

Exim Bank's Commencement Day Annual Lecture 2014



“The Great Convergence: Can India Make It?”
By Prof. Kishore Mahbubani

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The Great Convergence: Can India Make It?

Prof. Kishore Mahbubani

Ladies and gentlemen, it is a great honor to address you this evening. Let me begin my remarks by emphasizing that, unlike many of my esteemed predecessors at this lecture, I am not a professional economist. My expertise is in international relations and geopolitics, two areas which are deeply impacted by trade and economics. The same is also true vice versa. Hence, I hope to speak to you today about how the interplay between today's geopolitical and economic conditions have led to what I call the “great convergence,” a concept I recently wrote a book about. I will also discuss how India is positioned in this great convergence. My lecture this evening will comprise of three parts: I will attempt to concisely describe the great convergence, then I will discuss why I believe it is taking place now, and to conclude I will talk about India's opportunities in the great convergence.

My book, *The Great Convergence*, is one that runs against the current zeitgeist of pessimism in the world today. This is a golden era in human development, even compared to the state of the world just a few decades ago. This assertion has generated a lot of controversy but the data backs it up. Far less people are dying in interstate wars today than in any period in human history. In the 1950s, there was an average of six interstate wars per year; in the first decade of the new millennium, the average per year has declined to just

one. The average number of battle deaths per conflict in the post-Cold War period is 76 percent lower than during the Cold War. In terms of internal armed conflict, the Peace Research Institute in Oslo projects that the proportion of states involved in civil war will decline from 15 percent in 2009 to 7 percent in 2050. If you are interested in this, Steven Pinker's *The Better Angels of Our Nature* presents a comprehensive, rigorously researched case for the overall historical decline of violence in our world.

Similarly, absolute global poverty is also waning. The halving of global poverty is one of the few Millennium Development Goals (MDGs) that will be met on time. In fact, it was accomplished in 2010, five years ahead of schedule. The US National Intelligence Council also predicts that global poverty will be virtually eliminated by 2030. This dramatic reduction in poverty has yielded immediate and tangible results. Global infant mortality rates have drastically declined from 63 deaths per 1,000 live births in 1990 to 35 deaths per 1,000 births in 2012. Unfortunately, India's record has not matched global performance. India's poverty rate has only been reduced by 36.3 percent as of 2010, and the World Bank projects that India will be a few years late in halving it. India's infant mortality rate is likewise much higher than the global average, with 43.8 deaths per 1,000 live births.

Let me now give you a statistic that will be the most important thing to take away from this lecture: in 2010, there were 850 million people in the global middle class. By 2020, the middle class will number 3.2 billion and 4.9 billion by 2030. In Asia alone, the middle class is expected to triple from 500 million in 2010 to 1.75 billion by 2020, accounting for 85 percent of global growth. Half of the global middle class will be Asian in 2020, and almost two

thirds in 2030. This is an extraordinary development unprecedented in human history which has had and will continue to have enormous ramifications for our world. Again, however, this massive transformation has not been taking place as quickly in India. As of 2010, India's middle class numbered 69.17 million people, or less than 6 percent of the total population. By contrast, the size of China's middle class is currently estimated to be more than 300 million, or about the size of the entire population of the United States.

These trends are rapidly closing the gap between the West and the rest, reversing what Samuel Huntington called the “great divergence,” when the West surged ahead of Asian countries with the Industrial Revolution¹. But we are experiencing not only a great convergence in material well being, but also in our values and aspirations. All around the world, people want essentially the same things: to rise to a middle class standard of living or above, for their children to be educated, and to live without threat of violence conflict. This has created a greater sense of understanding among peoples of different cultures and even civilizations. This is what the great convergence is all about. Specifically, I suggest in my book that humanity is converging around what I call a “consensual cluster of norms.” These are: modern science, logic, free market economics, the social contract and multilateralism.

