

Inclusive Growth: The Road for Global Prosperity and Stability

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Preface:

In 2009 the International Chamber of Commerce celebrates its 90th anniversary. It was established in 1919, in the wake of World War I and on the smouldering embers of the greatest inhuman catastrophe the world had experienced at that time (with more to come in ensuing decades), by a group of business leaders who identified themselves as *merchants of peace* and who adopted the motto *world peace through world trade*.

This event belies the notion that businessmen cannot be idealistic! Idealism does not contradict realism and pragmatism. Indeed the three are perhaps the basic ingredients for effecting true positive change.

Alas their idealism did not suffice to prevent the calamities that occurred in the following decades in the world economy and ultimately in world society. Ten years after the founding of the ICC there was the Great Depression, which was followed in 1930 with the outbreak of global protectionism and global trade wars, and within 20 years of the ICC's founding the merchants of peace had to witness that Europe (as well as other parts of the world, notably Asia) was again at war.

Following World War Two, an institutional framework was put in place that provided strong foundations for recovery and growth. This included the establishment of the GATT (General Agreement on Tariffs and Trade) in 1947 that in turn provided for what can be termed the "trade miracle" of ensuing decades. The post-WWII world however was divided into three worlds: the first world, which greatly benefited from the great prosperity that the new rules-based multilateral trade regime provided the conditions for; the second world, which rejected the market in favour of central command and control economies and erected both physical and administrative walls to keep the first world out, and which eventually imploded from its sheer incompetence; and the third world, which for several decades followed import substitution policies and therefore remained uninterested and uninvolved in international trade. By the late 60s and early 70s, there was a breakaway from the third world and its restrictive policies by what were termed the NIEs (newly industrialising economies), Hong Kong, Korea, Singapore and Taiwan; by switching paradigms from import substitution to export orientation, these four societies witnessed rapid growth and their graduation from third world to first world status.

The success of the “dragons” had a considerable impact on China, which in the late 1970s undertook probably the most radical reform program ever undertaken by a regime in all of history. This set in motion what has been termed the “reverse domino theory”, with country after country abandoning state control in favour of the market. The rest is history. In two decades membership of the global trading organisation, the WTO, increased from 90 to 153 with another 20 countries seeking accession.

Contrary to what could have been expected two decades ago as the Berlin Wall was torn asunder and there seemed to be the inauguration of what President George Bush (father) called a “new world order”, in 2009 the world stands battered from a profound and unexpected (by most) crisis, a sense of global governance drift, and considerable apprehension at the social, political, economic and especially climate change challenges that lie ahead. Underlying all this is a crisis of trust both in men and in institutions.

The world (as noted in the sentence by Joseph Stiglitz quoted below) stands at the proverbial crossroads. The next ten years will be crucial. Will the centenary of the founding of the ICC witness a realisation of the dreams of the merchants of peace or will the global market be marked by new forms of divisions and conflict?

The answer depends on what leaders, including business leaders, will do – and indeed on what they will not do!

To reflect upon these issues and to provide a map for business leaders, the ICC Foundation commissioned The Evian Group to produce a publication entitled *World Peace and Prosperity through World Trade*. The book, to be published in 2010, includes short op-ed type pieces drawing on some 50 authors from many different parts of the world and from different constituencies. To reflect the current forces of transformation and the challenges, it is divided into five main sections:

The first, *Global Systemic Transformations*, analyses the shift in global economic equilibrium from Western hegemony to Asian resurgence from different country and regional perspectives. It is probable that historians will see the 2008 financial crisis as hugely significant in this change in relative geopolitical and economic power. The robustness of the multilateral trading system over the next decade will greatly depend on how we manage this transition, with established powers accommodating newcomers and emerging powers taking on responsibilities to govern the international system.

The second, *Governance of Global Trade*, is on the institutions and rules that govern world trade. The World Trade Organisation has been locked in a protracted negotiation process ever since 2001, when the Doha Development Agenda was launched. Hence the articles in this section offer different analyses and recommendations for the improved governance of international trade. Governments around the world face pressures to withdraw from the multilateral rules-based trading system designed on the legitimacy of a set of

principles and norms that have allowed global trade to liberalise and flourish – at the heart of which lies the GATT principle of non-discrimination. The current paralysis of the WTO might imperil the future of global trade multilateralism, which, in turn, could seriously jeopardise the realisation of the dream of the merchants of peace.

The third, *Tackling Poverty and Global Inequities*, assesses the underpinnings of liberalisation in the light of global poverty and inequities. One of the big questions of the early 21st century is whether lagging regions will follow the performances of the fast growing, emerging economies. The immediacy of destitution implies that special attention must be paid to the weakest groups in society. Openness is generally considered to be a facilitating condition for convergence on wealthier nations, but not a sufficient one. The strengthening of domestic institutional infrastructure, fairness in international rules, and the extension of capabilities are all recognised as fundamental.

