in New Delhi where key policy makers and media personnel were invited to discuss some of the conclusions drawn from the Mumbai sessions.

The main sessions and the respective session chairs were as follows:

Mumbai (23–25th Jun 2009)

Session I: Impact of Global Financial and Economic Crisis on Emerging Market Economies
Chair: Haruhiko Kuroda

Session II: India 2039: An Affluent Society in One Generation: A Determined Marathoner or a Sporadic Sprinter
Chair: Montek Singh Ahluwalia

Session III: India 2039: India and the World– Makings of a Responsible Global Citizen
Chair: Martin Wolf

Session IV: India 2039: Fulfilling the Promise: Imperatives to Avoid the Middle Income Trap
Chair: Richard Frank

Session V: India 2039: What it will take – Dealing with Multiple Facets of Governance
Chair: Gautam Kaji

Session VI: Global Climate Change and Emerging Market Economies
Chair: Caio Koch-Weser

Session VII: The New Global Financial Architecture – Global Governance, G-20 and Reform of the IMF
Chair: Lesetja Kganyago

Session VIII: Forum Conclusions and Moving Forward
Chair: Haruhiko Kuroda

Session IX: Joint Session with CEO's from the Bombay Chamber of Commerce and Industry
Session X: Agenda for Moving Forward
Chair: Manjeet Kripalani

New Delhi (26th Jun 2009)

Panel-1 Discussion: Governance in Politics

Chair: Shekhar Gupta

Panel-2 Discussion: India's Role in the Region and the World

Chair: Martin Wolf

Panel-3 Discussion: Delivering on the Promise of Inclusive Growth

Chair: Surjit Bhalla

Summarising the discussion

The discussion brought out thoughtful deliberations on important policy issues, brought alive by rich anecdotes from policy makers and discussants alike. Summarizing the richness of the discussion is impossible but the main ideas drawn from the seminars have been highlighted here.

The summary has been subdivided into topics on Global and Indian issues.

GLOBAL ECONOMY

Discussions on the global economy related to three dimensions– the impact of the global financial crisis, international financial architecture and climate change.

1. Impact of Global Financial Crisis

- The idea of decoupling is fundamentally flawed. In fact, economies are becoming more integrated.
- Policy makers need to create buffers to soften the impact of the crisis, mainly in three areas– foreign exchange reserves, financial stability and fiscal space.
- Protectionism needs to be avoided to sustain growth and retaliation from other economies. The WTO has recorded 80 protectionist measures which have been introduced recently but noted that these have been of low intensity.
- Financial stability is critical. Developments such as the Financial Stability Board will allow Emerging Markets (EM) economies to voice their case at the incipient stages rather than at the closing.

2. Climate change

The unanimous verdict from the discussion was that **climate change is real** and addressing it is in the interest of all economies.

- There is an immediate need to consider low-carbon growth strategies. It is essential to increase the participation of emerging market economies in the process especially to attain global carbon reduction targets.

- Standard mechanisms for verification and fairness in measuring emissions should be introduced.
- The composition of growth in emerging market economies needs to be re-evaluated within a 'green' perspective. Schemes such as fuel subsidies which perversely raise the carbon-intensity of economic activity need to be fundamentally re-examined.
- Technology transfers need attention and have so far been disappointing. R&D for cheaper clean energy technologies should be prioritised, along with quick dissemination of knowledge to developing countries.
- Private sector participation is crucial in developing 'greener' growth strategies. Initiatives need to come from the private sector by creating viable business opportunities.
- A carbon markets and policies beyond 2012 need to be determined to allow for predictability which is necessary for businesses intending to invest in new technology.
- Emerging markets will need financial resources for mitigation and adaptation measures.

3. Global financial architecture

- There was consensus on the IMF's importance as a key international organization. However, it needs to adapt and evolve to maintain its efficacy.
- But changes in the IMF cannot be isolated. Reforms are needed in the governance of the IMF as well as global governance of other international economic and financial systems.
- The key to making the IMF more effective is to increase the voice and vote of the emerging market economies.
- There was intensive discussion but no consensus about the structure and membership of the G-20; this issue will continue to be a focus of debate.

INDIA 2039

India has the potential to become an affluent society in one generation and importantly avoid falling into the 'middle income trap'. But this is **not pre-ordained** and requires three transformations as addressed in the report – social cohesion, competitive economy and global citizenship. India must effectively and with long term foresight manage these three transformations.

1. Social Cohesion

Maintaining social cohesion is critical for growth as well as to meet the aspirations of society. Increased economic and social equity will open new markets. 'Inclusion' was the resounding message from the discussions and participants agreed that the government needs to pay particular attention to economic and social inclusion. This was also echoed by policy makers in New Delhi during the second leg of the conference.