I don't think I need to remind you that India is excelling in modern science. Indian students earned 24,800 science and engineering degrees in the United States in the 1989-2009 period, the second largest number awarded to foreign students. India also outranks the United States, Japan and China in the number of science and engineering graduates it produces each year, with 690,000 maths and science students graduating in India every year. India has

SarajuRath, “Scientific instruments in pre-modern India and the global circulation of knowledge,” International Institute for Asian Studies newsletter (2008). http://www.iias.nl/sites/default/files/IIAS_NL56_32.pdf.

the second largest pool of scientists and engineers and the second largest number of trained doctors in the world.

Steven Pinker's book, *The Better Angels of Our Nature*, which I mentioned earlier, suggests that the decline of violence can be partly attributed to what Pinker calls the “escalator of reason,” which takes us away from violent impulses due to an ability to empathize and identify with people even from other countries and cultures. The worldwide web has done much to facilitate this. When Chilean miners were trapped underground for 69 days in 2010, an astounding one billion viewers watched the rescue live on TV and the Internet. The proliferation of American style MBAs among policymakers and business leaders around the world has created a common language and set of values among elites. We saw how our interdependence and connectivity can help prevent conflict when we witnessed the flare-up in the border dispute between China and India last year. Though tensions were running high on either side, leaders of both sides were very calm and pragmatic in their efforts to defuse the situation. Far too much is riding on the China-India relationship to risk an outbreak in violence. Bilateral trade in 2013 was valued at \$65.47 billion and there is a rising number of issues in which both countries have common interests, such as the situation in Afghanistan, international terrorism and climate change.

The third norm is free market economics. The end of the Cold War may not have seen the end of history but it symbolized the triumph of free markets over planned economies. Now, with the exception of North Korea, no country in the world denies that free markets promote growth and development. The Indian economy got a huge much needed boost after the

liberalizing reforms that the Narasimha Rao government implemented following the 1991 economic crisis. In 1992, GDP per capita shot up by 12.8 percent. China, which has taken its liberalization reforms begun by Deng Xiaoping much further, saw its GDP growth rate grow from an average of 5.3 percent in the period of 1960 to 1978, to a 9.41 percent average in 1979 to 1998.

I have noted in my previous speeches and articles that the era of strong leaders is over. We will never get another Mao Zedong, Park Chung-hee or Joseph Stalin. The swelling ranks of the educated middle class demand more of a voice in their governments now, and want to partake in the policy process instead of simply reaping or tolerating policy results. More and more societies and governments are accepting the rules of the social contract. We saw this in the Arab spring protests in the Middle East and North Africa two years ago, and we see it in less dramatic cases, like the growing role of opposition parties even in Malaysia and Singapore where the ruling parties have been in power since independence. The election of the Aam Admi Party into power in the Delhi legislative assembly elections last year also demonstrates the strong new demands for more open and transparent governance. Even in China, a one-party state, the new leadership is taking deliberate steps to reform its image in the eyes of the public. For instance, President Xi Jinping has banned lavish state banquets, and has even gone so far as to specify the number of courses for official meals: four courses and a soup. He has banned shark's fin, saving many sharks (an endangered species on our planet). This attention to public opinion is an implicit recognition by the Communist Party that it needs public consent in order to survive.

The final norm is multilateralism. Our gravest problems today are transnational in nature, from pandemics to climate change, from international terrorism to financial crises. This has led to a proliferation of multilateral initiatives at both the regional and global level in acknowledgement that transnational problems will require transnational cooperation. One key outcome from all of these forums and meetings is that civil servants and government leaders meet more often and have more opportunities for discussion and compromise, which also engenders greater trust among policymakers. For example, the Association of Southeast Asian Nations (ASEAN), the second most successful regional organization after the European Union, has created several offshoot regional institutions such as the East Asia Summit, the ASEAN Regional Forum, ASEAN+3 and ASEAN+8 groupings which bring countries in the Asia Pacific together every year. These include major powers such as the United States, China and India.