The fourth, as its title implies, *The Long View on Interlocking Crises*, sets out the interconnectedness of the multiple synchronous challenges (indeed, threats) facing humanity in the early 21st century, especially those of climate change and economic development, both of which will be stretched in light of the global demographic boom that will occur in the next decade. A theme running throughout the book is the need to restore balance between the benefits and risks of globalisation. Serious doubts exist about the environmental sustainability of our current global growth and trade models while many poor countries are hit by critical food security concerns. This section considers some of the contributions international trade can bring to tackling a set of intractable interlocking crises: climate, water, food and energy. All will have an on incidence on welfare and future prospects for peace and prosperity.

And the fifth describes, assesses and prescribes *Global Business Responsibilities*. It builds on the previous analyses and flows from a simple question: how can the global business community instate faith in our collective abilities to confront the challenges faced by the global community? The 2008 financial crisis exposed clear failures of responsibility and accountability. Many of the articles in this section lay emphasis on values, ethics and trust.

The rest of this paper to be presented at the ICC Regional CEO Forum in New Delhi on 4 December 2009 draws exclusively on themes running through the third section on poverty and global inequities. In addition it also takes material from a study undertaken in 2008 on behalf of the Indian Government and the CII on inclusive growth.

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1. Overview: Profound Turbulence in the Global Order

The post-war period has been characterized by unparalleled prosperity. During the period from 1947-97, world output grew six times and international trade increased 16 times. With the collapse of communism and the radical

reform programme embarked upon in 1979 by the Chinese leadership, in the course of the 80s and especially 90s, countries all over the world liberalized their markets, facilitating globalization and wealth creation. We witnessed “irrational exuberance”¹ during the 1990s and 2000s, a period of tremendous optimism and unprecedented growth (albeit interrupted by the East and Southeast Asian financial crisis in 1997-8, which no doubt could have served more as a warning than they did). During the late 1990s, there was innovation in the financial sector and the proliferation of new financial instruments including derivatives, such as options, futures, forwards and swaps, as well as hedging instruments.

There was a heady atmosphere that conveyed the perspective that the laws of gravity had been suspended. The death of the “business cycle” was announced on the grounds that new technologies and the impact of globalization were redefining economics. The various elements of occasional turbulence – the East Asian financial crisis, the collapse of the rouble and the Russian stock market, the explosion of the dot.com bubble, etc – did not dampen spirits, or only temporarily. As the ancient Greek proverb (usually but wrongly attributed to Euripides) states: “those whom the gods wish to destroy, they first make blind”.

A blindness to the warning signals of excessive risk and hubris and a madness in seeking ever greater returns ultimately resulted in the most severe economic crisis the world has witnessed since 1929.

In September 2008, the global economy began its precipitate descent, as Lehman Brothers collapsed, setting off a chain of events around the world. The suddenness and depth of the collapse came as a shock to most – though there were voices crying warnings in the desert, with The Evian Group among the loudest.

In an atavistic spirit of the irrational exuberance legacy, analysts have been quick to categorize the downturn as a crisis of confidence and liquidity, which can be fixed with better financial regulation and greater transparency. The last few months have been punctuated by sightings of “green shoots” and recovery. The 28 November (the 2009 festival day of Eid-ul-Adha) shock of the Dubai default and the tremors felt in the Chinese banking sector herald not green shoots of recovery, but more likely more tremors of the global financial system.

The crisis is much deeper than the analysts, especially those from financial service institutions, would have us believe. It is – or should be – a shrill wake-up call alerting us to the very real limitations of the system of global capitalism that is in place today. The downturn is the product of a systemic problem rooted in the very heart of globalization in its current form. This systemic problem is manifesting itself in other major disturbances: climate change,

¹ Alan Greenspan used this phrase during a speech given at the American Enterprise Institute on 5 December 1996, to warn of the possibility of market overvaluation.

water scarcity, food security, unemployment and migration, spikes in commodity prices, and many more. All of these are inter-related and interact with one another.

A fundamental problem is that while the last several decades prior to the crisis experienced unprecedented growth on a truly global basis, contrary to assumptions and expectations, the rising tide of growth has not lifted all boats. Poverty has been reduced overall, especially in some of the more dynamic economies, such as India, China and Vietnam, but still approximately half the world's population live in absolute or relative poverty: 50% of the world's population owns less than 1% of the wealth. In the developing economies out of a total workforce of 2.6 billion, over half are working in the "informal sector" with all the vulnerabilities this implies. Unemployment, especially youth unemployment, in different parts of the world can be between 40 and 70%. One billion people suffer from acute malnourishment. 2.7 billion people live without proper sanitation and clean water; an estimated 125 million children (mostly girls) have never been to school; 30 million children have died of preventable diseases in the last 10 years before reaching the age of five.

Are such deep cleavages in wealth and access consistent with a stable global economic system?

