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N K SINGH

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FROM THE RINGSIDE

From the alpine heights of Davos

I am once again in Davos for the annual meeting of the World Economic Forum (WEF). For more than 34 years, this Swiss Alpine ski resort has hosted the glitterati of politics and business. Davos remains a heady cocktail for those who can either afford it or are privileged to receive an invitation. This year is no different considering that Tony Blair, Gerard Schroder, Jacques Chirac, Mohamad Abbas, the new Palestinian leader, Bill Gates, Angelina Jolie, Elton John, Larry Sammers, to name a few, are all present. Of course Dr Manmohan Singh is missed.

This is my sixth year in Davos which is modest compared to veterans like Rahul Bajaj, Tarun Das and Dhruv Sawhney who are in the double figures of 20-plus. From India, Kamal Nath and Kapil Sibal speak up credibly for promoting India as a profitable destination and try to convince doubting Thomases that we are serious about reforms. Vasundhara Raje is persuasive on the role of federal States and markets Rajasthan for investment and tourism. Corporate honchos like Lakshmi Mittal, Sunil Munjal and the young Malvinder Singh lend credibility to an India on the roll.

The topics span from climate change, business cycles, energy security, international migration, WTO, economic implications of ageing, mitigating cancer, science and ethics of stem cell, sex on the brain and all that jazz. Quite a spectrum. There are over a hundred sessions beginning at breakfast and concluding with a post-dinner night cap interaction.

Davos is however less about meetings but more about the opportunity to network, establish new contacts, reinvigorate old ones and truly mix business with pleasure with unmatched informality. Few Indians are adept in this art. In fact, compared to the opportunity that Davos offers, India has performed poorly. Our modest political presence reinforces our prevarication on foreign investments. At least the newly-formed investment commission should have aggressively interacted with what is clearly the largest presence of foreign investors in this ski resort.

The format of the Davos meeting this year has undergone some change. The broad theme for this year's conference is ''Taking responsibility for tough choices''. On the first day, there was a tower hall brain-storming session for selecting six issues out of 12 areas which (in alphabetical order) relate to China, climate, equitable distribution, Europe, global economy, global governance, Islam, Middle East, poverty, the US leadership and weapons of mass destruction. Poverty and climate change dominate; this is not surprising.

I have myself participated in seven sessions but have found the panel discussion on the broad theme of the ''Economic Implications of Ageing'' quite interesting. This panel included Bruce Alberts, president, National Academy of Sciences, USA, Richard N Cooper, professor of International Economics, Harvard, Karen Kate, president, Pfizer Global Pharmaceuticals, James F Hoge, editor, *Foreign Affairs* and was moderated by Paul Hodge, chairman of the Global Generational Policy Institute, USA.

The panel broadly recognised that the economic implications of ageing population in the developed world will greatly impact business and economies in the years to come. Three sub-themes centered around:

- How does the shift in demographics impact economics today?

- As the trends continue, what policy responses are needed from governments to mitigate the impact of ageing on labour markets and social security systems?

- What can be done by business to restructure workforce and respond to the wider market challenges due to ageing?

An unfamiliar demographic landscape which is emerging has left many governments wondering on how their policy priorities need to change. Indeed, in some countries, longstanding concerns about runaway population growth has been replaced by worries about the onset of population ageing. While between 1950-2000, the world's population more than doubled in size to 6.1 billion, the annual growth rate which peaked at 2% in the 1960s and is currently 1.25% will fall to 0.3% by the late 2040s. The population of 43 countries in Europe will be lower in 2050 than they are today. The biggest absolute fall will be in Russia — from 146 million in 2000 to 100 million in 2050, followed by Japan — from 127 million to 110 million. In the European Union, for example, the elderly dependency ratio (i.e., people aged 65 or more compared to those aged 15-64) will increase from one-in-four to one-in-two and in other countries including Japan, Italy and Singapore, the median age will rise to over 50 by 2050. Among developing countries, considerable differences exist — fertility rates are high in Africa, Middle East and parts of Asia like India but are below replacement rates in East Asia, Central and Eastern Europe.

Demographic imbalances will create multiple challenges because per capita GDP growth is positively co-related to changes in the relative size of the working age population and there is of course strong co-relation between demographic variables and savings. Younger people tend to be net borrowers; older people at their peak working age are high net savers while the elderly tend to dis-save. A lower savings rate clearly implies lower investments with consequential deceleration in GDP growth. Financial markets get adversely affected because as the population ages instead of new inflow of private savings in equity markets, the aged are net sellers of their stocks to a much smaller generation of new buyers. Stock prices tend to decline. Fiscal policies are stressed due to pension outgoes, increased outgo for healthcare systems and inflexibilities in labour policies.

A sensible economic response which harmonises the interest of both developed and developing countries must comprise of structural reforms to boost productivity by reducing the impediments to competition, improving labour market and price flexibility.

A far more liberal immigration policy which while permitting harmonising of skills with a supporting education policy in countries of origin without upsetting the social cohesiveness of recipient societies; freer movement of capital and encouraging dis-aggregation of divisible economic activity for maximising global efficiency need concerted action. Finally, a less unjust world which enables movement of goods, capital and labour for orderly global adjustment is in everybody's interest. There will be difficult trade-off between social, economic and political considerations but no single measure would be adequate and appropriate. An integrated approach is needed to respond to what would be one of the key challenges in the coming decade. There is a limited window of opportunity but unless we act now we will all be net losers. Who would be responsible for coherent implementation? Even Davos has no answers.

Write to ***nksingh@expressindia.com***