These are all extraordinary developments happening at breakneck speed. Never before have so many people risen out of grinding poverty so quickly and never before have so many people been so well-educated or so well-travelled. These conditions create enormous opportunities for canny businesses and policymakers. In my book, *The Great Convergence*, I wrote about N. R. Narayana Murthy's Infosys, one of the pioneers of India's booming outsourcing business, and Vinod Khosla's Sun Microsystems. I have frequently written about the wide disparity between India's potential and its actual performance, and it could not be clearer when you compare the innovation and the quality of India's companies and entrepreneurs with the country's economic performance.

In the United States, where scientists, engineers and entrepreneurs from all over the world compete with each other on a level playing field, Indians consistently come out on top. Indians in the United States have the highest per capita income of every other ethnic group, earning \$37,931 annually in 2010 compared with the American national average of \$26,708. If Indians in India could achieve only half of the per capita income of Indian immigrants in America, India's GDP today would be \$24.65 trillion instead of \$1.85 trillion. Italy, which has 5 percent of India's population, has a larger GDP.

India's full participation in the great convergence is dependent on serious readjustments among the Indian policymaking and business elite. Pratap Bhanu Mehta, one of India's leading intellectuals, spoke bluntly when he said that China has a closed society but an open mind, while India has an open society but a closed mind. China may be a one-party state with limited freedom of expression but its leaders are pragmatic and open-minded, an attitude summed up neatly by Deng Xiaoping's famous saying that it does not matter whether a cat is black or white, so long as it catches mice. India on the other hand is famed for its lively democracy and energetic debates, like Amartya Sen's "argumentative Indian." However, India is still clinging to some outdated and misguided economic concepts, which has unfortunately made it into one of the more ideologically hidebound societies in the world. So-called conventional wisdom goes unchallenged, to the detriment of India's growth.

One of my greatest fears for India is that it will sail right through the golden opportunity that the great convergence represents without taking advantage of it. At the moment, India is in the middle of its demographic dividend. Yet the economy is floundering despite an abundance of young

people in the labor force. As of the 2011 census figures, India's working age population is now 63.4 percent of India's total. China is even exiting its own demographic dividend as India has entered it, creating an even larger opportunity for India to lure investors from China. Yet foreign investors have preferred Bangladesh and Vietnam for manufacturing. The Philippines, a country with less than 8 percent of India's population, has more workers than India in its rapidly growing and highly lucrative business process outsourcing industry.

For India to take full advantage of the great convergence, it needs to leverage certain assets it possesses that it is currently squandering. The first asset is its massive and highly successful diaspora. The combined wealth of Indians abroad is about \$1 trillion, or about half of India's total GDP. While India is the largest recipient of overseas remittances, with a total of \$70 billion flowing into the country in 2013, the Indian diaspora's contribution to the Indian economy cannot be merely financial. India's diaspora represents an immense store of human capital. In the United States, Indians have founded 18 percent of all technology and engineering startups nationwide while comprising less than 1 percent of the total U.S. population. 14 percent of all Silicon Valley companies are founded by Indians. Several top American business schools have Indian-born Deans, including Nitin Nohria at the Harvard Business School, Sunil Kumar at the University of Chicago and Soumitra Dutta at Cornell. Dipak C. Jain, possibly the first Indian to head an American business school, was Dean of the Kellogg School at Northwestern University for 13 years before becoming dean of INSEAD from 2011 to 2013.

Persuading these hugely successful and innovative businesspeople that India sorely needs to come back home after having experienced state-of-the-art facilities and lavish public and venture capitalist funding, not to mention the political and legal institutions that create space for businesses to flourish, will be no easy task. In 2013, for the third consecutive year, India fell in the World Economic Forum's Global Competitiveness Index rankings, slipping to the 60th spot out of 148 economies from the 59th spot the year before. While India did well in the indicators that were based on its sheer size, such as GDP in purchasing power parity terms and domestic market size, it did very poorly in the policy-related aspects, coming in 128th in total tax rate and trade tariffs, for instance. Indians have long proven that they are globally competitive overseas, and it is time that they are given the opportunity to prove themselves on their own turf against foreign companies.