And even if the green shoots of recovery materialize on a sustained basis, unemployment figures continue to rise and massive spending deficits promise that we will continue to feel the effects of the crisis for generations. The poor are particularly vulnerable to the downturn and wealth imbalances are deepening. Although history does not necessarily repeat itself, nevertheless it can be noted that on July 8th 1932 (the second massive shock after 1929) the Dow reached its lowest level of the 20th century and did not return to pre-1929 levels until 23rd November 1954 – 22 years later during which horrendous calamities in history befell humanity.

In 1845 the British statesman and author Benjamin Disraeli described Britain as one country composed of two nations.

Two nations between whom there is no intercourse and no sympathy; who are as ignorant of each other's habits, thoughts, and feelings, as if they were dwellers in different zones, or inhabitants of different planets. The rich and the poor.

In 2009 the world can be described as composed of two globes.

Two globes between which there is no intercourse and no sympathy; that are as ignorant of each other's habits, thoughts, and feelings, as if they were dwellers in different zones, or inhabitants of different planets. The rich and the poor.

This is clearly unsustainable morally, economically, socially and politically. The great and urgent challenge of the early 21st century – especially now as

we enter its second decade – is to generate **inclusive** and **sustainable** growth.

In 2002 in his famous book, *Globalization and Its Discontents*, Economics Nobel Prize Laureate Joseph Stiglitz stated: “Today, the system of capitalism is at a crossroads just as it was during the Great Depression.”

This is the world we are contemplating in 2010. Is this really the best we can do as a global community? Or does this crisis afford us the possibility of collectively visioning and working toward a different route for the future? One that is more equitable and humane, ensuring that any prosperity we work towards now leads us to sustain our global economy, our environment in its multiple guises and socio-political stability in the long-term.

With a vision based on a strong sense of reality, real commitment and leadership, the necessary transformation can be brought about.

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2. Reality: What does Poverty Mean Today? And Tomorrow?

For many, being poor means spending hours every day walking to collect water and fuel (especially girls), defecating in public, seeing your malnourished children die in your arms from preventable disease, being vulnerable to rape, being invisible to those *with* power and money, and having no hope in the future².

The poor lack more than money – they lack safety, food, health and living conditions with basic human dignity. They also lack access – to information, technology, networks, credit and skills – which would allow them to take advantage of opportunities to improve their personal, social and economic well-being. Without the means or the power to affect their destiny, many simply give up.

A number of forces at work today are profoundly transforming the world, making it more critical than ever to address poverty and inequity. Global demographic patterns, combined with the resurgence of emerging economies in the South and the East, are profoundly transforming the world. The immediate and more long-term effects of the global economic crisis are also critical.

The world’s population is projected to reach 9.2 billion by 2050. In more developed countries, birth rates are falling – in many cases below replacement level – and populations are ageing. Most of this population growth is taking place in developing countries. For example, between 2000 and 2050 the population of Africa is projected to increase by over 1 billion from 750 million to 1,770 million.

² Contemporary Indian literature is especially rich in describing the deprivations of the poor and the social consequences. Rohinton Mistry’s *A Fine Balance*, is perhaps one of the most brutally evocative, while the Booker Prize winning *The White Tiger* by Aravind Adiga is a true masterpiece.

Many developing countries – including India – perceive what they see as a demographic youth bulge and a corresponding “demographic dividend”. A high proportion of youth in a population can indeed result in a dividend – ie a rise in the rate of economic growth due to a rising share of working age people as a proportion of the overall population. This is what happened in Europe in the decades immediately after World War Two, as well as in Japan and the East Asian Tigers. Had there been no demographic dividend, there would have been no German or Japanese or Korean “economic miracle”. But this only happens insofar as the society can educate, absorb and productively employ extra workers. The case of Korea is especially instructive. Even when it was dirt poor – with a GDP per capita in the 1960s well below that of African states at the time – it invested massively in human capital development. Afghanistan currently has the second highest rate of population growth, but it is, alas, highly unlikely that it will be able to draw a dividend.

Conversely, a lack of employment opportunities for large numbers of young people can undermine social cohesion and stability.

As noted, in the Arab countries the rate of youth unemployment is more than double the national average. 15 to 24 year olds make up over 73% of the unemployed in Syria and more than 60% in Egypt. The problem stems from a mismatch between the output of education and training and the demands of the labour market, making it difficult for the young to enter the labour force.

Sociologist Gunnar Heinsohn argues that an excess in young adult male population leads to social unrest, war and terrorism. This is because while the first and second sons in a family may work on the family farm or business, the third and fourth sons who find no way to productive use of their time and talents are more prone to compete through religion or political ideology – and above a critical threshold, this increases the likelihood of violence. Heinsohn cites the example of Afghanistan, where in 2009 there are 4.2 million Afghan males aged 15 to 29 out of a total population of 33 million.³ This is also an element lying behind the recent resurgence of the Naxalites in India.

Beyond the human tragedy that results from war and conflict, un-and-under-employment is a waste of human talent, and a missed opportunity for all of us -- not just those directly affected.

