



Davos in Delhi: how India figures in the global agenda

The global economic recovery is for real and is being led by emerging countries such as India. That was one of the two key messages from the recently-held India Economic Summit here, jointly hosted by the World Economic Forum (WEF) and the Confederation of Indian Industry (CII).

The other main takeaway was that the global business community's confidence in India is growing and India is reciprocating this with increasing interest for global engagement. The theme of the conference was "India's Next Generation of Growth." Some 800 delegates from 40 countries converged on New Delhi, with some of the world's leading CEOs opting to be co-chairs at the summit. These included Indra Nooyi, chairman and CEO, PepsiCo, USA; Shumeet Banerji, CEO, Booz & Company, United Kingdom; Carlos Ghosn, CEO, Renault, France and Nissan, Japan; and William D Green, Chairman and CEO, Accenture, USA.

In addition, senior Indian government officials turned out in force. Outlining the way forward, Chandrajit Banerjee, director general of the CII, says: "While the Indian economy, which registered 6.7 per cent growth, outshone many developed and emerging economies during the financial crisis, the need for further reforms and building competitiveness cannot be overemphasized at this point of time."

India's economic recovery

The consensus at the summit was that, with strong fundamentals and prudent economic management, India has been able to overcome the shocks of the

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global economic crisis quickly. For five years prior to the crisis, India's average growth rate was 9 per cent. In 2008-2009, the Indian economy grew by 6.7 per cent and is expected to achieve 7 per cent growth next year.

In 2009, India is again set to emerge second only to China as the world's fastest-growing major economies. Pushing the bar higher, in the next two years or so, India is likely to once again reach 8-9 per cent growth and, according to the World Bank, India's growth rate in 2010 could surpass China's for the first time. Outlining the priorities of his government, Prime Minister Manmohan Singh told a packed audience of more than 800 people at the inaugural plenary that "our strategy today is not to deliver just rapid growth, but rapid inclusive growth that will provide productive employment to our young population and raise the standards of living across the rural areas."

Unlike other economies, India's has, in recent years, relied on high levels of household saving which today stands at around 25 per cent of gross domestic product (GDP). Rural India, which is home to about three-quarters of the country's 1.1 billion population, is booming despite the slowdown: it is seeing an increase in income, consumption and production. In fact, a report from the CII and India's

Yes Bank predicts rural retail markets in the country will be worth some \$58 billion a year by 2015.

The crisis may have slowed down the economy somewhat but the government here has been playing a supporting interventionist role. For example, it gave the economy a boost with measures such as a farmer loan waiver of \$13.9 billion, the National Rural Employment Guarantee Act (NREGA), and the ambitious but affordable rural infrastructure initiative Bharat Nirman Programme, with an outlay of \$34.8 billion.

Challenges and opportunities

Despite some encouraging signs, it's clear India faces many constraints. While infrastructure bottlenecks have been seen as possibly inhibiting growth, at this summit considerable attention was paid to another obstacle: the lack of skilled workers. India's potential workforce of 200 million college graduates and 500 million skilled workers has the ability to generate more than 10 per cent of the world's trade in the next 15 years. However, underlining one of the challenges, India's human resource development minister Kapil Sibal says: "Mobility of people at the educational level is an issue. After coming out of schools, 63 per cent of the students in the United States and 50 per cent in Europe move up to college. In India that figure is just 12 per cent."

India's ability to attract foreign direct investment (FDI) has been improving steadily in recent years, but the other BRIC economies (China, Russia and Brazil) are still ahead. In 2008, India attracted some \$42 billion in FDI, compared with \$108 billion in China, \$70 billion in Russia and \$45 billion in Brazil.

Factors such as infrastructure and bureaucratic issues have been highlighted by CEOs as major investment hurdles. It is not surprising therefore that India slipped a notch to 133rd place in the latest World Bank's Doing Business 2010 Index. In a plenary session, India's home minister P Chidambaram argued that while India's security challenges are daunting, they are not much different from those faced by other countries. The message from global CEOs such as Pepsi's Nooyi and Booz & Co's Banerji was that while law and order and terrorism threats can affect the country's ability to promote investment and growth, this is nowadays an international phenomenon and does not just relate to India.

The growth prescription

At the summit, business and political leaders also argued that India needs to adopt a multi-pronged strategy to promote growth at this stage. To reinvigorate its manufacturing industry, static at

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about 15.5 per cent of GDP, the adoption of climate-friendly technologies was mooted. Furthermore, it was felt that the country's agriculture, manufacturing and service sectors also need to be developed. In addition, they recognise that innovation, in tandem with research and development (R&D), could be key potential growth drivers for a country which is increasingly seen as a hub of cost innovation for domestic and foreign companies. For example, the Tata group's \$2,000 Nano car is forcing carmakers worldwide to rethink the way they do business. Carlos Ghosn of Renault-Nissan says that in a joint venture with India's Bajaj Auto, where 'frugal engineering' and design will be done in India, it will seek to bring out another car for the world market that will be as cost effective as the Nano.

Multinationals like General Electric are also choosing India as a key hub in their global innovation network. GE's national executive for India, Tejpreet Singh Chopra, says the group has invested \$120 million in innovation labs alone in the country and has 5,000 employees with PhDs to do cutting edge R&D.

India and the world

At the summit, there was consensus that India has a proactive role to play, both regionally and globally and that it has the potential to emerge as one of the world's four largest economies by 2020.

A common theme at the New Delhi and Davos summits in the past has been comparisons between China and India ('Chindia'). This year, however, such comparisons were limited, although India's interaction with China will be a critical dynamic to watch especially in the context of the 'Asian Century'.

"There is an opportunity for India to reshape the world," says C.K. Prahalad, professor of strategy at the University of Michigan. "India's next global aspirations have to be built on the three pillars of economic strength, technological vitality and moral leadership."

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