

Dealing with powder kegs of 2006

Business risks its gravest challenge in 2006

Madhav Mehra
President World Council for Corporate Governance

Despite prophecies of gloom, natural disasters, relentless rise in the oil prices, wide spread predictions of crash of US dollar, mounting US deficit, 2005 marked the triumph of human ingenuity, imagination and enterprise to beat the odds. 2006 was ushered with much great expectations with the markets registering dizzy growth rates that were hitherto inconceivable.

Not only US has registered a GDP growth of 3.5% but stocks in all emerging markets have grown at 200% in the last two years. Market valuations registered an increase of 126% in Egypt, 108% in Columbia, 80% in Russia, 52% in South Korea & Turkey, 42% in India and 41% in Brazil. GDP growth rates zoomed to 9.9% in China, 9.8% in Venezuela, 9.2% in Argentina, 8.2% in Hong Kong, 8% in India and 7% each in Turkey and Russia. China, India, Taiwan, South Korea and Hong Kong have collectively accumulated \$1.5 trillion worth of foreign exchange reserves.

All eyes in the recent WEF conference at DAVOS were on India and China. India became a toast of the world with its robust GDP growth, buoyant economy, soaring stock market and rising foreign reserves. Indian stock markets were fuelled by foreign investors. India received FII in excess of 10 billion dollars and FDI of \$9.5bn. For the first time the role of democracy in India's slow and steady rise in building profitable global enterprises with huge increases in market capitalisation has been recognised. Overseas companies never made so much profit in China and Chinese stock market has been stagnating for the past 4 years. Also, while China's growth stemmed from massive accumulation of resources. India's growth comes from increasing productivity.

The latest figures from the United Nations conference on trade and development show that the ratio of foreign direct investment to world output that rose from 5.3% in 1980 to 7.8% in 1990 was 21.9% in 2004. According to the World Bank, the flow of remittances to developing countries jumped from 31 billion dollars in 1990 to 167 billion dollars in 2005.

Despite all this the business could be in for 'shock and awe' in 2006. There are several powder kegs that can explode at any time. We have just witnessed one of them in the form of global protests and demonstrations over the cartoons of prophet Mohammad. Iran's intransigence over its nuclear ambitions and Hamas victory in Palestine are just some of the ominous signs. Opium warlords and Taliban are back in Afghanistan and Iraq is getting worse day by day. All this shows that **business risks its gravest challenge in 2006**.

Large parts of the world remain disenfranchised. The economic boom leaves 98% of the world population untouched. The hunger is on the increase everywhere. The US may be bragging about a 3.5% growth, the fact is, it itself is in a poverty trap. A recent report indicated that 37 million people lived below poverty line, up 1.1 million from 2003. Number of people without health insurance edged up by about 800,000 to 45.8 million. The backlash against outsourcing and offshoring is an expression of real concern for job losses being announced in the West every day. India regarded as a software giant is home to world's largest number of hungry people and illiterate women.

There are large imbalances, both inter region and intra region. With the exception of Venezuela, Argentina and Chile much of the Latin American and Sub-Saharan Africa have failed to benefit from it. Both India and China which have fuelled the Asian growth in 2005 are suffering from the imbalances between the rural and urban population. Despite the explosive growth of the mobile telephones in India the tele density in rural India is barely 2% compared

to 45% and 55% in metros of Delhi and Mumbai. In May 2004 when India's economy was equally booming, the ruling coalition lost the general election despite its claim of "India Shining". The rural population revolted because government policies left it in the cold. Farmers are joining extremist Naxalite forces in large numbers in the Indian states of Bihar, Madhya Pradesh and Andhra Pradesh. Last year, one thousand Naxalites marched into a police station in Jehanabad in the Indian state of Bihar, occupied it for several hours and freed the prisoners. Later police had to fire a group of tribals killing 11 of them because they were protesting against the land grab by the government for building a steel plant.

Same thing is happening in China. The public security ministry of China estimated that the number of riots and demonstrations rose to 87,000 during 2005 almost quadruple of what it was a decade ago. China's economic boom that has produced over 9% annual growth in China but left the rural population flat out. Premier Wen Jiabao warned senior rural bureaucrats last month against making a "historical mistake" by failing to protect farmers and their lands. President Hu Jintao warned the politbureau that 'if we cannot succeed in developing agriculture and rural areas while helping farmers improve their lives markedly we will fail to reach the goal of building a comparatively prosperous society'. Davos had a well-attended session that focused on the wave of protests against corrupt officials in Chinese towns and villages.

Both nations could be derailed by regional imbalances and sharpening divide. Their tasks as of all emerging economies is to overcome enormous regional disparities of wealth and spread their growing prosperity more evenly among their populations.

The disaffection and alienation are growing largely because the technology and globalisation are not working for the masses. The wide spread demonstrations against the cartoons of the prophet are not a clash of civilisations but the expression of pent up feelings of a community which has long been left out of modernity because of economic and social injustices not only by the western world but by their own autocratic rulers. The globalisation has failed to integrate these communities and build a culture of enterprise and entrepreneurship. This is a challenge for the business because they have everything to lose if the discontent spreads.

So what's the solution? We must change our models of dialogue, debate and democracy. The Socratic model of adversarial debate aimed to demolish opponent's argument rather than exploration and understanding of each other's beliefs and perceptions is unsuitable in the complex world of the 21st Century where there may be many aspects of the same truth. We have to move from monologues to dialogue and learn to value dissent, difference and diversity. This is the only way to have constructive engagement with all stakeholders. We have to use transparency and disclosure to rebuild trust with local communities. While November's unrest and arson attacks affected many suburbs around Paris, the town of Issy-Moulineaux to the south of the capital remained unaffected. Its Mayor Andre Santini had invested heavily on technology infrastructure in an attempt to attract international firms such as Hewlett-Packard and Cisco Systems. He also used technology to bring transparency in his interaction with Issy's 63,000 inhabitants. Issy was the first French town to start an internet-based local TV service, and has held an online election for councillors for Issy's four districts. Candidates campaigned via their own blog pages and discussed issues with voters through the town's website. All this bolstered Santini's popularity and he has won a landslide victory in the last municipal elections.

Global corporations today have to face new geopolitical realities. It is their neck on the chopping block. Their constituency is global. They have to become the drivers of both social and political agenda and use technology to co-create entrepreneurial solutions to the intractable problems of peace, poverty and pollution. Having cried hoarse all along for minimising the government role in corporate agenda they cannot bank entirely on the governments. The discontent stemming from inequality and injustice provides a lush recruiting ground for the evil ideologues and can spell doom for the businesses. Their biggest challenge today lies in managing diversity and bridging disparities for their own survival. Alternative is chaos and anarchy.

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