Population growth is mostly occurring in the cities of developing countries. In 2008, the world’s urban population was equal to the rural population for the first time in history. From now on, the world population will be urban in its majority. This is due to rapid urbanization, mostly in developing countries. The population living in urban areas is projected to increase from 3.3 billion in 2007 to 6.4 billion 2050. For example, in the coming decade the population of Kenya will increase by 12 million, from 40 to 52 million. 60% of the population of Nairobi (3 million) lives in slums covering 5% of land area. When we consider the riots that occurred in Nairobi in 2008, this trend presents a

³ Heinsohn, G. (2009) „Afghanistan's 'Disposable Sons': NATO is helpless against the country's youth bulge,” *Wall Street Journal*, September 17, 2009.
<http://online.wsj.com/article/SB10001424052970204518504574418941461719008.html>

considerable risk to social stability.

Rural people arriving in urban areas usually end up either living in slums or as pavement dwellers. 43% of urban dwellers in developing countries live in slums. In 2008, around 998 million people lived in urban slums (up from 175 million in 1990). Between 300 and 400 million of them survive on less than \$1 dollar a day. Dharavi, in Mumbai, is the biggest slum in Asia, with an estimated population of between 1 and 5 million. In Nairobi, 1.4 million of the 2.3 million residents live in urban slums. Slum dwellers are mostly employed in the informal sector, i.e. unregulated and untaxed, such as pottery, making sweets, and other grassroots enterprises. Most live in squalor, without access to basic sanitation and in cramped living conditions. Still, the conditions however humble are generally better than facing starvation in the countryside. Average incomes in urban areas are higher than those in rural areas.

Thus poverty continues to be a predominantly rural phenomenon. 70% of the rural population lives below \$2 a day, while the proportion in urban areas is less than half that figure.⁴ Most of the rural poor depend on agricultural production to survive, growing crops on their plots (which are often less than one acre). Of the 525 million farms in the world, 445 million are smaller than five acres; the average farm size in both Asia and Africa is 3.75 acres.⁵ Many farmers regularly do not grow enough food from their land. To buy additional food for themselves and their families, they seek work several months per year in the nearest urban centres. If they don't find work, they go hungry.

The Rise of the South and the East

Economic and political power is shifting from the West to the emerging economies – “the rise of the rest,” in the words of Fareed Zakaria.⁶ By 2050 the emerging economies (China, India, Brazil, Russia, Mexico, Indonesia and Turkey) are predicted to be 50% larger than the current G7 (US, Japan, Germany, UK, France, Italy and Canada). China is expected to bypass the US as the largest economy in 2025, and India will almost catch up with the US by 2050.⁷ This growth will be driven by increases in the physical capital stock, a larger labour force, as well as higher quality of labour (human capital) and technological progress. Even if the exact predictions are not correct, which will almost certainly be the case, depending on the assumptions made, the fact that we are witnessing a major transformation is undeniable. The globe is changing beyond recognition. It is in many respects very exciting, but also daunting.

⁴ Ravallion, M., S. Chen and P. Sangraula (2008) “New Evidence on the Urbanization of Global Poverty,” Policy Research Working Paper, World Bank, http://siteresources.worldbank.org/INTWDR2008/Resources/2795087-1191427986785/RavallionMETAl_UrbanizationOfGlobalPoverty.pdf

⁵ Nagayets, O. (2005) “Small Farms: Current Status and Key Trends,” Future of Small Farms Research Workshop, International Food Policy Research Institute, Washington, DC. [<http://www.ifpri.org/events/seminars/2005/smallfarms/sfproc.pdf>]

⁶ Zakaria, F. (2008) *The Post-American World*, New York: W.W. Norton & Company.

⁷ Hawksworth, J. and G. Cookson (2008) *The World in 2050. Beyond the BRICs: a broader look at emerging market growth prospects*, PriceWaterhouseCoopers.

There are two different lessons from history. One is that at such periods of profound economic transformation, geopolitical forces get unleashed that have generally resulted in war and revolution. The second lesson from history is that humanity generally seems impervious to learning the lessons of history! We must try to make the situation different this time!

The Impact of the Global Financial Crisis on the Developing World

While the global economic recession originated in the developed economies, it has spilled over into the developing countries. The World Bank projects that GDP growth in developing countries will slow in 2009, dropping from 5.9% in 2008 to 1.2%. Still, developing countries will outperform high-income countries, whose aggregate GDP is projected to decrease by 4.5% in 2009. When China and India are excluded, GDP in the remaining developing countries is projected to fall 1.6% or 0.6% in per capita terms.⁸

Stock markets around the world have dropped, and there has been a reduction in global trade. Developing countries have been disproportionately hit by declining trade flows, remittances and Foreign Direct Investment (FDI), commercial lending, and aid. The export earnings of the world's poorest countries dropped by around 50% over the first six months of 2009, compared with a drop of 32% in developed countries.⁹ Remittance flows to developing countries were \$328 billion in 2008, but are projected to decrease by 7.3% in 2009.¹⁰ FDI, which can take the form of equity investments, reinvested earnings and other capital flows (mainly intra-company loans), has also decreased globally in the wake of the crisis – but not as much as other capital flows, like portfolio investments and bank lending. The first quarter of 2009 saw a 15% year-on-year decline in FDI inflows to LDCs.¹¹ The crisis has also caused a contraction of credit, which has reduced commercial lending.

