

**Flagship dialogue: The future of Asian economic growth**

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**Rakesh Mohan:**

First of all, let me welcome all of you. And everyone in virtual mode on zoom to this flagship dialogue on the future of Asian economic growth. To my mind this is extremely important because, I have said this often in the last three years or four years or so, that relative growth of Europe and north America is really going down for the foreseeable future. World Bank in its most recent output has confirmed that and more in the short term and so does IMF. So, what is the most important for the world is that Asian economic growth continues, should continue to be much higher than the rest of the world. Of course, at perhaps lower growth rate than has been in the last 30 – 40 years. By Asia I mean ASEAN plus China, plus Korea and Japan, that is ASEAN plus three, all of South Asia as well. This region comprises of 4 billion people. And most projections suggest that within a few years this region will have at least half the world's GDP if not higher and similarly more than half of the global trade if not higher. Therefore, the future of Asian economic growth is extremely important. Now Simon... I will introduce the speaker and book writer Simon Commander. With a very commanding presence. He is the managing partner of Altura partners which provides advise to governments and companies in emerging economies. And so, to some extent Asian economic growth is in your hands. Because you are advising them. He graduated with BA from oxford. And then shifted allegiance to Cambridge university for his PhD. And he was stuck in the World Bank for 15 years. Was it immediately after that? Much later? Then, also the European bank for reconstruction and development EBRD where he worked for 13 years or something. He was the tort at the IE business school in Madrid. He has authored a number of books amazingly wide range of subjects. Before this I think the most recent one or I am not sure about that... was software industry in emerging markets. 2005. The state of agriculture development in Egypt since 1973, so you can see software, agriculture. Enterprise restructuring and economic policy in Russia. So, you are responsible for what is happening there?

**Simon Commander:**

No.

**Rakesh Mohan:**

Then structural adjustment and agriculture in Africa and Latin America. So, really very wide spectrum of interests and actual research and writing. So, we are really very, very fortunate to have you speak on 'the connections world'. And your co-author is Saul Estrin. Let me also introduce discussant Shivshankar Menon. Of course, his biggest job has been a distinguished fellow of CSEP, but he also spent some of his time as visiting professor at Ashoka University now. And of course, he served as a national security advisor, the prime minister of India 2010 to 2014. Foreign secretary of India 2006 to 2009. And of course, ambassador to China and other places. He is also currently the chairman advisory board of institute of Chinese studies in Delhi. He is also an author of a number of books, most recent ones in India in Asian geopolitics. So, he is obviously totally qualified for this session. And another book 'choices inside the making of Indian foreign policy'. You are throwing some cold water on the future of Asian economic growth. So, there you go.

**Simon commander:**

Firstly, thank you very much Rakesh for inviting me and Shankar as well. For the invitation and for being a discussant. The book that Rakesh referred to is this. 'The Connections world' –

which I wrote recently with Saul Estrin an old friend and professor in Tennessee. It came out, it is published by Cambridge. Cambridge university press, a splendid organization, but completely immune to any commercial imperatives. So, I would normally have got them to come and try and sell a few books. But that would be beneath their dignity, I think. So, if anyone really wants to buy it or finds it interesting, I have to say perhaps sadly you are best off going to amazon.

**Rakesh Mohan:**

We also don't allow any sales here.

