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**GLOBAL ECONOMIC TRENDS: HOW SUSTAINABLE IS THE
ASIAN ECONOMIC ENGINE?**

Securing Global Growth

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With the Asia-Pacific region serving as the major powerhouse for global economic growth over the past two years, much of the world has a stake in its continued strong performance. But Asia's status as an engine for sustained and increased growth is not a foregone conclusion.

Moderator:

Basil Mofteh, Managing Director for Global Emerging Markets,
Thomson Reuters

Panelists:

Dominic Barton, Managing Director, McKinsey & Company

Prof. K. C. Chan, Secretary for Financial Services and the Treasury of
Hong Kong

Shiv Vikram Khemka, Vice Chairman, SUN Group

Ivan Ritossa, Member of the Executive Committee, Head of Global
Markets, Asia Pacific, Barclays Capital

Barry Salzberg, Chief Executive Officer, Deloitte Touche Tohmatsu
Limited

Hu Shuli, Editor-in-Chief, CaiXin Media Company Ltd.

Vladislav Voitsekhovich, Chairman, ICICI Bank Eurasia

B. Moftah:

Good afternoon, everybody. It is a pleasure to have you here. We have a pretty distinguished panel today, so I do not want to make introductions; I want to just jump straight into the topic.

Clearly, we are coming out of a very interesting period. The news in the last couple of days has obviously focused on Greece, but if you sort of drop down two headlines below, you would see that they are also talking about Asia's slowdown and the fact that we are coming out of a seven-week decline in the stock markets.

So really the question is, "Is Asia sustainable? Is Asia going to be able to last? Are we seeing the beginning of the slowdown that people have talked about, or is Asia really a force to be reckoned with?"

I want to start off by posing our first question to Mr. Ivan Ritossa and to ask, how sustainable is the Asian market?

I. Ritossa:

Thanks, Basil.

Look, I think to really answer that question we need to ask how sustainable is China's growth, and I think that is the main issue, not only for Asian growth but also for global growth.

If you look at global growth over the last decade, a third of global growth has come from China, and if you add back the other Asian countries, more than half of global growth has come from the Asia region. So China is not only important for Asia, but, I would also say, hugely important for global growth.

You can see that manifesting itself in the real world today. If you ask the question, why has Canada decoupled from the U.S.? Why has Brazil decoupled from Latin America? Why has Australia decoupled from New Zealand? And in fact, why has Germany decoupled from the rest of Europe? Even if you look at Africa and think that, whereas eight years ago they were looking for debt forgiveness, today they are growing

strongly. And the answer is they all have what China needs, which is commodities, and, in Germany's case, capital goods.

To answer the question of how sustainable China's growth, and therefore Asia's growth is... you know, I go to China a lot, and it really stuns me, the amount of change and development in such a short period of time, over the last five to ten years. And it is not really just in Beijing and in Shanghai as a lot of Western commentators think. It is really across the entire country.

I will give you some examples of what is going on in China today. They are building, at the moment, an additional 33,000 kilometres of railway, and they are investing USD 400 billion in that at the moment.

They are also building 315 million square meters of residential and commercial real estate. And to put that into perspective, that is about a third of the size of the entire floor space of Moscow.

We are also seeing strong consumer growth in China. Today, China is the biggest car market in the world. Last year, they bought twice as many cars as the U.S.; they bought 18 million cars. And Shanghai is the biggest and busiest port in the world.

That is it. There is a lot going on, and you see that when you fly across the country and look out the window. There are just cranes and development everywhere. There are high-speed railways being built, highways being built, dams being built, cities, towns, etc.

So my view is that even if you do not have any new development, just finishing off the current construction is going to keep China's growth going for the next three to five years. That is a very simplistic way of putting it, but you can see that it has just got a natural momentum from here.

However, there are risks, and we need to be aware of those risks. The risks really come from two things, and it comes from China's response to the global financial crisis.

The first thing they did was to embark on a very big fiscal stimulus package. It was equivalent to seven per cent of their GDP over two years. They also increased the money supply by nearly 80% between 2008 and 2009, so that is an incredible amount of stimulus.

Inevitably, when you get that stimulus, you are going to get what you see today: inflation in China, which is the risk that you put forward, Basil.

I think, therefore, there are two things that we need to be cognizant of. One is that they are trying to slow the economy down; you can see the revaluation of the renminbi, the draining of reserves, the increasing of interest rates, but the danger is they will overcook it. Instead of a gentle slowdown, we get a hard landing.

I think there, as I said before, the ramifications are large for China, but also for Asia and the rest of the world, if you think about places like Australia and Korea, where more than a quarter of their exports go to China. Australia's currency is significantly overvalued; you can see a real problem happening there if we get a hard landing in China. But also the U.S. People forget that China is the U.S.' biggest export market so you could also see a slowdown in the U.S.

I think the second area of risk is around the inefficient allocation of resources. As we know, a lot of lending and investment in China is state-directed. Banks have increased their balance sheet fourfold over six years, and we have seen investment growing by over 10% per annum for the last decade in China.

So inevitably, the danger is that you get an inefficient allocation of resources and some poor lending decisions. So the danger of the significant slowdown is nonperforming loans, and we are also starting to see some of that, particularly out in the provinces. Also, as I said, inefficient allocation of resources. And there is a debate: is that happening around real estate? Is that happening around manufacturing? But I do not think a hard landing is the core scenario. I

think you are going to see growth slow from 10.5% last year to the high eight per cents. But you know, there are risks to be aware of.

B. Moftah:

So let us stay with the China thing for a second.

Shuli, your newspaper writes about the financial markets in China. Do you see it the same way; do you see these risks, or do you see different risks?

S. Hu:

Yes, I think clearly China's economy is going to be slower, which, I think, is very good for China.