The crisis will have a devastating impact on the poor: 200 million more malnourished, up to 50 million more unemployed, 200,000 more children dying of preventable disease and a decline in schooling.

So far, development aid has not decreased as was feared: total net official development assistance (ODA) from members of the OECD's Development Assistance Committee (DAC) rose by 10.2% in real terms to \$119.8 billion in 2008, the highest dollar figure ever recorded.¹² But many scholars and

⁸World Bank (2009) *Global Development Finance: Charting a Global Recovery*, "Overview," Washington, DC: World Bank, p.2.

http://siteresources.worldbank.org/INTGDF2009/Resources/gdf_overview_001-006_web.pdf

⁹ International Trade Centre (2009) "Least Developed Countries suffer most from Global Trade Slump," Press Release, October 6, 2009. <http://www.intracen.org/docman/PRSR14306.pdf>

¹⁰ Ratha, D., S. Mohapatra, and A. Silwal (2009) "Outlook for Remittance Flows 2009-2011: Remittances expected to fall by 7-10 percent in 2009," *Migration and Development Brief 10*, World Bank, July 13, 2009, <http://siteresources.worldbank.org/INTPROSPECTS/Resources/334934-1110315015165/Migration&DevelopmentBrief10.pdf>

¹¹ *World Investment Report: Transnational Corporations, Agricultural Production and Development*, United Nations Conference on Trade and Development, 2009: 14-15. http://www.unctad.org/en/docs/wir2009_en.pdf

¹² OECD (2009) "Development aid at its highest level ever in 2008," Paris: OECD. http://www.oecd.org/document/35/0,3343,en_2649_34487_42458595_1_1_1_1,00.html

practitioners have seriously questioned the effectiveness of development aid, pointing out that the \$1 trillion of aid spent in the last 50 years has failed to eliminate poverty -- and led to negative economic growth in many cases. The most depressing example is Africa, where poverty levels have risen considerably.

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3. The Inclusive Growth Imperative

As mentioned above, the growth of the last two decades has not been the expected tide that lifted all boats: some have remained marooned; others may have been lifted, but only marginally, as they see the new global speedboats racing by. This has created marginalization, fragmentation, resentment and a backlash against globalization.

More than 80% of people in the world live in countries where the income gap is widening. The poorest 40% of the global population accounts for 5% of global income, while the richest 20% accounts for 75%. In the last decade, there has been increasing inequality of incomes both between countries and within them. As former Secretary-General of the UN Kofi Annan warned, "If we cannot make globalization work for all, in the end it will work for none."

The Growth Commission Report¹³ pointed out that a future-orientation is critical to promoting growth. If the citizens of a country have no hope that the future will be better than the present, they will have little incentive to make the sacrifices required, for example, to put their children in school rather than in the fields or factories. On the other hand, if they believe that there is an opportunity for a better life for their children, they will invest the effort required to participate in building a productive economy. If we are to secure our collective future – governments, business, and non-governmental organizations – we need to contribute our individual competences and play our respective roles toward creating and sustaining more inclusive forms of growth.

Governments have a central role to play in building the policy framework required to stimulate more inclusive forms of growth, including through investment in public infrastructure and education. They also need to provide the leadership and good governance required to implement the right policies.

But business is uniquely positioned to contribute its engine for innovation, as well as its expertise in marketing, distribution, supply chain and operations. Not only does it have the capability to contribute, it needs to do so to ensure its own survival. The current prevalent business model – excessively focused on shareholder value – is flawed. Its relentless pursuit will sow the seeds of destruction.

¹³ Commission on Growth and Development (2008) The Growth Report: Strategies for Sustained Growth and Inclusive Development, Washington: The World Bank. Available from: [http://www.growthcommission.org/index.php?Itemid=169&id=96&option=com_content&task=view]

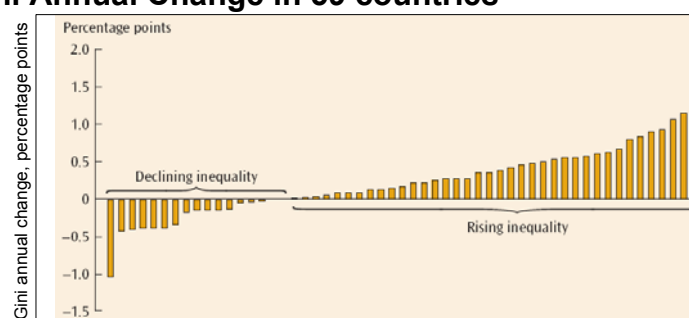
New business models that make inclusive growth a core strategic component, rather than a peripheral activity, are needed. Business ignores this opportunity at its peril. Those that embrace this challenge will not only be contributing toward a more secure collective future, they will likely find ways to re-invent and re-energize themselves, through access to new markets and innovation.