**Simon commander:**

Ok. That is fine then. Cambridge would approve of you, I think. Anyhow, the book actually owes its origins to the last ten years of working primarily in Asia. And in a way also to covid. Because in as we know, in march 2020 it sorts of came along and all travelling stopped and we got stuck at home. There was nothing better to do than to write a book and no excuses to be made for not doing it. So, this is the result and I am really very thrilled to be back here in Delhi. And looking forward to discussion and I suspect some argument. And I love argument. I think the book hopefully deserves argument. So let me get down to really what the themes of the book are and the main issues and arguments that it makes. So, we decided not to be small minded about things. We'd ask a bold question – where is Asia heading on the basis of where it has come from more of the same an argument for instance that has been put forward by people like Justin Lin. Or in directions that will need to change. And the book tries to answer these quite bold issues. Now, we do it by not really just looking in a sort of standard economics way at the sources of growth, the composition of those sources and the like. By picking up on what we found to be a common attribute right across Asia, cutting across systems at different levels of income and different sorts of political arrangements, authoritarian, democratic, sort of qualified democratic and so on and so forth. But all of which had very similar features and those features are 1)- the importance of relationships and networks running between politics and politicians and businesses. And secondly the way in which those relationships play out in the business space. So, it is not just a question of politicians being linked up with a particular business. It is the form and structure of those businesses themselves. And the salient difference that stands out at least from the UK for example or much of the so-called rich world and by the way much of the so-called developing world too is that in Asia we have these business groups. And the business groups are largely family run and based and they are highly persistent and important. And this cuts across these political systems. And this is what is so fascinating. So, just to put it in context a country like Vietnam still a one-party state, but essentially the drivers of the economic growth in Vietnam are largely three or four family run business groups. Many of whom play off very close connections to government but nevertheless also have their own imperatives. And one of the arguments we make is that a lot of the debate that has been taking place amongst economists and policy people about the relative weight of markets versus the state, the relative role of industrial policy as against simply liberalizing, a lot of that we argue really misses the mark. Because actually what is happening in Asia is that there is both tacit and explicit public policy that comes together coordinates and achieves or has achieved major results, major and important results and that can be South Korea with its explicit industrial policy but it can also be other countries including perhaps India where the industrial policy if you want to call it that is much more tacit. Now, in that framework it is very clear that there are

networks of relationships which I will just come to and describe have played quite a positive role. And after all Asia's extraordinary growth and resilience and renaissance really the things that Rakesh alluded to just now are testimony to that. So, to argue that this sort of system is inefficient and generally bad news clearly would miss the mark completely. But the book argues rather that this form of organization and these range of policy levers that are being pulled will tend to have in a sense a lifespan of their own. Looking forward as we do in the book these sorts of relationships may actually have features that are actually quite undesirable and less of a support to Asia's future prosperity and growth. These networks of connections are what we summarize in the title of the book 'the connections world'. The connections world I want to stress right from the outset is not just about me knowing X as a politician or otherwise. It is not bilateral cronyism which has been very well documented. It is much more pervasive, much more important than that. So, what is the connections world made up of. Well, obviously the politicians, political parties and the like and then their businesses. In particular in Asia, well it is Indonesia, India, Vietnam or whatever, there are business groups. And there are interactions like enormously transactional. Politicians want to have campaign contributions, maybe jobs, creation of jobs for their constituents at moments, all of the things by large you often see by the way in the UK or elsewhere. Some of those interactions are less desirable, they are venal but some of it is perfectly understandable. Now, what do firms look for? Well, firms look sometimes about protection from foreign or domestic competition, this has been a major feature in the last 50 years. Perhaps a declining feature. But nevertheless, one that is important. They look for subsidies, loans, bail outs, public sector contracts and very important in India of course, they look to get permits and licenses to do certain things. And that is not just in telecoms or in mining. There are lots of sectors that have that. In this sort of connections world, it is not just about simple transacting. There is also lot of reciprocity at work. And we document that and that is in and of itself quite interesting. And goes way beyond the narrow interests of a social anthropologist say. Okay, now networks, which I am just going to quickly document, tend to come together which common purpose and ways of operating that cut across political systems and geographies. That is not to say they aren't heavily influenced by the political system and the institutional arrangements. So, China and Vietnam I have already mentioned one party states, so much of the centrality in the network, the central positions that players occupying it obviously flows to the political party, the unique political party. And therefore, there is much more concentrated. That is also true in countries that are not explicitly authoritarian in the same way or unique party. So, for instance in Philippines and also in your neighbor in Pakistan, the strategic central nature of relatively few players is much greater than it is in many of the other countries. That in the book we actually used to try and explain why those economies have done much less well than others. So, we actually argue that the intensity of connections and the fact that in say the Philippines six or seven family-owned businesses, business groups occupy most of the strategic space actually holds back the performance of the economy. So, it is the nature of how the network is configured that affects whether it is positive or less than positive for growth and other things. The important other feature of course, is that if we roll back the clock 40 -50 years ago, most of the connections would have run between politicians or political parties and state-owned enterprises or parastatals. Well, that is changed enormously whether through privatization or whether just simply through the entry of private players. So, let's look at this. These are quite interesting network maps which we generate from a data set that we use in the book. Basically, describe the relationships just simply by the degree to which they are connected of politics, politicians, private firms, the green state-owned enterprises and private individuals.