We are already seeing the strength of Indian companies in certain industries. After just five years in the smartphone business, Micromax has the second largest market share in India and is rapidly gaining on Samsung, the number one smartphone brand. Indeed, Micromax has already expanded into other South Asian countries and even into Russia. Airtel is the number one mobile service provider in India, beating out Vodafone, a massive multinational. Fierce competition among domestic companies and multinationals on a level playing field in a notoriously price-sensitive Indian market can only mean good news for not only consumers but other businesses as well, bringing down operating costs.

The second major asset India possesses is its favorable standing in the eyes of the international community. Unlike China, whose rise has been

generating deep concern in the West, India has good relations with most of the world. In fact, as the recent visits of President Park Geun-hye of South Korea and Emperor Akihito and Prime Minister Shinzo Abe of Japan to India have shown, China's diplomatic challenges are presenting new valuable opportunities for India to strengthen relations with its partners.

The third major asset India has is the remarkable skill of its economists and policymakers, which has no equal anywhere in the world except perhaps in Singapore. The Indian government is filled with world class economists, including Prime Minister Dr. Manmohan Singh and Planning Commission Deputy Chairman Dr. Montek Singh Ahluwalia. Reserve Bank of India Governor Dr. Raghuram Rajan famously predicted the 2008 financial crisis, though his warnings fell on deaf ears. Dr. Kaushik Basu, Dr. Raghuram Rajan's predecessor as the Indian government's chief economic advisor, is now the World Bank's chief economist. This list goes on and on. However, Indian policymakers are constrained by gridlock politics that has paralyzed economic growth. *The Economic Times* found in 2012 that large Indian multinationals had enough cash on their books to fund huge infrastructure projects, the equivalent of building over 40,000 km of six-lane highways. Yet that same year private investment in India's infrastructure declined by 52 percent, resulting in costly delays in plugging India's massive infrastructure gap. Companies reported reluctance to invest due to slowing growth exacerbated by policy paralysis.

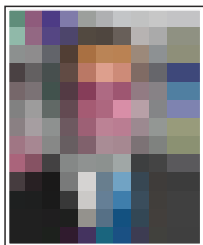
The bottom line of all this analysis is that India remains a country with enormous potential. Indeed, India may well be the number one country in the world in terms of the gap between its potential and its performance. McKinsey recently published a volume entitled *Reimagining India*.² In this volume, I

²Reimagining India, McKinsey and Company, http://www.mckinsey.com/features/reimagining_india_book.

published an essay that said that if the average Indian could achieve a per capita income that was half that of the average Indian in the United States, India would have a GDP that would be \$25 trillion instead of the current \$2 trillion.

Given this massive potential that India has and the enormous surge made by many developing countries in the past three decades as part of the great global convergence, the time has come for Indian policymakers and the Indian public to work out a new consensus on the steps that India can and should take to return to the rates of 7 to 9 percent annual growth that India enjoyed in recent years. The big lesson I learned from working with Singapore's founding fathers, including Mr. Lee Kuan Yew and Mr. Goh Keng Swee, is that to succeed, you must believe in yourself and you must be willing and able to learn from others. Many Indians have demonstrated that they can do both. The time has therefore come for India to seize this propitious moment of history and propel the Indian economy forward at an even faster pace. India's moment has arrived.

²Reimagining India, McKinsey and Company, http://www.mckinsey.com/features/reimagining_india_book.