Actually, the situation is that it is slower, but the Russian, the West's economists, have expected risks for the next couple of years and have warned of the dangers of bubbles for a long time.

So we see it as a positive trend if China's economy can really slow down. I do not see any large risk of a hard landing. I am quite confident and very optimistic about the long-term future, mainly because if there is a slower economy, we can get a better economic environment for real business to have growth. I should say – I am not going to talk about numbers today – but I do want to discuss with you about what is behind the growth of China, why I am confident about it.

Additionally, it has been mentioned that market reform is attributed to China's growth. I think there are three points I want to make. I think the reason why China's growth, can be called sustainable growth, is that first it is the back ends of capitalism in China.

Despite the old perception of China as a communist country, the planned economy in China only has 20 to 25 years of history. Before, China had internal turmoil, the Cultural Revolution, and then eventually it opened up to the market economy. The remains of capitalism were

not completely killed in the short time of the planned economy. Once it was allowed, it revived and strived very fast.

Secondly, flexibility; we all know that the rule of law is still weak in China. One side effect of that, however, is flexibility in companies' operations and the people's work. Rules can change. You have to be nimble: to act fast and adjust fast. This gives rise to a vibrant private sector.

Third is the very strong will of the Chinese people to improve their lives. You see that in Chinese merchants in Moscow and also in half a billion migrant workers travelling across the country for better life, and the millions of entrepreneurs who fight to survive and struggle to innovate.

These are some engines behind the Chinese growth, which I think I am very confident about. But what is the growing risk? I will share some ideas, some opinions from my comments here. I think the growth in China is vulnerable as well. Besides inflation and state intervention, there are conflicts and unrest.

There are huge gaps between rich and poor, East and West, and there are disputes, sometimes conflicts, between Chinese and foreign investors. On top of that, there is expanding power: power of a vast interest.

Internationally, people want China to grow, especially in Russia, which is rich in resources, and China has the demand. But why can the Chinese and Russians hardly do business together? My answer is: because we have a lot of similarities, not differences.

The similarities between the Chinese and Russian societies are the communist legacy, the lack of transparency, the lack of rule of law, and the corruption. And I call that the hand-me-downs of communists, which we both dislike and want to get rid of. Because we know each other's problems so well, these hand-me-downs prevent us from moving closer to each other.

I will stop here and hope to hear more from our panellists.

B. Moftah:

Thanks, Shuli. I appreciate it. I knew we were going to get onto China quickly; we got onto it very quickly. So, I just want to open it up to the rest: "What about the other Asian markets?"

You know, Asia is not only China. What about the other markets? Shiv, India, is it sustainable, that growth? Inflation seems to be a problem.

S.V. Khemka:

Yes, I think the recent inflation worries, and some concerns about overheating in that sense are real concerns.

However, I think that one needs to look at India as still largely a domestic story. India is a huge consumer market; connectivity to the world is still limited. Of course, in the last 20 years since '91, India has opened up a lot more to global investment and so on, but it is very much a domestic consumer story.

We are adding 18 to 20 million people every year who are coming on, streaming into the middle class, defined in terms of Indian per capita incomes and purchasing power parity, but that is creating domestic demand for domestic businesses, and I think that is the core engine that is driving the India story.

And it is a bottom-up story rather than a top-down story. We have lots of entrepreneurs, lots of entrepreneurial businesses emerging and building value, apart from the larger multinational groups, Indian or global, as well as the state groups. But I think the domestic story is very exciting in that sense.

So, I think, yes there may be some blips along the way, but if one really takes a slightly longer perspective, I think the India growth story is very real and very fundamental.

B. Moftah:

Thank you. Let me go to Dominic for a second and say: OK, if you were consulting to the Asian economies what would you say to them in terms of what they should adjust in their plans right now? Greece, Japan, all of these new factors, how do we adjust for those?

D. Barton:

Maybe a couple of things to start off with. I very much share the view that others have. I am bullish on Asia, both China, India, but also Indonesia, I just wanted to throw that in. We always forget about Indonesia. This is a 240-million-person economy that has had wonderful growth rates for the last few years, but it is one of the biggest secrets in the world, and they are moving ASEAN.

So, I think in this urbanization that Shuli talked about, which is a gravitational force that you cannot stop. You know 1.3 million people a week are moving from rural to cities, and I think that is very difficult to stop that. Even in China, they have not been able to do that. So I think those are the forces there.

But to your question, I would suggest a couple of things. One, I think, is probably a very obvious one, which is that the Asia region has to shift much more from an export investment-driven system to a consumption-driven system. That is vital for all of us.

I think China is trying very hard. I think consumption is roughly about 35% or so of GDP. Trying to get it to 42% is a big step, so I would be pushing very much the consumption side of things.

To me, one of the key areas of consumption is services. The services sector in Asia is pathetically small. If I were to show you a Yellow Pages of New York, Manhattan, and then compare that to the Yellow Pages of Beijing or the Yellow Pages of Seoul or the Yellow Pages of Jakarta, it would be small; there is just not a services sector.

Part of that is because of regulations. It is interesting that the Mayor of Beijing had a sign in his office which compared the amount of time that

it takes to start a new services business as an SME, and it takes about 36 days in Beijing; it takes about five days in Singapore. So I think we have got to enable more small businesses that actually focus on services, not on the big heavy industry type of things. That is going to be very important.

A second area is actually the infrastructure. Infrastructure is a USD 8 trillion opportunity over the next ten years, but what is interesting is in Asia, and I am generalizing, it is not really the pension-fund development that is there, the long-term savings. The people who have the long-term savings, the sovereign wealth funds, are investing overseas. They are not investing in Asia. So I would recommend, too, that we try and deepen the capital market. It is not a very popular thing to say these days. I would actually move to a deeper, more non-bank-based system to allow people to invest in these major infrastructure projects, which will improve the service sector and the consumer sector and the integration of Asia.