No prizes for understanding which is China and which is India. In China the unique party, everything radiating out like a cyclops eye and they are around it, a bunch of companies, the blue, state and enterprises for sure, they have a lot. But also, a lot of the green private companies and private individuals. And this is true right throughout Asia. In the network space you get more and more private players with individuals or companies and the like. Just to be clear the way those maps are measured is, the size given is scaled by the number of connections that run off each node. So, each node is the same size at the initial start. But then it scaled up according to the number of connections and beneath that you will be able to see who is connected to who. And in the book, we also discuss who has a central location in that network as against those that don't. now, when we say go back, I will beg your pardon, when we go back to that map as I mentioned many of those companies, the green, are private businesses. But as I mentioned before most of those private businesses are actually parts of business groups. And business groups to be clear, there is a long literature by people working in this area and outside of it about Asian business groups. They are not the same as OECD conglomerates. They are business groups in bits of Europe and in bits of Latin America and the like. But they are minority sport and a declining sport shall I say. Asian business groups are largely family dominated. They are often dynastic and there are plenty of Indian examples whether it be Tata in some form or Birla or the others. They are mostly very diversified. They really do an awful lot of things, quite often through a large number of subsidiaries as well. I will come to that in a while. And the most interesting one, perhaps the most interesting thing is, they really hand around. They are terribly persistent. So, if you could even look at a country like Indonesia which has been through a great political revolution, the ousting of Suharto and the like, most of the business groups that were formed in Suharto period are major players to this day. Almost none of them have been dislodged in any material form. So, once they get in these structures they tend to hand around. We have got to ask ourselves why. Well, one of the reasons why is they tend to be organized in pyramids. And that allows the owners, normally the families far high degrees of control than their actual levels of ownership. So, they leverage it. By the way this is not in just an Asian thing, there is a nice article in FT today describing one of the annoyances at I think a hedge fund trying to address the AB share structure that exists in Sweden. But AB share structure is exactly for this purpose as well. So, it is not just unique to Asia. But the scale in Asia is unique. Minority shareholders almost always get a bad ride. They tend to be structures that are extremely suitable for tunneling. And owners just move them around. And of course, the accounting and the other governance type aspects tend to be both obscure and unhelpful. At least unhelpful to understanding what is really going on. The final point we make is that these business groups are really very useful for deterring predators. What do I mean by predators? It might be a politician who you know change of governments, they want to go after them, they don't probably even know quite where to start. It also helps deter other businesses from trying to acquire them a hostilely or otherwise. Now, why these business groups around and why indeed they are so persistent. Well, the general argument was, they came into existence when capital markets weren't developed, they were thin markets, when managerial markets when developed were thin. Probably no accident that the Tatas set up a very good administrative Cardiff very early on in 60s. But I think all of us know very well that right through Asia, with few exceptions these sorts of missing incomplete markets are far less missing and far less incomplete now than they were. The arguments for trying to internalize everything in the business groups are much less pressing both in theoretical and in practical terms. And yet business groups if anything has grown in scale and importance. So, the argument that they are