Also the rise of the South and the East is already changing dynamics in the global marketplace and will continue to do so. Business needs to shift its focus from North and West, to South and East, where the vast majority of opportunities in the future will lie. One of the most dynamic current driving forces of the global business environment is the growth in south-south trade and investment.

Improving Access to Opportunities

As mentioned before, there is rising inequality in the world – both between countries and within countries. **Figure 1** shows the annual change in Gini coefficient¹⁴ in 59 countries over a time period varying from the late 1980s and early 1990s to later 1990s and early 2000s (depending on data availability).

Figure 1: Gini Annual Change in 59 countries



Source: World Bank, Global Monitoring Report 2008.

Both equity and equality of opportunity are essential to sustainable growth strategies, according to the Growth Commission.¹⁵ While *equity* refers to outcome of results, *equality of opportunity* refers to access. The Growth Commission's report goes on to say that while most people understand that markets do not produce equal outcomes for all, they expect governments to contain inequality by ensuring that the poor receive some income and essential services, and that wealth is shared to some degree.

Systemic deprivation of opportunity creates societal cleavages, unrest and violence – and indeed already has. In the words of the Growth Commission, "If one group is persistently and flagrantly excluded from the fruits of growth, the chances are they will eventually find a way to derail it." (Commission on Growth and Economic Development, p.62). On the other hand, if people

¹⁴ The Gini coefficient is a measure of income inequality. The closer to 0, the more equal the distribution of income; the closer to 1, the more unequal.

¹⁵ Commission on Growth and Development (2008), op. cit.

believe their children will fairly share in the rewards, they will be prepared to make the necessary sacrifices and invest in the future. Indeed one of the first goals of those who rise above poverty is to secure good education for their children.

Key Enablers of Inclusive Growth

Enabling more inclusive growth requires improving access for the poor to participate in the market either as entrepreneurs or employees, i.e. through economic opportunities. Education, health and sanitation, ICT are all key enablers to more productive market participation. The Hole in the Wall initiative developed in India by NIIT and now replicated in other parts of the world is a really excellent model of inclusive growth enabler.

Education that builds relevant skills and knowledge gives people the tools they need to start or scale up their farms or other businesses, or to have a better chance at becoming employees and entrepreneurs. Basic sanitation (latrines, running water, etc.) has two benefits: it improves health and it frees people (primarily girls and women) from the time-consuming task of collecting water – allowing them to attend school or work instead. ICT can be a key catalyst for market participation and empowerment. By providing people with real-time information mobiles phones provide greater leverage both for buyers and sellers (i.e. real-time market prices of vegetables, so they can decide when to harvest), eliminating the need for middle-men. SMS money transfers allow payment in areas where many lack bank accounts. Bangladesh has been at the forefront of both telephony revolutions, with GrameenPhone is enabling mobile telephony to reach the poor as a growth enabler and CellBazaar as dramatically increasing the means of information needed by farmers and others to enhance their productivity.

There is a clear role for government agencies, NGOs and development organizations to help provide access to basic services, such as education, sanitation and infrastructure. Good governance and political commitment is needed to achieve this. However, a major obstacle to the poor moving out of poverty is a feeling of hopelessness that comes from social exclusion and powerlessness.

As Paul Polack argues, helping the poor to increase their income will allow their economic empowerment, which in turn improves their assertiveness as citizens, i.e. their political empowerment.¹⁶ They will then be able to use their economic and political power to buy and demand the things that they see a need for, such as latrines, bathrooms, better housing, electricity, schools, etc.

Reason for Optimism: An Opportunity in Every Difficulty

Winston Churchill famously remarked that “a pessimist sees the difficulty in every opportunity; an optimist sees the opportunity in every difficulty”. In order

¹⁶ Polak, P. (2008) *Out of Poverty: What Works when Traditional Approaches Fail*, San Francisco: Berrett-Koehler.

to seize the opportunities, however, the optimist must have a strong sense of reality. Optimism is not synonymous with wishful thinking. Having coldly analyzed reality and seeing the world as it is, not as we would like it to be, we must then be optimistic. The costs of pessimism that would breed defeatism are enormous and harbingers of global catastrophe.

And there is good cause for cautious hope, as we see a number of initiatives emerging from different spheres which promise to enable more equal access to economic opportunities, some of which, Hole in the Wall, GrameenPhone, CellBazaar, have already been cited.