So, it is services, it is infrastructure and pension reform, and I think the opening up of trade, ASEAN. I'll just give an example: the non-tariff barriers to trade a product between Indonesia and Thailand are quite unbelievable. How they measure certain items is slightly different, and I think you have got to blast that out of the way, and you are going to get more trade which will actually occur. I think that can also improve things.

B. Mofteh:

I guess, since we asked the question about deepening the capital markets, I have got to jump to Ivan for a second and say can it be done? In Barclays Capital, you seem to be going to China a lot; that is good news. But is it something that can be done? Can we deepen that pool of money?

I. Ritossa

Yes, it can be done and is being done. I think it is a multispeed process. If you look at the work that HKMA are doing, they are very advanced. If you look at the MAS in Singapore, they are very advanced. I would even say China, with CNH, CNY, and CNS, the offshore trading of the renminbi, and if anything, you are seeing an acceleration of reform and change, and therefore liquidity.

You look at Korea or in Taiwan; these I would not even call them the emerging markets. I mean, they are developed countries, developed markets, and I cannot see the difference between Korea, Taiwan, and Japan. I mean, these are all industrial countries.

On the other end of this scale, you have Indonesia that is still developing its financial markets, and Thailand – we know about the issues there. Then the one that is somewhat being left behind, interestingly enough, is Malaysia. If you think of where Malaysia was in '96 and pre the '97 crisis in Asia, relatively to the other Asian countries compared to where they are today, they have got some catching up to do.

I would also add something. You asked me about financial markets. I would also add something about trade that Dominic touched on, and I think, clearly, the issues of improving the friction in trade between these countries and also financial markets.

We need to remember that even though they are all in Asia, they often see each other as each other's biggest competitors in the region, and so there is this natural, in-built friction in trade and finance and elsewhere between these countries that I think over time will change, but it is definitely there today.

B. Mofteh:

Professor Chan, Hong Kong, is that really the model? We talk about how successful it has been, so what can we learn from Hong Kong?

What can we learn from some of the developed parts of Asia, let us say?

Professor K.C. Chan:

Well, thank you.

Hong Kong is very unique; Hong Kong and Singapore are very unique among Asian economies and countries, because both of them are very small. But I think the kind of development model that Hong Kong and Singapore have followed have actually set some kind of standard for the rest of the Asian countries.

If we look at the Asian countries, the developed countries – let's count Korea, Taiwan, Hong Kong, of course Singapore, and then China is considered developing – if you look at all these economies, actually they have taken different kinds of paths in the past.

But I think over the last ten years, especially after the Asian financial crisis, you see more convergence. If I can summarize what is going on, I think what Hong Kong and Singapore have shown people is that the openness of the markets is very important. Having an open market, actually set the standard, and so it set the tone for the economic development.

In Hong Kong, openness is necessary, because we are so small. We have got to open to everybody, open to foreign investors, open to foreign companies coming to our market. So that kind of openness has helped Hong Kong and Singapore, and we have seen that other countries are doing something moving towards that model.

Even China; China is, on the one hand, you can say very highly regulated, very closed. But China recognizes that it is important to open up the market.

Yesterday, of course, we heard that the President of Russia talked about joining the WTO. China recognized the importance of that, in

joining WTO a few years ago as a strategic move. This is a way to actually get the industry to move and get a market to play by international rules. That is very important.

I think the other thing I would comment on is that in Asia – even in smaller countries, more developed countries – government always plays a very important role. So that is the role of government in Asia that is different from Western markets. It is accepted by the population that the government has a role to play.

Of course, in some of the industrialized countries, Korea and even Japan, of course, government plays a very important role over the initial stage of the development. Even now, I think there is still a good consensus that government in Asia does play a role, and the public accepts that.

However, the success of the economy oftentimes really depends on how good the government is. Many of these governments have been adopting much more openness in their attitudes towards the market and regulation, and you can see, also, that governments are learning to be more hands-off, but still there is a role for government, and that is very much accepted by the public.

You asked me the question of what kind of lessons developed Asian countries can offer to emerging markets. I think as we now see in Asian economies moving from the traditional model towards a more advanced model, even in Korea or China, they are trying to really develop the service industry. So I think that this change is going to be very significant, and I think what we are going to see is that the kind of market reform and privatization that worked in Asia could be a lesson for the other emerging markets.

And more importantly, the fiscal discipline of the government is very important. You can see that almost in all of these Asian countries: the government has good fiscal discipline. They do not want deficit, and the large pool of savings, both on the public side and the private side,

actually was very important for financing a lot of the capital investment in the past.

We do need to get the market developed even more. In the past, I think, you were really depending on the savings, because the financial market was not that complete. So as we move towards a more complete financial market, that may change. But the fiscal discipline is very, very important for Asian countries. I will just stop here.

B. Moftah:

Thank you for that. Shuli, I guess I will come back to you.

From a China perspective, is that how you see Hong Kong? Would you agree with that, or would you say that the perspective is different?

S. Hu:

I think I agree with what K.C. has just said. Actually, I think mainland China should learn a lot from Hong Kong, mainly on the base of the rule of law.

I think China gets a lot of negative... we call this "infusion of premium" for the past decades of growth. It is a kind of infusion of premium, which is from the earliest stage of capitalist, early-stage market economy. And for the future long-term economic growth and development, mainland China should learn from Hong Kong to get a much more whole market economy with rule of law. It totally should.

B. Moftah:

Great, thank you.

I always feel that it is the developed teaching the developing, and it is always about that perspective of what we can learn from Hong Kong, what can we learn from Japan, etc.

I just want to reverse the question for a second to this team. What can we learn from developing economies? I think, Barry, your companies focus quite a bit of attention on India. What have you learned from them, or what are they teaching your company?

B. Salzberg:

You are exactly right; we have made significant investments in India over the last few years – in fact, significant investments in all of the emerging markets – and continue to do so, and will continue to do so.