there to address missing or incomplete markets really doesn't strike home on closer observance. We argue in the book that business groups persist for a variety of reasons. One of which is that they are just immensely useful in the connection's world. And they are not just useful for the owners but they are useful for the politicians. If I want to influence the economy it is much easier if I get hold of five or six owners of business groups and talk to them. Or transact with them in some form or the other. They can be used also by that token for national or developmental goals. Now, that can be both real and it can be also misrepresented as some of the discussion about the Adani groups situation in recent times. It clearly shows. Now, not only do they hang around, persist, but they are also tremendous vehicles for the accumulation of business power which I am going to talk about primarily in terms of concentration and wealth. Just to put it in the slides, the slides are available for anyone who wants them. Please I am sure the organizers will send them out if you do want them. In those pair of slides, you have for instance the number of billionaires between 2008 and 2020 in Asia aggregated by country. It is really quite astounding in... but just between 2008 and 2020 in China the number of billionaires increased eightfold and in India in the same period it more than doubled. Even in places like Vietnam you see it. Perhaps most striking case is probably from the most dynamic economy of the region. South Korea. Where, Samsung and the family that owns Samsung, now account for about 22% of South Korea's GDP, their wealth is massive and the son of Samsung's founder who died a couple of years ago left an estate in excess of 21 billion and that matters as I will show shortly in terms of types of policy one might want to apply to deal with these things. The argument is that the connections world coordination, bringing together resources, working across a range of sectors has not been a barrier to growth, that is absolutely clear. But it has created certain features which will be a barrier to growth if unaddressed. One of them is the attenuation of competition which in turn constrains productivity. The second is the limitation in the creation of good jobs and the perpetuation of duality in the labor market. Massive perpetuation, as true by the way in China as it is in India. Thirdly, which is very important we argue this is not a good framework for really boosting broad based innovation. There are other features that are out there on the slides which also are perhaps not too desirable. Ok. Attenuation of competition, I am going to move at some speed now. In general, these business groups, not all but most, are nor the politicians to whom they often connected are really have any interest in allowing competitors to enter. Unless they bring new technologies in which case, they are often allowed in. But often on terms that aren't necessarily, particularly... are least ring fenced. Entry barriers for new firms are consequently high. So, entry and exit, the sort of dynamics, the churning that you see in most dynamic economies is much less throughout Asia. The exit by poorly performing or inefficient firms notably firms within the business groups is always... it is not only much lower but it is often retarded or held back by intergroup financial transfers and other mechanisms. Many of which are very opaque as well. Now, competition is hard to measure in Asia, I tell you. We are doing some more research on this. When you think about competition you really want to look at concentration, you will want to look at profits and you want to look at consumer prices. The last two are extremely difficult to do at any level of adequate disaggregation. So, for the purposes of this presentation, I am going to stick with concentration ratios. CRs. So, on the left there is CR5 and on the right is CR10 and the comparator for what it is worth in there is the US. Now we know of course, that US has seen an enormous growth in market power in particular sectors. And the live debate whether in Europe or in the US is what should be done for competition policy to deal with the googles and apples of this world. But the level of the economy as a whole bearing in mind how large that