There are examples of innovative social programs which have decreased poverty and inequality. One such example is a conditional cash transfer program in Brazil. For decades, the poorest 60% of the Brazilian population accounted for just 4% of national income and illiteracy rates were among the highest in the world. In October 2003, the Brazilian government put into place the *Bolsa Família* Program - a conditional cash transfer (CCT) program. Poor families with children receive an average of R\$70.00 (about US\$35) per month, in return for a commitment to keep their children in school and take them for regular health checks. Most of the money is used to buy food, school supplies, and clothes for the children. 94% percent of the funds reach the poorest 40% of the population. This has been a major contributor to the decline in income inequality (and illiteracy) in Brazil between 1995 and 2004, which fell by almost 4.6%.¹⁷ Its success has led to similar concepts being adopted in almost 20 countries, including Chile, Mexico, Indonesia, South Africa, Turkey, and Morocco. More recently, New York City announced its "Opportunity NYC" conditional transfer of income program. (Inclusive growth is also a challenge in developed countries and especially the US.)

Perhaps the single biggest contributor (and enabler) of more inclusive globalization to date has been information and communication technology (ICT). ICT has enabled greater connectivity for people all over the world – including many people who could never in their wildest possible dreams have imagined being connected 10 years ago. Internet has enabled the rise of new business models, and was a key enabler of India's outsourcing/offshoring success story. Mobile phones have been particularly important in developing countries. Worldwide mobile phone subscribers reached 4 billion in late 2008. China accounted for 600 million while India made up 296 million. Mobile phones have allowed more and more profitable market participation, for example by allowing rural farmers to access real-time prices, as well as through mobile payment systems. According to a report by UNCTAD, more than 80% of small businessmen in Egypt and South Africa run their businesses using mobile phones.

¹⁷ Lindert, K., A. Linder, J. Hobbs and B. de la Brière (2007) "The Nuts and Bolts of Brazil's Bolsa Família Program: Implementing Conditional Cash Transfers in a Decentralized Context, SP Discussion Paper NO. 0709, World Bank.
<http://siteresources.worldbank.org/INTLACREGTOPLABSOCPRO/Resources/BRBolsaFamiliaDiscussionPaper.pdf>

What these initiatives have in common is that they directly go to people at the grassroots level, to give them what they need to take immediate action. They have also been driven primarily by the private sector or through alliances between public and private and with the cooperation of NGOs. This empowers them to act to improve their own lot in life, giving them hope and aspirations to move out of poverty. This is in direct contrast to many development aid programs, which give money to governments or which provide poor people with things that either they don't place a priority on or which they would have bought themselves provided an affordable option (and then would have taken greater ownership). When evaluating individual initiatives, the impact needs to be measurable (i.e. ROI). Scalability and replicability are critical if such initiatives are to make a real difference in improving the poor's inclusion in the global economy.

Thus, with reference to the quote from Churchill, we need to be optimistic about the challenges of inclusive growth, and to see the tremendous opportunities that they present.

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4. Inclusive Growth as an Opportunity for Transformation

Inclusive growth is different from poverty reduction, where the focus is on governments re-distributing wealth and making transfers. In poverty reduction, the poor are primarily passive recipients of donations, whether in the form of money, food, clothes, etc. In inclusive growth, the objective is to provide the poor with the **opportunities** to improve their situation. Inclusive growth opens the door to self-help initiatives and unleashes the entrepreneurial instincts that many humans have, but often cannot realise because of formidable adversarial circumstances. There will always be the really poor who in many instances may also suffer from mental and physical handicaps. They will continue to require assistance of the more conventional poverty reduction nature.

Inclusive growth is aimed at the hundreds of millions who are poor not because they want to be poor, not because they suffer from physical or mental deficiencies, but because of societal barriers and impediments.

From a corporate perspective, nor is inclusive growth synonymous with Corporate Social Responsibility (CSR), which is essentially a stakeholder-imposed demand for corporate self-regulation, but where the business case is yet to be convincingly demonstrated. Inclusive growth is more than this. It is not about philanthropy; it is about finding opportunities for including the poor into business models, which also offer a demonstrable return on investment. Inclusive growth business models need to be meaningful in terms of impact for society: this means that business models must be scalable and replicable. As such, they differ from the numerous social entrepreneurship initiatives underway. We believe that there is a vast untapped potential for businesses to gain growth and profits from the "bottom of the pyramid", while at the same

time helping them to improve their access to economic opportunities (and therefore empowerment).

C.K Prahalad coined a number of terms in his landmark publication *The Fortune at the Bottom of the Pyramid*. He referred to what he termed the “aspiring classes” and to the fact that the approach to the market that he advocated would result in what he called “a more inclusive lens of capitalism”. Indeed a more inclusive lens of capitalism is the basic survival kit of the 21st century global economy and global society. The first chairman of The Evian Group, David de Pury, shortly before his untimely death, penned his last article which was entitled “Let us not repeat the mistakes of the past”. There is no god-or-man-given law why the world should be spared this kind of catastrophic outcome. To prevent it, we have to work on it.

From the corporate perspective, inclusive growth should be above all focused on employment and entrepreneurship generation. The most vital barometer of inclusive growth is for people to have work and to earn incomes.