So going back to some of the prior comments, we are very bullish, still, for the years ahead. But as you look back on India and you think about what I call "lessons learned", what could we learn? What are the things, that from a professional services leader, that made India successful? I think there are five things.

First, I would say the entrepreneurial culture that developed in India. There is example after example based on a fabulous work ethic, based on really success-driven activities, based on local leadership driving an entrepreneurial culture, an India focused on innovation that really helped drive this success.

Interestingly, in my perspective, as I look at India from an innovation perspective, it is actually becoming more distributive in nature. This is not just about innovation developing in India. This is about innovation being imported into India and being utilized to drive business in that market.

A good example would be that last month, Intel Capital announced a multimillion-dollar investment to support technological innovation in India. A very good example of a welcoming level of innovation, but from our perspective, it is significant, and one which we rely on.

The second factor would be the robustness of two particular industry sectors, with strong commitment to it. Dominic, you mentioned earlier about the services sector in Asia broadly, but if you look in India, it

basically is the economy of India. Sixty-six per cent, I think, of the GDP of India is represented by the services sector. So there is a huge commitment to that.

The IT industry in India itself is kind of unique, because it developed and grew in a substantial, notwithstanding a largely poor and developing, country. So it is a fabulous lesson to be learned.

So I would say the services sector. The manufacturing sector is the other in India that is quite substantial. It is ranked second as the most competitive manufacturing economy supported by scientists, engineers, researchers – all focused on innovation, true, but manufacturing. And so I think two robust sectors, with huge commitment from India to it, would be a second lesson learned.

Third is talent. India has got strong, educated, young, English-speaking talent that is, in volumes, significant. The numbers of talented, young educated professionals in India is very significant, which leads to the fourth.

And that is that the median age, by the way, in India is 25. Compare that to Japan at 43 and to U.S. at 36, just to pick three economies. In India right now, the working population is growing faster than the overall population and that has a significant impact, I think, in terms of the overall lesson to be learned from what is actually going on in India.

And then the last one is the capacity to address full value supply chain in the country; from design to engineering to production to market. So, when we look at all of that, and it is now historical, Deloitte has invested significantly in India.

We are now at 15,000 people from a very small number of people only a couple of years ago, and we are expecting to grow by 20%, yet, in the next year or so. And it is based upon these factors; being in the service business, it is thriving for us.

So we are going to invest in India very substantially, and believe that those are attributes, success factors, if you will, that other countries can learn from.

B. Moftah:

While we are on India, I am sorry to Shiv, but I am going to have to pick on you. Since your age is the median age, 25, I have to ask when you hear these stories about how people describe India, your own personal story and your company's story is quite a product of a lot of these factors. Does this ring true with you, or are there other things that we should be thinking about here?

S.V. Khemka:

Well, you know, I'm obviously very old, right, by Indian standards.

I think the entrepreneurial culture is definitely there in India, and I think our company's story in some ways reflects that. You know, business started in India, went through various ups and downs, became a global business, the business was nationalized in the 50s, we then rebuilt the business, started working with Russia in 1958. I have been living in Russia—my father did not want me to damage the business in India so he sent me to Russia—I moved here in 1990 and have been living here for 20 years. So, in a way, the entrepreneurial culture is something that I think does exist in India, and I think it is one of our strengths.

But I think it is, maybe, a pan-Asian thing. I think around Asia, you see quite a lot of that, and I think we have learned a lot from the U.S. and the entrepreneurial culture—really, the U.S. sets the standard in terms of that.

I would say that the talent issue is a big issue, because I think although, in volume terms, there are quite a large number of people being educated and coming on-stream that have a good educational background, it is actually a huge challenge and actually a huge risk.

Because when you really look at the next 20 to 30 years, the numbers of people we have to educate with the relevant education is a huge challenge, because we need to actually serve not just the domestic labour markets, but global labour markets, when we look at the demographic issues that the world is facing. For us to do that, I think our own educational system – the curriculum, the methodologies and all – really need to be revamped completely. So for me, that is one of our key risk factors as a country, and if we do not get that right, I think we will not only miss a huge potential dividend, but we would also face very significant problems going into the future.

V. Voitsekhovich:

I also want to pitch in.

B. Moftah:

Please.

V. Voitsekhovich:

Just going back to your question, Basil; reversing the tables again. What do emerging economies learn from the developed economies?

I think the most important lesson is what they have learned not to do, and that is to sink themselves into continuous debates over the anti-crisis measures; never leave the problems to your successor, the next elected public official. I think that is the key ingredient.

Again reversing the tables, I think the regulators, particularly in India, had been very successful in terms of very strong regulation of the financial sector. They have done very well managing the company inflows to keep speculative capital from flight.

Second, this also comes back to the domestic growth story sheet. I think, and I as a foreigner, I sense that in India, every time I travel, there is a national unity around the idea of the India growth story, and I think,

Barry, you may have noticed that; at every level, not just at the individual level but also at a corporate level, the message is, "Invest in India."

B. Moftah:

So is India the exception? Dominic, if I can come back to you for a second and say, obviously the rest of Asia you see aging, you see inflation, there have been riots in China recently, etc.

In India, we are talking about national unity and entrepreneurship. So is India the exception and we should think about the rest of Asia in a different way? Or is that model, you think, is the Asian model?

D. Barton:

I think there are actually quite a few different models in Asia. I think India has, I would agree with what has been said, huge amounts of things going forward with entrepreneurialism and so forth, but it has a lot of challenges. I completely agree with Shiv.

I mean, I heard a number. I do not know if this is correct, but something in the order of 320 million jobs have to be created in 15 years. You think about in the U.S. we are worried about creating 43 million jobs. You think about that China has this youth unemployment, I think, is a big worry. You have to create jobs.