economy is the CR5 for the US is no more than about 3%. What does that mean? It is that the revenues of five largest firms in the US account for no more than 3% of national income or GDP. Now, look at what happens in Asia. In Vietnam the CR5, CR10 ranges between in excess of 30 to 40 plus percent. It is also very high in South Korea and Thailand. In the two massive economies India, China, it ranges between about 10 and 15 percent. So, even in here, these concentration ratios are high. But in the other smaller economies they are staggeringly high. Yes. So, in South Korea as you can see the CR10 is north of 40%. That is quite extraordinary. If there is lots of concentration what happens with employment. Look, anyone at all conversant with Asian history go back to Nehru for instance in this country and what was some of the main objectives of the first governments after independence. Well, they were creation of jobs and incomes and basically dealing with pervasive informality. Well, sad to say that's probably been Asia's greatest failure so far. On aggregate labor productivity is still only about 10 to 15% of advanced economy levels. And although jobs have been created most of those jobs are being created in the informal sector. They are poorly paid; they are low productivity. They are highly precarious. And the business groups create certainly very good and often very productive jobs. But just in very, very limited numbers. And this is also reflected in the firm size, structure which is very important. So, you have a very... it is like a pyramid, you have a very small chunk up at the top of large firms, mostly business group firms, you have pretty much a missing middle. A very few middle size firms and then a great chunk of small and not very good firms or informal firms. That is the \_\_\_ of the concentration. So, the two-go hand in hand and I would say looking forward this is something that is potentially very dangerous indeed. Coming to innovation. There is scope for more extensive growth. In other words, greater applications of capital and labor, driving the economy, there is no doubt that that is true in this country and in some other bits. But in China much less so and certainly much less so in Malaysia and a few of the other richer economies of the region. So, it is very clear that Asia is going to have to pivot towards greater innovation. Now, what does this world of connections and preference and business groups do for innovation? Well, in the book we argue that this is actually quite ambiguous. It is not as if there is a good story and a bad story. There are no bad guys here. It is quite ambiguous. You can for example, Rakesh and I were talking over lunch about this. If you have monopolistic competition, you can have plenty of innovation. Because the few players in the game might be going neck and neck with each other. Might be spurred to innovate. So, that is positive. Business groups by attracting more resources from government, from banks and the like may also similarly have incentives to innovate. After all, why not after all if you can get that. And pyramidal structures don't necessarily act against innovation. After all, if family owners can move it around, maybe they can allocate it in ways that maybe not first best but not necessarily that sub-optimal. But on the other hand, they can also move resources around to bail out poorly performing firms or other pet projects in the line. Then there are other factors like market power, political connections, which simply promote rent seeking. That is the classical argument. And that certainly is prevalent in some of these economies. And finally, the lack of churning entry exits which we think of as being an important feature of innovation economies, innovation driven economies are certainly absent. Okay, now on the point about BGs and innovation the evidence that we refer to in the book and some subsequent papers that we have published basically business groups or their affiliates innovate more than others. But that is no surprise. Certainly, shouldn't be any surprise given what I have just described. What happens in aggregate? How does this all play out at the level of the economy? You know there are various indices like WIPOs, global innovation index, other measures about patents and the like.

To cut to it quick these two diagrams, this is where we relate GDP per capita to R&D spending controlling for the size of the economy. To be quite frank, what you see is there is one massive positive outlier South Korea which does an awful lot of R&D, way more than would be predicted for its level of income and the rest cluster around the fitted line and the confidence interval and some for notably Indonesia way below it. R&D can be a bit of a black box, so, you say you want to ask what is the efficiency of the R&D. So, we relate that to the so-called quality of patents. So, in other words it not just domestic patents, because if you did that for China then China would look to be outstandingly innovative. Actually, most of those patents are not worth the paper they are written on. And most of them actually are posted but not granted. So, even more problems. But high-quality patents are patents that are filed both at home and abroad. In other words, they incur costs and they are filed in jurisdictions where anyone finding them would expect some significant payback to them. Again, you see South Korea sits way up there, outside of the range and China sits way below. So, the long and short of it is that although business groups may innovate more than others, on aggregate Asia is not I think as innovative as we might have predicted. Ok. What are the prospects? I will come to halt in a couple of minutes. The connections what we described is not going to go anywhere by itself. Most of the players derive material and powerful benefits from it. And the logic of market entrenchment is extremely powerful. And high intensity of connections as in the Philippines or Pakistan create particularly powerful obstacles to any change. So, what can be done about it. So, there are a whole bunch of policies. I am going to skip over most of them. Because they are ineffectual essentially. Corporate governance changes, they are all desirable. But they are mostly skirted around. Prohibitions, the South Koreans tried endless number of prohibitions on cross holdings, on pyramids, numbers of subsidiaries, prohibiting banks, financial and non-financial entities to be in the same group and so on and so forth. Only Israel in the last 10 years seems to have made some progress in that way. Now, taxation is another matter. Here there is much more potential. Now, using taxing dividends which is something that is often cited as being a good policy doesn't really make much sense in our view. Not least of all because most business groups actually don't use dividends for intergroup transfers. Additional tax liabilities conditioned on the business group format seemed to me to have much more potential. The last point I want to make which has the most potential and which was initially made operational in Japan and in the last five years in South Korea is the introduction of estate or inheritance taxes. It is actually this that has led the current Samsung chairman to actually announce that none of his children will manage the company in the future. And several other tribals including Hanjin for instance which owns Korean air amongst others faced with various substantial inheritance tax liabilities have also moved away from family ownership. So, there is a great deal of potential in there. Then competition policy. Obviously, this is... now this is really very difficult. Most of the competition agencies are captured weak, technically not very good. But they also focus and afraid completely in a very partial way as in Europe and in America. They look at market power in particular sectors or activities and our argument in the book is that is very important if you can get it to work. But you will need also to look at market power at the level of the economy as a whole. That is something I think has potential to be useful. In terms of putting pressure on politicians to desist from leveraging networks, that is really very, very difficult indeed. There are lots of proposals. World Bank makes a living as it were intellectually out of proposing solutions which never get adopted not because they are not good solutions but because they run into really very difficult feasibility conditions. We list some of them there. I think at that point