Prof. Kishore Mahbubani has had the benefit of enjoying a career in government and, at the same time, writing extensively on public issues. He was with the Singapore Foreign Service for 33 years (1971-2004) where he had postings in Cambodia (1973-74), Malaysia, Washington DC and New York, where he served two postings as Singapore's Ambassador to the UN and as President of the UN Security Council in January 2001 and May 2002. He was Permanent Secretary at the Foreign Ministry from 1993 to 1998. Currently, he is the Dean and Professor in the Practice of Public Policy at the Lee Kuan Yew School of Public Policy (LKYSPP) of the National University of Singapore. In the world of ideas he has spoken and published globally. His latest book, *The Great Convergence: Asia, the West, and the Logic of One World*, was selected by the *Financial Times* as one of the best books of 2013.

Prof Mahbubani was awarded the President's Scholarship in 1967. He graduated with a First Class honours degree in Philosophy from the University of Singapore in 1971. From Dalhousie University, Canada, he received a Masters degree in Philosophy in 1976 and an honorary doctorate in 1995. He spent a year as a fellow at the Center for International Affairs at Harvard University from 1991 to 1992.

EXIM BANK'S COMMENCEMENT DAY ANNUAL LECTURES

Sr. No.	Date	Speaker	Presiding Officer	Topic
1)	03.03.1986	Dr. Deepak Nayyar Prof. of Economics JNU, New Delhi	Dr. C. Rangarajan Dy. Governor RBI	International Trade in Services : Implications for Developing Countries
2)	17.03.1987	Dr. Partha Dasgupta Prof. of Economics University of Cambridge, U. K.	Dr. C. Rangarajan Deputy Governor RBI	The Resource Basis of Economics
3)	04.02.1988	Shri Abid Hussain Member Planning Commission	Dr. V. G. Rajadhyaksha Former Member Planning Commission	Foreign Trade Policy in Indian Planning
4)	02.03.1989	Shri M. Narasimham Vice Chairman Administrative Staff College of India, Hyderabad	Shri D. N. Ghosh Chairman SBI	Globalisation of Financial Markets and India
5)	05.03.1990	Mr. Sidney Dell Sr. Fellow, United Nations Institute for Training & Research	Shri R. N. Malhotra Governor RBI	Reforming the World Bank for the Tasks of the 1990s
6)	15.03.1991	Prof. Pranab Bardhan Prof. of Economics University of California, Berkeley	Dr. Kirit Parikh Director IGIDR	The State & Dynamic Comparative Advantage
7)	05.03.1992	Dr. (Ms.) Isher Judge Ahluwalia Research Professor Centre for Policy Research, New Delhi	Dr. V. Krishnamurthy Member Planning Commission	Trade Policy & Industrialisation in India
8)	04.01.1993	Lord Meghnad Desai Prof. of Economics London School of Economics & Political Science, U.K.	Dr. S. S. Tarapore Deputy Governor RBI	Capitalism, Socialism and the Indian Economy

Sr. No.	Date	Speaker	Presiding Officer	Topic
9)	21.03.1994	Dr. Vijay Joshi Fellow, Merton College, Oxford	Prof. Kaushik Basu Delhi School of Economics	Macroeconomic Policy and Economic Reform in India
10)	27.03.1995	Dr. Stanley Fischer First Dy. Managing Director. IMF, USA	Dr. C. Rangarajan Governor RBI	Economic Reform and the Poor
11)	06.03.1996	Mr. Rajat Gupta Managing Director McKinsey & Co., Inc, USA	Dr. Freddie A. Mehta Chairman Forbes Group	Reaching New Heights of Productivity
12)	04.03.1997	Dr. Pedro Aspe Former Finance Minister of Mexico	Dr. Y. V. Reddy Deputy Governor RBI	Challenges of Privatization & Globalisation - The Mexican Experience
13)	30.03.1998	Mr. Charles H. Dallara, Managing Director, Institute of International Finance, Washington D.C.	Shri S. S. Tarapore Former Deputy Governor RBI	Outlook for Emerging Markets & India following the Asian Currency Crisis
14)	10.03.1999	Dr. C. Fred Bergsten, Director, Institute for International Economics, Washington D.C.	Shri A. V. Ganesan, Former Commerce Secretary GOI	India and the Global Trading System
15)	29.03.2000	Dr. Eisuke Sakakibara, Professor, Keio University, Japan	Dr. Bimal Jalan Governor, RBI	Asia in the 21st Century – The Role of India and Japan
16)	22.03.2001	Prof. Nicholas Stern, Chief Economist & Vice President, World Bank, Washington D.C.	Dr. Shankar Acharya, Chief Economic Adviser, Ministry of Finance, GOI	Building a climate for Investment, Growth and Poverty Reduction in India.
17)	22.04.2002	Dr. Per Pinstrup Andersen, Director General. International Food Policy Research Institute, Washington D.C.	Dr. M. S. Gill, Former Chief Election Commissioner, Govt. of India	Indian Agriculture in a Globalising World