I would argue that there are many things to be taken from India, but one of the things I would just want to add in which is, I think, a lesson learned, which is not what India does but I think others do, which is stable long-term governments, long-term views.

I think of the reasons why China is doing so well – and this is up for debate – is there is more of a long-term perspective. And you find that in Korea, you find that in Singapore, in Hong Kong, and you are finding that now in Indonesia.

That is a big gap compared to the West, where you have got governments thinking about, at most, two years maybe, and someone mentioned leaving problems for others.

I remember we did some work with the Korean government. When President Lee came into his role about three years ago, he asked for a 60-year vision. I remember saying, "You mean six, right. Not 60." He said, "No, 60." I said, "You must be crazy. I mean, how do you even..." He said, "Well, we like to think in those timeframes."

And I think that a lot of problems we have are long-term; they are not short-term. So that is another part. I think actually India, the government, have been a little more long-term, but is less long-term, less, frankly, deliberate; infrastructure is a disaster in India, I have to say. I think it takes way too long to be able to get things done and there are huge productivity challenges, whereas it has worked extremely well in China—maybe not from a rights point of view, because you would just get your house bulldozed, but they build the road.

So I do not think that there is an Indian model, but I think there are components of it that the West can definitely learn from; I wish we had more long-term thinking in our governments to be able to deal with some of the big issues that we deal with.

B. Salzberg:

Just adding to that, if I could, Dominic, I identify the lessons learned from a positive perspective. There are many challenges, and I think you have identified two that really concern us, and that is the infrastructure.

In India, I think, the World Economic Forum identified, through a competitiveness survey, that India was ranked 89th out of 139 countries in terms of infrastructure. They did sort of sub-scores for electricity and telephone, and they were ranked a 115th out of 139.

For business to really thrive, and for the economy and for India itself to be sustainable, as we are talking about as the topic of our agenda here, something really needs to be done to reform that infrastructure and perhaps as a lesson learned, to think about that. Perhaps China has done, in some ways, investing in infrastructure earlier than, perhaps, India has.

B. Moftah:

So, sorry.

I. Ritossa:

Ivan.

B. Moftah:

Go ahead.

I. Ritossa:

Sorry, Basil. I was going to add to something that Dominic said; that when you live in Asia and spend a lot of time in New York and London, you really get a sense of the different political system. I mean, they are all democracies, but they run very differently.

Dominic, you talked about long-term, which is absolutely right. But I think it is also a necessary, but not sufficient, condition, because you have the Japanese, who also think long-term, and you can see that they have had two lost decades and it looks like they are entering a third lost decade.

I would add two other things. I think the first one is, as Professor Chan said, very commercial. Now these governments are very commercial, they think about GDP, they think about regulation, they think about growing industry, growing companies, etc., so very, very commercial-focused.

That aside, the third thing is also willingness to change course, or adapt the economy or change direction, if they see that the world has changed or if they are on the wrong path. And so the combination of those three is very important. They spend less time thinking about getting re-elected at the next elections in two or four years, depending what your cycle is.

S.V. Khemka:

If I may just add to that, I think, perhaps, the Indian government and the politicians are a bit too commercial.

And perhaps they think a lot about the elections, so that may be one of the issues in terms of...

B. Moftah:

Let me pick on your accent for a second, Ivan. What about 'down under', Australia, what is that? Is it part of the Asian story, how you see it, or not? Is it Asia or not?

I. Ritossa:

That is a good question. Look, it is definitely part of Asia. I mean, 50 years ago it was part of the U.K., and it was Mother England. Whereas if you go to Australia now, you can definitely see it is part of Asia, culturally, etc. And you can see that it is economically part of Asia.

You know, people forget that less than ten years ago back in '02, the country was on its knees. When you had the tech boom going on globally, people were saying, "You are an old economy. You have got nothing to offer in the new industry; you are just a big hole in the ground, and nobody wants those commodities anymore."

And the Australian dollar was trading below USD 0.50. In fact, you could have bought as much as you wanted at USD 0.47. And here we are, 2011, and it has got what everyone wants: resources. The demand is

infinite and supply is diminishing. You cannot buy enough Aussie dollars at USD 1.10.

So it is very tied to Asia, but I think in some ways... and I was talking to some of my colleagues before at Barclays Capital. Just speaking privately as a citizen, it is disappointing in terms of not squirreling away some savings, given what is going on down there.

And if you have a look at what Norway is doing with their sovereign wealth fund, you know, we have not done that. Norway has got 4 million people, but we only have got 20. We are not a massively populous country, and there has been no sovereign wealth fund, we are running a fiscal deficit, and you know how the world works. It's yin and yang and one day, China will slow down and demand for commodities will come off, and I worry that we will have nothing to show for it.

B. Moftah:

I want to bring our audience in, in a few minutes, but before I do that, I really want to come to the, sort of, final topic or final question if you like, which is this host country that has hosted us wonderfully for the last couple of days.

You would not know it by this event, but there have been discussions in the past about: is Russia a part of that BRIC acronym or not? Does Russia fit into that story or not? Does it fit into that growth pattern; I know we have shifted the time zone, did that really make it or not?

V. Voitsekhovich:

There was an interesting comment yesterday made by our First Deputy Governor of the Central Bank, that Russia is somewhere in between. So I kind of agree with that to a certain extent.

But really, Russia, just like every other emerging economy, and not necessarily a BRIC economy, is facing similar challenges. And I think President Medvedev framed the concept very well a couple of years

back at the Krasnoyarsk Economic Forum. He identified the concept of what Russia needs to do; it is the concept of the 4I's: institutions, investments, innovation, and infrastructure.

And I think that kind of sits very well: migrate from being a largely commodity-dominated economy, with China being the largest buyer of these commodities. And that is why we are so close and we can be affected as a country.