I hope this has opened up what we are argued in the book and at least\_or interest. Thank you very much.

**Rakesh Mohan:**

Thank you very much Simon, it is always very difficult for an author of a book to summarize it in as short time as you have. Obviously, there must be much more in your mind that you wanted to do. So, thank you very much for doing that so succinctly. Shankar all yours.

**Shivshankar Menon:**

Thank you, Simon. Thank you for giving us this book and it is as Rakesh said at the beginning it is a very valuable book because it asks the right questions. It asks the big question which is really going to affect our future in India. It is also for me as a complete layman, I did ancient India in Sanskrit, so, to write a book which is clear on an economic subject which a layman can read and at the end think that he has understood something. But what I would like to do therefore is to try and broaden the lens a bit. Because there are three things that I'd like to say and then open it up to a discussion. One thing that struck me reading the book is that you keep coming back to the informality of what actually happens in Asia, of the ways these business groups work, the way you mention for instance that this hollows out both formal and informal institutions and we see this increasingly in Asia and China, certainly in India. You see ruled by law rather than rule of law. You see the effect on institutions. And as you say rightly it is not enough to say markets are imperfect and that is why these are compensating for that. But there is a converse point as well. I think we are at least academically by disciplines we and governments certainly believe that everything should be formal and brought into the formal sector. But it is that informality which explains India's or Asia's success to a considerable extent. If you think of just the effect on a European or advanced country of removing 86% of its currency from circulation overnight. And how different that is from the actual effect in India. So, for me I think there is a risk here that because we use formal categories and we privilege formality and we tend to miss what is... look at Pakistan, look at the official figures. People should be dying on the streets. But that is not what you are seeing. So, for me there is an analytical problem here where we cannot... we don't take into account or at least we don't have the means to understand the value of informality and what it actually does. And I think that is what these business groups; this connections world actually does. In many ways it uses that and has served Asia well. Which brings me to the second point which is your conclusion that it will not serve Asia well in the future. And I think you argue that very well in the book. That assumes that what... and you ask this question yourself actually in the book...whether what exists in Asia is fundamentally different to what existed in rich countries at similar stages of development or income levels. The third question that for me is what is the impact of connections world on these big transnational global issues that we have today. Climate change, on bio diversity, on sustainability and what does this do? Because as you said, the connections world is persistent, these business groups have survived changes in governments, changes in political systems, they have changed... fundamentally economic changes in the nature of the global economy. And they are still at it. So, shouldn't we then say okay, this is a fact of life, how are they going to affect these big things in the future. So, for me these are the three or four big questions that the book throws up. My own sense is that the connections world is it true only of Asia? I don't know, I have always been amazed at how quickly and how homogenous actually formation of opinion and analysis is in advanced societies. Like, you look at after 9/11