The downturn has shown us that the prevalent current business model with its exclusive focus on shareholder value (with a bit of feel-good philanthropy on the side) is inappropriate and untenable. To date, business’ response to the major challenges humanity faces has been Corporate Social Responsibility (CSR). This is inadequate. With its current model, business may be sowing the seeds of its own destruction. We need a new model for business, where inclusive growth is central to its strategy for wealth creation, but which also includes shareholder value of course.

In designing new business models, we need to ask ourselves: what kind of markets do we want to have in the next 10 years? Greater exclusion will lead to a backlash against globalization and increasing political instability, as well as violent crime and a break-down in social cohesion. This in turn will create high transaction costs for business. Fostering greater inclusion, however, will help to militate against this social risk and generally create the conditions for a thriving global market and global community.

Inclusive growth also affords a tremendous opportunity for business to re-invent and re-energize itself. The growth markets of the future are among the rising middle income earners. Emerging and developing countries will be where the opportunities for increased returns, new markets and talent will lie. If business can effectively renew itself to meet the needs present in these new markets – which also have a potentially transforming effect – it may also find that the resulting innovation will help it win in its traditional markets. In seeking new solutions and challenging itself to operate under a new set of constraints, businesses can gain competitive advantage in a number of ways. These include accessing new partners and therefore widening their innovation ecology, developing knowledge of new markets which may serve as platforms for existing products, developing new products that may be marketable in other geographies or market segments.

Africa presents a massive potential opportunity for business, as the Chinese

have recognized. China is now Africa's second-largest trading partner. From 2002 to 2003, trade between China and Africa doubled to \$18.5 billion; it reached \$73 billion in 2007. While much of the growth was due to imports of oil, they also included commodities such as timber, copper, and diamonds, as well as processed foods and household consumer goods. Chinese companies view Africa as a good market for low-cost consumer goods, and a promising opportunity as more countries privatize their industries and open their economies to foreign investment. The work they are undertaking in physical infrastructure stands out as one of the potential great catalytic forces for the much expected and so far undelivered "African renaissance".

Business is crucial in finding business models which stimulate more inclusive forms of wealth creation. It also stands to gain a great deal from taking on the challenge of inclusive growth – including the competencies mentioned above, but also strong leadership which is sorely needed in this period of vast turbulence and transition. Business needs to take up a formative role in building a new global business paradigm, one which embraces a more inclusive form of capitalism.

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5. Post-Script: What is Required for Inclusive Growth?

The Evian Group defines inclusive growth as a process which entails sustainable and responsible creation -- as well as just distribution of -- both wealth and welfare. The notion entails three main pillars that should be mutually reinforcing:

1. **Sustainable & responsible business** where opportunities for those excluded from current growth models are created and where self empowerment is generated.
2. **Social progress and human well-being** have to be a pivotal element of the model and should be demonstrated by the right metrics.
3. **Good Governance** involves the provision and distribution of adequate public goods. It should sustain and frame robustly the two axes above and provide the necessary secure environment to protect livelihoods.

Inclusive Growth requires us to take responsibility both at an institutional and individual level. Do we adequately understand the political and economic forces at play? We need to find solutions with global impact, but that are very pragmatic at the local level.

We have to a considerable extent and without necessarily realising it become a world where empty rhetoric tends to prevail. One can envisage global governance in terms of a religious ritual. Whether in high-flying business forums or high level political meetings such as the G7 or G20 summits, the output consists primarily of declarations without the identification of the means

for their implementation and maybe even without the intention.

There has to be action. Finding the means to inclusive growth will not be easy, but it must be undertaken. There will inevitably be trial and error. In the case of India, where the government of Prime Minister Manmohan Singh has made “inclusive growth” an explicit policy goal, it would seem appropriate that every government department and every major enterprise should work out an inclusive growth strategic plan with specific measurable targets.

The world has never been more complex. Finding solutions will require different perspectives and competencies. The inclusive form of capitalism will also require a spirit of collaboration and especially collaboration between the private sector, government and NGOs. This is not easy. These different constituencies find it very difficult to meet on the same wavelength. But realistically there seems little alternative.

Furthermore, inclusive growth should be an individual goal as well as an institutional goal. The leaders of the 21st century – at all levels, business, government, civil society, academe, intellectuals, artists – will be those who have the vision and the means to generate inclusive growth.

It has been said that the great cause of the 19th century was against slavery – when in the early 1800s roughly 20% of humanity lived in some form of bondage, whether as slaves, serfs, etc. The great cause of the 20th century was against the ideological extremisms – fascism, nazism, communism, and chauvinism – which also resulted in various forms of human extermination and bondage. The battles have not been entirely won. There are still slaves today and forces of ideological fanaticism are still present. But this makes the great cause of the 21st century all the more relevant, and that is the battle against poverty and extreme and iniquitous inequality. Inclusive growth can contribute considerably to reducing poverty and inequality and thereby also contributing to erasing the vestiges of slavery and of ideological extremism.

It also represents an enormous opportunity for business. The business leaders of tomorrow will be those who will have seized the opportunities in the face of the multiple difficulties with which the planet is challenged.