But Russia does, indeed, possess certain skills and certain skill sets in several important industries, which are critical for at least the infrastructure part of that concept – heavy engineering, aerospace, materials – and it does, indeed, export even to countries like India, some of that.

The power sector, you take nuclear power. Again, this is one of its core strengths. It just must commercialize the concept to a much greater extent.

What you said about the hangover of communism is very much true, because the commercialization of projects and of new ideas and innovative ideas is something that we really do lack.

To that 4I concept, I would also add one important piece which came to me from India. It is called inclusion: inclusion, inclusive growth, which includes the population that is underdeveloped, underbanked, undereducated, etc.

Russia also has a population that needs to be included in the growth story. That also must address the issues of small and medium-sized business, so the investment climate needs to be improved dramatically. But it will not mean anything unless it serves just one purpose: productivity improvement. If we do not improve productivity – and that, again, relates to any country – nothing will change.

B. Moftah:

Great, thanks. As a 20 year veteran, Shiv, of Russia, what is your perspective? Would you agree with Vlad or would you...

S.V. Khemka:

Yes, I think Vlad made some very important points. I think Russia has a slight problem with seeing itself as a resource supplier. And so I think that is something Russia needs to be comfortable with; there is nothing wrong with being a resource supplier, and you have got China next door, and all of Asia and all that growth.

And if you do it in the right way, that is a huge opportunity, and I think Russia needs to get comfortable with that self-image as a resource supplier, number one.

Number two, I do think that the Soviet legacy of investment in aerospace, in technology, in defence, and the tremendous education system that was built – which has weakened a bit in the last couple of decades, and which I know they are trying to strengthen again – the human talent here is exceptional and has always been exceptional. That human talent can be revitalized – ideas like Innograd, etc. – but I think it needs to be broader; it needs to be countrywide; it needs to be a much broader longer-term plan.

I think with that, Russia can revitalize itself as a technology centre as well. So I think a technology centre, a supplier to Asia and to Europe and the rest of the world in terms of materials. I think those two things, plus strengthening itself as a financial hub for the region and perhaps globally, just like Toronto is a mining hub. There is no reason Russia could not be a commodities or financial services hub.

So I think, if you look at those types of things, Russia can significantly upgrade the lives of its people. I think the real challenge Russia faces is a demographic one, and Russia needs to find ways to address that. Because by some reports I have read, by 2050, the population, I have

seen numbers as low as 90 million; 90 to 125 million people by 2050. That is a scary decline in population.

B. Moftah:

Great, thank you. I do want to bring in the audience now to ask some questions, and so if you can just raise your hand we can pick you out.

I always have plenty of questions, by the way, but I prefer to have them from the audience. Let us start over on this side.

From the audience:

Yes, thank you all. It has been a very interesting discussion. In addition to the financial and economic aspects around the Asia growth story, I wanted to ask whether any of you think that the growth story could be impacted by the security situation, the geopolitical situation, around Pakistan and Afghanistan, the China and India factors around the security situation, and can that affect the growth? Does that worry any of the panellists?

B. Moftah:

You want me to pick on someone, or do you have someone in mind to ask the question?

From the audience:

No, I would not do that.

B. Moftah:

Shiv, why don't you?

S.V. Khemka:

In terms of India, I certainly think that one of the greatest risks for India going forward is some of its border issues and, I think, our own internal

governance; we are a huge country: 1.2 billion people. In the last decade, we have added 200 million people.

If you look at that kind of growth, the homeland security situation and the risk of conflict with our neighbours is a very significant worry, because the borders are still relatively porous, the cultures are similar and therefore porosity has increased. I think it is a very serious concern.

B. Moftah:

Dominic, how do you factor that risk of the... you sort of described a very positive picture; how do you factor the risk in?

D. Barton:

I think it is a great question. I guess there is not only political risk, but food security is a risk. The fight over resources is a risk.

Health; we have forgotten about SARS and H1N1. I mean, people know in China; you go into a tier-four city, you are talking about Cambodia-, Bangladesh-style developed. So I think there are a lot of risks. I am more of an optimist, so I try not to say it, but there are some big ones that are there.

This issue, the India-Pakistan issue... even, there are still, I believe, underlying tensions between China and Japan. If you ask youth, even, in China, how they feel about where people are, this is not a politically correct thing to say. There are concerns about that.

So underneath this, there are those tensions, and that is why I hope that it is social capital. That is why I think trade is important – moving people back and forth – because there are these views people have.

What I worry about is, actually, I think the governments there do not want to stop, have a crisis and stop the growth. What I worry about is a mistake. By a mistake I mean a U.S. naval vessel running over a North Korean fishing boat, and all of a sudden you get something erupting.

So I worry about mistakes that actually trigger something, events that are there, yes.

B. Moftah:

Let us take a question from this side.

From the audience:

My question is on India. It has been said that India is a dynamic society with a very weak government, a weak state. To what extent do you think that issues of bad governance or over-governance and bureaucratic regulation can—not necessarily derail India's long-term growth, but significantly slow it down?

S.V. Khemka:

Well, I think the growth rate you are seeing in India is in spite of, in many ways, rather than with the help of, our great leaders. So I think that the hampering is already there, so one can only imagine if one reverses the thought, that if one unshackles the economy, what could be the real rate of growth.

So I would reverse that view. But I think there is no question that we have a governance deficit in our country. We are actually a bit like Europe, as India has, you know, 16 different languages, 600 dialects, a melting pot of religions and cultures.

So, India is very difficult to govern. I think it is one of the most difficult countries to govern, and I think it is a huge challenge and a huge opportunity, as well.

From the audience:

Is that a function mainly of the Indian state system, or do you think that the problems go deeper?

S.V. Khemka:

I think the democracy that is being born and which has grown in India over the last 60 years has many strengths and weaknesses. The strengths are that the voice of the people is now very much there. So I think for India to derail because of one leader who wants to significantly derail it, I think is difficult. I think there are lots of checks and balances in the system.