in the US and the west for instance. There was an immediate sort of coalescing of opinion. Ukraine is another example. It doesn't take long. I have never understood how that happens. I can't believe that. Or you look at the role of say Goldman Sachs over time. Republican and democrat, it doesn't seem to matter. So, when we talk of this phenomenon of business groups and the nexus, are we... is this uniquely Asian? I am not so sure. I don't know. I am as I say, I am a layman. I am ignorant. But when I look at the issue, for me this is a broader issue that I think is worth looking at. If it is not unique to Asia, then we need to look at its explanatory utility a little more closely. So, I would have loved in this book to see another whole section on comparing these Asian connections world with other similar societies that at the same time at similar levels of income and development. But of course, that is asking you to kill the lily of this. It is already 256 pages. It would be an unfair thing. But I better stop. But thank you for writing this. One of the best parts for me was that it helped to break certain stereotypes and certain lazy habits of thinking that we all carry along. Its... there is an extensive database that there. And the one thing that proves is that rapid growth is not the prerogative of any political system. This is for those Indians who think we need to be more authoritarian and less democratic if we want to grow fast. Nor are there substantial effects from business group affiliation on financial performance in Asia in either direction. Positive, negative. I mean, for me this was and as I said as a layman this is... its suddenly all these... there is lot of shibboleths that you have managed to destroy in the course of writing this book. Thank you for that.

**Rakesh Mohan:**

Thank you, Shankar. You have raised enough questions in your brief commentary for Simon's next book. While you think of your questions let me add a few more questions for your next book. One. Is it correct to talk about Asia? What is Asia? Given that the per capita incomes range from say around two thousand dollars or thereabouts... I don't remember what is Laos per capita income now... to Japan which is 50000 or something of that order. Korea 40000, China over 10 or 12000. So how can all this be lumped into one lot? What that raises the question is that when you are talking about this connection's world, can't last... it will not be a positive thing for very long. Okay. At what stage does that kick in? 2000 dollars, 10000 dollars, 20000 dollars, 40000 dollars or 50000 dollars or what? Because after all most successful economies, Japan, Korea, have gone to that level through the connection's world, presumably according to the book. China seems to be slowing down now, Shankar knows more about China than I do since he has lived and breathed China most of his life. But even though they have slowed down they are probably likely to grow further. So, that is first question. Second, you talked about productivity still being 10 to 15% of advanced economies. That is obvious or otherwise their per capita income will be the same as the advanced economies. So, that doesn't impress me or interest me at all. The question is in the last 20 years has the productivity in Asian economies or whichever economies you care to take means higher or lower, than in the advanced economies which in fact is slowing down as far as productivity growth is concerned. And third, when the charts you give for comparability in the share of top five or top ten companies, shouldn't it be size adjusted? So, what if it took you... over lunch you mentioned Sweden, Denmark, Netherlands, Belgium, Switzerland and after all UBS or Swiss is about what, 50% of GDP or something like that. I think that those are somewhat... if I may use a strong word... misleading charts in terms of contrasting the concentration. Obviously the higher the GDP, you will have a lower share I would presume for the same size of company. Whereas, as it happens, Netherlands, Switzerland, in particular have very large companies... I am not

sure, what the case Netherlands now with shell having exited... but nonetheless in general. So, I am bit curious about that. I have some other questions. But I think three is enough for your next book. It is open now. Just identify yourself please.

**Audience:**

\_\_(No audio) You mentioned the competition policy... typically the traditional competition policy focuses on sectors. Whereas, in Asia your assertion is that the business group competition is much more relevant. Are there any models elsewhere that you could think of or what is the model that you would suggest, in case, the policy makers do want to let's say address this particular issue of competition at that level?

