

Suman Bery: 'Emerging' implications

India's branding as an emerging market raises many challenges for domestic policy

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What does it mean to be an emerging market? Is it an honour or a trap? Seen from within, India remains a country with the largest number of poor and malnourished people in the world, trying to make its way in a world dominated by countries considerably more affluent than her. This is no doubt the self-perception shared also by the citizens of other important emerging markets, such as Brazil, China and South Africa. This self-perception, in turn, is what generates the sense of entitlement to

differentiated treatment in global affairs, as I discuss more fully below. Shift the kaleidoscope slightly, though, and you begin to see the same countries increasingly portrayed in the legislatures and media of the rich countries as aggressive, fast-growing countries with world-beating capabilities in several fields, commanding increasing regional and global influence through the activities of both their governments and private sectors.

This second view has subtly but importantly been strengthened by the widespread acceptance and diffusion of estimates of GDP at purchasing power parity (PPP). What started initially, some 40 years ago, as a research exercise supported by the United Nations (UN) and the World Bank, has now become widely accepted as the "correct" benchmark of economic scale and importance. The rise of China after its accession to the World Trade Organisation in 2001, the Goldman Sachs "BRICs" report of 2003, and, of course, the global financial crisis of 2007-09 have also contributed to this second narrative.

Both these views of emerging markets have their own validity. Indeed, it would be surprising if the economic transformation of more than a third of humanity were not to generate significant reverberations. Nonetheless, this duality raises important challenges, certainly for our global engagement but also for domestic policy.

The first is the more obvious, and is reflected both in the deadlock on the Doha round of trade negotiations, and the very different narratives at work at the climate change discussions currently on in Copenhagen. In the first case, the large emerging markets continue, rightly, to insist on the differential treatment accorded to them at the beginning of the round in 2001, while the Obama administration, under pressure from both the trade unions and American business, has consistently signalled that the key to a deal is enlarged access to the emerging markets.

A similar difference of perception has been evident in the build-up to the Copenhagen Conference of Parties meeting under the UN Framework Convention on Climate Change (UNFCCC), where the formulation of differential treatment (and compensation) being claimed by the larger emerging countries has been rejected not only by the US, but apparently by other rich countries as well, some of whom have pointed to the "rigidity" of India and China as obstacles to a global agreement. In effect, the large absolute size of the economies of these countries, because of their enormous populations and their prospective growth, is now being used to undermine the focus on poverty and per capita income that underlay the earlier economic order.

It would seem then, that the emerging markets have now been reclassified by the rich countries into a third category, neither developed nor developing. Instead, they are increasingly expected to make their contribution and pull their weight as equals in global governance even while being only partially franchised in key institutions like the IMF, the World Bank and the UN Security Council.

This reclassification has created a need for new mechanisms of interaction between the emerging markets, better to articulate and defend their interests in global affairs. In particular, the attention of the multilateral development banks

has been diverted to the poorest countries, even as the bulk of their income continues to be generated from the emerging markets.

Some of these official mechanisms have sprung up spontaneously, such as the G-20 group concerned with the negotiations on agricultural trade, or the meeting of BRICs finance ministers that now occurs prior to the meetings of the global G-20. In addition, the OECD, traditionally seen as the club of the advanced countries, has been making strenuous efforts to recruit new members from the emerging markets, without any particular concern for income levels.

These official, ad hoc interactions need to be supported by deeper intellectual engagement, of the sort that takes place routinely between think tanks and universities in the advanced countries. Unfortunately, neither the funding nor institutional links across the emerging markets is well established to support such work, despite its growing importance. At NCAER, we have made a modest start with an annual conference with think tanks in China and Russia to exchange views on issues of common concern. But the scale of such activity needs to be enormously larger.

An example of the insights that can be generated through such interaction was evident in an extremely well-prepared conference on health issues in the emerging markets held earlier this month at Green Templeton College at Oxford University. The conference was organised as the first activity of a body called the Emerging Markets Symposium (I am a member of the Steering Committee), with a focus on issues in health policy and healthcare delivery of particular interest to emerging markets. The setting was an informal, off-the-record discussion among a broad range of academics, health practitioners and industry professionals.

I came away with two strong impressions. First was the sheer scale and ingenuity in innovating low-cost business models in the Indian healthcare sector. Of equal interest though was the explanation that these innovations were unlikely to be accepted in the West, essentially because of the rigidity of the insurance reimbursement systems in those countries.

The second point emerged from a comparison of Japan's success and America's failure to contain costs in their healthcare systems. These were almost entirely due to the different role of the state in monitoring fee schedules in the two societies.

Sooner than we realise, India will face the problems and possibilities of a middle income country. While we are currently poor, the rest of the world is treating us as if we will soon arrive. This raises a challenge for domestic policy. Like China, we need to start planning for that future right away, and ensure that we end up where Japan has, and not the US.

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