On the other hand, there is, perhaps, too much debate; too much discussion, and not enough long-term focus and leadership, and that, I think, is where the problem is. And the democracy will mature, we hope, over time.

It is about leaders. It is about finding the right quality of next-generation leaders who can actually create the consensus and be part of the global economy, and create seamless communication between a villager and the global world.

B. Moftah:

And when I am in Mumbai, I never know which channel to watch. There are so many of them that you can watch debates on.

S. Vikram Khemka:

That is right.

B. Moftah:

Barry with that same point, yes, please.

B. Salzberg:

Sorry. One fact, and then a little bit of a tangent to express the issue even further.

The World Bank did a Transparency International Corruption Index, and India ranked 87th out of 178. So it is very clear that there is absolute room for improvement in governance in India.

The second point would be that it takes a very long time to get through the processes to do business in India.

So notwithstanding the environment that I articulated earlier about professional services, today it takes 218 days to obtain a business license in India. In Vietnam, it is 50, and so there is yet great opportunity within India to create that type of environment, which is largely governance-related.

B. Moftah:

I want to go to a question, sorry. Vlad, do you want to add something?

V. Voitsekhovich:

Yes, I just want to say, on a positive note, that India has been liberalizing many areas of economic activity. For instance, the financial sector after the nationalization of the banks in early 1990s, is still going on.

Foreign banks can set up branches very easily; it takes a long time, but it is easy, straightforward. The same is happening in other sectors of manufacturing, retail, etc.

But I just wanted to point out from a civic point of view that the Right to Information Act, which India enacted, is such a powerful tool. Every citizen can know, has the right to, and not only has the right to, but gets, the information that he wants on anything that has to do with either public service that needs to be rendered, or information about a politician or something.

B. Moftah:

Thank you. Sorry; to your question.

From the audience:

Yes. Just a quick one to Dominic specifically. If you had to advise Asia on five things to watch out for... look at Japan. I am shocked at how terrible things are from a government point of view. I mean, the DJP came, in and they were hoping to do 101 things; they have done nothing. It is abysmal.

Australia: they have done very well in the mining industry, get out of the mining industry, and it is very worrying. They are not saving any money, and things are not looking too good.

If you had to look at Indonesia, they came from nowhere, and now, under Bambang, they have done really well, my goodness. Korea has come from nowhere, and they are eating lunch with the Japanese. It is cool, to go to Seoul now.

Five things you would say in terms of: watch out, Asia. What would they be? Because we do not want to be like Europe; Europe is difficult now. What would you do?

D. Barton:

It is a great question. I do not know if I can come up with five. But maybe with my colleagues' help... but I think there is... let me put it this way. One is on the governance side. I do think there is something about this long-term thinking, and is there a way to put some things to the side—some economic thinking, I do not think should be so much debated.

This, again, maybe this is controversial from a democracy: imagine if we were all able to vote on whether the Federal Reserve should raise interest rates or not. We do not want that to happen. I would actually try and keep as much of some of the economic development out of the hands of politicians. That may be a very naïve thing; it is maybe a dream or a wish. Maybe there are risks with that.

But some of the longer-term competitiveness, economic policy, education: these are things you cannot keep changing every two years. And I go back to Barry's point, I agree: I think Japan is the sad case. I think it is actually because they have terrible long-term thinking; they are changing Prime Ministers like you change milk cartons, and that is the saddest thing when you have got a country with incredible talent.

I still think that is one of the technical meccas, if you could call it, of the world. They are just not making the changes that are required, and I just wonder how long the Japanese people will put up with that stuff.

So this governance thing is a very big one: to keep that perspective in play.

The second, as someone mentioned, is inclusive growth, which I think is very important, because one of the risks I worry a lot about is inequality, rising inequality.

I mean, China is fine while it is growing. I remember living in Shanghai; there was a Rolls Royce dealership five minutes to the right of where I lived. And then five minutes to the left was a group of 500 migrant workers living in unbelievably tough conditions. I used to ask my friends how they could deal with that, and they said as long as the tide is rising, that is fine.

The tide may not rise all the time – that does not happen – so I would be focused very hard on the inequality. That is not the government's job. That is business's job; that is our job, because if we do not have that stability, we are going to have stuff like you would not believe.

I think that is rising in Asia. I am generalizing, but it is rising. It is something that is interesting: what you said, Bambang Yudhoyono is very worried about that. Everything he talks about is inclusive growth.

I think I am running out of... I only have two recommendations.

B. Moftah:

Anything, Professor Chan from Hong Kong?

Professor K. C. Chan:

Actually, I think Dominic had some good ones.

I also worry about the generational change. Maybe not so much politics per se, but the idea that now we are leaving an older generation—people who have a social consensus about how to achieve growth, how to make sacrifices, and how to leave things with the government. And in a way, it worked, OK.

But I am worried about the fact that we are now going to a new generation: the Twitter generation, or whatever. So I think the kind of consensus that we saw may not be there. As Asia and some of the richer countries in Asia become more mature and face new challenges, then I think that is a problem that I see.

B. Moftah:

Great. I think we have another question in the audience.

From the audience:

Hello. Thank you very much. I am Amandisan from South Africa.

Dominic has sort of raised an aspect of the question that I wanted to ask, because if we look at China and India, which are sort of powering growth and development in the Asia region and globally, they also have huge development challenges – poverty, inequality – and I get a sense that China is more conscious of that, is more sensitive. Almost as if it is horrified by the spectre of still having to deal with huge poverty and inequality. India has a very strongly growing middle class, and a very big middle class.

But my question is whether this issue is being addressed speedily enough. Is there a real momentum to closing that gap, to really addressing that legacy of poverty?