Sr. No.	Date	Speaker	Presiding Officer	Topic
18)	05.08.2003	Rt. Hon. James Bolger, ONZ, Former Prime Minister of New Zealand Chairman, World Agricultural Forum	Mr. Jagdish Capoor Chairman Agricultural Finance Corporation	International Trade in Agriculture: Emerging Scenario
19)	10.03.2004	Dr. Eduardo Aninat, Former Dy. Managing Director, International Monetary Fund & Former Finance Minister of Chile	Dr. Vijay Kelkar, Advisor to Union Finance Minister	The Challenges of Globalisation in the Trade & Financial Areas: A Perspective from Developing Countries
20)	10.03.2005	Mr. Rubens Ricupero, Former Secretary General, UNCTAD	Mr. Tarun Das Chief Mentor CII	Trade and Development: Challenges for Developing Countries
21)	02.05.2006	Sir Suma Chakrabarti, Permanent Secretary, Department of International Development, U.K.	Smt. Shyamala Gopinath Deputy Governor RBI	Role of the State in Trade & Development
22)	20.04.2007	Dr. David Hulme Professor of Development Studies, IDPM, University of Manchester, UK	Dr. Rakesh Mohan Deputy Governor RBI	Inclusive Globalisation: Tackling Chronic Poverty
23)	18.03.2008	Mr. Kemal Dervis Administrator United Nations Development Programme (UNDP)	Dr. Arvind Virmani Chief Economic Adviser DEA, MOF GOI	Perspectives on the New Structure of the World Economy
24)	13.03.2009	Mr. Justin Yifu Lin Chief Economics & Senior Vice President, The World Bank	Dr. Dilip M. Nachane Director, Indira Gandhi Institute of Development Research, Mumbai	Beyond Keynesian Economics – A Stimulus for Development

Sr. No.	Date	Speaker	Presiding Officer	Topic
25)	18.3.2010	Mr. Supachai Panitchpakdi Secretary-General of UNCTAD	Dr. Subir Gokarn, Deputy Governor RBI	Reconstructing Economic Governance: An Agenda for Sustainable Growth and Development
26)	27.07.2011	Prof. Yu Yongding President China Society of World Economics	Dr. Y. V. Reddy Former Governor RBI	Rebalancing the Chinese Economy
27)	21.11.2012	Prof. Jagdish Bhagwati Professor of Economics, Law and International Affairs Columbia University	Dr. Subir Gokarn Deputy Governor RBI	Developments in the World Trading System: India's Options
28)	14.03.2013	Prof. Pranab Bardhan Professor of Economics University of California, Berkeley	Dr. Urjit R. Patel Deputy Governor RBI	The Theory of Trade and Development from the Indian Point of View
29)	14.02.2014	Prof. Kishore Mahbubani Dean, Lee Kuan Yew School of Public Policy National University of Singapore	Dr. Dilip M. Nachane Member, Economic Advisory Council to the Prime Minister	The Great Convergence: Can India Make It?

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