The main aspects about inclusion and social cohesion are described below:

- Inclusion should **not be limited to a narrow definition of poverty or income inequalities** but should encompass a broad range of social indicators. There is a need to address inequities across different dimensions – political, financial, access to services (infrastructure, education, health, finance) etc.
- **Traditional mechanisms for inclusion need to be re-examined.** There are increasing problems of leakages in existing systems, for example, in the public distribution system. Better targeting of schemes, such as subsidies and reservations, is required.
- **The need for more public interaction schemes** were suggested by some participants, drawing from the ‘Oportunidades’ scheme in Mexico which was a social assistance program designed to extend benefits in return for family compliance on issues such as child education and preventive healthcare.
- The **full utilization of the upcoming demographic dividend** will only occur if basic foundations are in place.

2. Competitive economy

Laser like focus on growth, based on continual improvements in productivity and competitiveness, must complement the emphasis on inclusion.

Long run issues have not received adequate attention thus far and must be addressed urgently:

- **Urbanization:** Importance was placed on both urban and rural infrastructure. There would be a sharp increase in urban agglomeration in coming years and the urban infrastructure should be prepared for such conditions. The UN estimates about half of the total population of 1.6bn will be living in cities by 2039. Additionally, rural infrastructure should not be ignored as it allows smoother distribution of resources across cities and rural areas.
- **Infrastructure:** In the case of infrastructure, implementation of current policies within the set time frames was recognized as the first step. The involvement of the private sector through Public Private Partnerships is a major area which needs attention.
- **Scaling up of education and technology development:** India has few world-standard tertiary education institutes and a low level of R&D expenditure. The government needs to channel funds and grant more autonomy to tertiary institutions. In the case of technology development, ideas can be drawn from the highly competitive telecommunications industry which is overseen by the TRAI (Telecommunications Regulatory Authority of India).
- **Agricultural productivity:** Cultivating a better irrigation framework will improve agricultural productivity which is heavily dependent on the unpredictable monsoons.

3. Responsible global citizen

There was clear recognition in our discussions that India has not paid adequate attention to this issue. This element of policy needs a lot of thought as well as action.

- **Improving relations with neighbours** has become imperative. A constructive framework for regional cooperation within the larger Asian context should be sought. Although there was some dispute about the scale of the likely divergence in incomes between an affluent India and its neighbours by 2039, it was generally agreed that India cannot achieve an affluent society without stable and relatively prosperous neighbours in South Asia.
- Discussants also agreed that the regionalism of South Asia should be simultaneously pursued with India's '**Look East**' policy.
- India needs a **new attitude towards global thinking**. The main bottleneck was recognized to be the doctrinaire view held by many politicians, bureaucrats and citizens. India's role cannot be isolated in the world and the general thinking needs to commensurate with India's growing global footprint.
- India also needs a more **globally responsible stance** with respect to issues such as trade, climate change and international financial architecture. This view should be a balance of pragmatism and ideology.

Two overarching topics also emerged, which cut across all of these transformations. These are issues regarding governance and the role of businesses.

Governance

Improved governance is the key to achieving growth and inclusion. There was strong recognition that issues are less about policies and more about effective implementation.

It was also agreed that fundamental reform is needed and incremental changes will not suffice. The role of the government should be more to facilitate and finance rather than to own and deliver.

Main aspects of governance which were discussed –

- **Devolution from the central to state government** and all the way down to cities and villages. This does not simply imply decentralization of expenditure but rather decentralization of all aspects including resource mobilization.
- **Reform of the judiciary**, where there are significant bottlenecks. The lags in judicial decision-making need to be cleared. The innovative use of technology for this was a suggestion. Another relevant point was that most cases were linked to government: an efficient government will tremendously help minimize the burgeoning cases.

- **Re-tool civil service** to respond to the needs of a modern India. Transform from being a 'ruling administration' suited to the colonial era to a 'public service'; and from relying on generalists to take responsibilities in different functional areas to specialization.
- **Need committed leaders** in politics. The reason for the difference in the efficiency of the bureaucracy in different states is mainly historical and cultural structures, and the overall leadership. A committed political leader has the ability to raise standards of governance all across the governing area.
- **Social entrepreneurship.** Examples of social entrepreneurship should be replicated and scaled up.

The overall message was that the country needs more transparency and accountability for all – government and business alike. Civil society should play an important role in holding the system accountable.

Role of Business

Through the discussion, the lack of initiatives from the private sector on various economic fronts was highlighted. Participants, especially policy makers urged the private sector to explore new domains and be endogenous to the process of decision making.

- Be at the **forefront of initiatives** that address inclusion, including innovative investments in programs such as affordable housing and other social infrastructure. The private sector should show willingness to partake in social projects and find mutually beneficial positions.
- Take a key role in being a **champion for important reforms** with respect to domestic and international policies, including improved governance. Corporations need to speak up and voice their disapproval/approval on the speed of reform, depth of reform and prospective areas of reform.
- While pushing the government to improve its governance, the business community must also **adopt and effectively implement a code of ethics.**