And perhaps an unrelated question that I would like to ask: I read a very interesting report about the India growth story over the last five decades. There was a very interesting conclusion that was drawn there: that one of the challenges of today is institutions, and that some 50 years ago, when India did not have the current level of growth, it had very strong institutions. Now it has very huge growth, and all of these things that are working well for it, but the institutions have gone down. Is that a true picture of India? Thank you very much.

B. Moftah:

OK. Let us take the first question.

Ivan, if that is OK, are they doing enough to close the middle class? Are they doing enough to build that?

I. Ritossa:

Yes, I think Asia in general is very focused on that. As you said, China is very focused on that for civil unrest reasons. And the Arab Spring has really brought it to the forefront for the politicians in Asia, really across all the countries.

It is not just in India and in China where there is still a very large amount of poverty, but it is also in very developed countries like Singapore. And if you have a look at the election held last month, there was a big swing against the ruling party that has been ruling since 1964, and the economy is booming. The economy is growing at 20% plus, unemployment is next to zero, and yet those are swinging against it.

I think that comes to your point, Professor Chan, around the next generation who weren't there to build a nation and are now enjoying the fruits, get a little bit fat and lazy, and look at other issues.

I think also the point that Dominic made is that it is not just poverty, but the gap between the two. And there's a real sense that, even in the

countries that are doing well, that the elite at the top are moving away from the rest.

In Singapore, they changed 11 out of 14 cabinet ministers after the election, which is extraordinary. So the point is that they are focused on it, and particularly, the Arab Spring has got them really focused on it, from what I see.

B. Moftah:

Shiv?

S.V. Khemka:

If I may just go to your question, because I think it is a very critical question, and it goes to the heart of what I see as a very big long-term risk: that you really have two Indias. One India is wealthy, middle-class, doing very well. But the second India is impoverished and completely alienated.

If that happens, I think the chance of huge civil unrest is very real. But the fact that it is a democracy, the fact that peoples' votes are very, very critical, means the politicians are very focused on and conscious of the issues. They are very aware of poverty, inequality, and all these issues. Are they doing enough? I think not. And I think that partly is a systemic challenge. I think what you will find, though, in India is a huge amount of participation by NGOs and business in social activities, which is unusually high compared to many emerging markets as well. I think there is a substitution of some of that social work being done by corporations.

For example I know ICICI – Vijay is here – and ICICI is one of India's leading financial institutions. They have a very strong program in social activities.

Vijay, you may want to say a few words about that.

Vijay:

Yeah, I think the question was very interesting and I was actually tempted to jump in. I think for the first part of the question, I would move back to what Shiv just said.

India is a democracy. Your first comment was whether people are paranoid, are they thinking about the inclusive? I think the short answer to that is there is deep talk. There is deep discussion, and in fact, that is a very strong preoccupation.

When you talk to the regulators, when you talk to the senior bankers, this is what is actually becoming integral to strategy, and it is being driven very, very passionately.

So are we seeing results? I think, there, I would agree with what Shiv said, that it is very early days: not yet. I do not think we have been able to crack the models of viable success, and I do agree with whatever kind of work that is happening right now.

That work is actually being driven: not so much by government directly, but more by the private sector, more by people who want to do social service and trying to get into them on their own.

These are fragmented initiatives which are happening all over. So there are attempts that certain corporations like ours are making to give an integrated scale to this whole thing. We are investing a percentage of our profits every year towards making investments, research, and trying to build models which can be scaled up.

I think we have seen some pockets of success in certain parts of India. Again, I would say that these are early days, but these are the kinds of reasons for which we are trying to bring momentum towards these. A lot of attention is being paid, a lot of talk is happening at this stage, but the outcome, I think, is yet to be seen.

The second part of your question: the institutions.

B. Moftah:

Sorry, I apologize. I am going to cut off just to give time for other people.
But thank you very much for that.

I am going to take one last question on this side, and then we will wrap it up for today.

From the audience:

A very small question: what do you think about Vietnam?

B. Moftah:

Vietnam, did we miss one? Dominic, you want to try?

D. Barton:

Yes, very good, we should have mentioned it.

I think it has, what, 88 million people? I think 50% of the people are under 29 years old. I think it is on the move, and you see a lot of the manufacturing that has been done in China is actually shifting to Vietnam. It is very well-positioned in Asia as logistics hub, I think.

I would argue though that they are little further behind on the communist hangover point that was made before. It is still taking time to shift that; it is not in the same level as maybe Russia, but I think it is going to be a very important economy; lots of entrepreneurs.

B. Moftah:

Great. Shuli?

S. Hu:

I should say in addition that the rather radical political reform in Vietnam has been very impressive toward China.

B. Moftah:

Great. Thank you very much.

We came here to discuss how sustainable the Asian economy is, and I think what we heard was that not only is it sustainable, but it is imperative that Asia plays its role on the global platform.

We talked about maybe building a new government system, so I think we are going to have to get a few people together to figure that out and how that may work.

Australia is part of Asia; we know that much. China and Russia are more similar than you think they are. India is clearly hot but has its risks. And Hong Kong and Singapore are definitely cities to keep an eye on or to think about what they are doing.

I would not want to close without mentioning Japan, and I will mention a small story on Japan, because I think we cannot talk about Asia and not talk about Japan.

And I will tell you the simple story. As the Japanese woke up on March 12, the day following the earthquake, there was obviously quite a bit of chaos and unrest, and people trying to figure out what happened and what was going on.

Within our business, people started to ask the question: will the stock market open on Monday? Will the Japanese stock market open on Monday? And that became a very important, critical question for our systems and tools and all of that.

There were lots of phone calls and meetings and so on, and finally somebody managed to reach the head of technology at the Japanese stock exchange and said, "Will you open on Monday?" This was on Saturday afternoon.

The simple answer was, "Why would we not?"

That force and the force of the way that Japan and the Asians think is, I think, what I would leave us with in terms of sustainability.

Thank you very much.