**Audience - Surinder Singh:**

My name is Surinder Singh. I did study economics in ration but I did my major in history. So that is where the question is coming from. If you look at the history of these businesses the way they have worked, take a look at the Mughal empire. This informality in all the Asian societies or rather the oriental way of doing things has been the norm of the day. They form political connections. The empire, the economies, the mercantilism and all of that comes in. So, if you take a look at the whole history of this part of the world, this is how it has been. So, where you see that, when you say that the history is evident that it hasn't changed, it has obviously reformed itself and reinvented. Where do you think this line is drawn as Mr. Menon was saying? Where would you suggest that there would be some new model for the budding politicians, ok, this is what you are all supposed to do.

**Audience - Shishir Gupta:**

Hi, my name is Shishir Gupta. A fascinating topic. I must say because we face this on a daily basis, right? In a country like India. I just have one question. Which is, it is not clear to me from the presentation what is the difference between connections world and corruption? If and what we are taught at least in economics is that corruption is in the long run bad for growth. So, that is. And one other thing is that in your slides in the first few slides you said that this world works by keeping competition down etc. But from at least the Asian tigers story etc. competition was promoted through reduction of tariffs etc. so, there is a bit of a confusion at least in my head. But thank you for the topic.

**Simon Commander:**

Well, thank you to Shankar and Rakesh and to all. There are lots of things there and I don't want to yak on too long. But I mean this issue of informality, I think actually in the book we are using informality both in an economic-sy way, in other words untaxed, unregulated and the like and in a much broader way. Which is, how we connect and deal with each other. And the sort of flexibility that arises as you rightly point out. I think the later has obviously some very good and even desirable attributes to it. But the former doesn't have too many desirable attributes to it. And they are actually, I think conceptually and empirically somewhat distinct. After all I mean connections matter everywhere. If I want to try and get my child into a good university or whatever, I mean no matter in principle it is okay, but if I go and know the principal or something and go and speak to him, it may have some effect. So, that is a trivial example. The sort of informality aspect it cuts across these economies. But I think what we were doing was a bit narrower was just really picking up the consequences primarily for employment. But

also, for business organization. And the employment thing, for many years there is sort of I have toiled as a labor economist and Rakesh failed to mention my best books which were about unemployment. So, I am going to take you off for that.

**Rakesh Mohan:**

Can't find them in google.

**Simon Commander:**

Well. They are biased. I think really the big issue and where it comes together with the political economy is in the labor market. Because if these systems are very good at generating wealth and growth and dynamism, hallelujah, but if this spills down in such an incomplete way and above all if it spills down in an incomplete way in the types of jobs that are done and the wages and incomes that flow off these jobs, then its potentially really very problematical. I want to try and bring this back in... I am not sure this is totally coherent... to the point you also made which is about what is happening in other parts of the world. The example that has really come up in a lot of discussions about the book that we have had in the few months since it was published, is actually Latin America. Several discussants have said, well what about Latin America? Their family-owned business groups there. Well, as it happens there are but they are much less important than in Asia right now and they have been declining. Why? Well, because most Latin America economy is so badly managed, they have inflated away sort of... I mean the addition to what we call populism has eroded the base. But if you roll the clock back between 1930s roughly and the late 1970s what was the growth model in Argentina, Brazil, Columbia? It essentially was all these types of links and funding from government to family-owned businesses as the drivers. Now, that actually took their growth and their paths very steeply upwards. But it ended in a crushing collapse. Why? Because I think the politics basically got in the way. Because essentially it was sort of oligarchic form of capitalism and the way the politicians dealt with it was to essentially get elected on the basis that most of the population weren't getting material benefit out of it and then use the budget to inflate, to drive their own things and the consequences for the economies as a whole has been simply disastrous. I fear that this will be an outcome in bits of Asia unless something is done about these arrangements and I actually think you can even see the precursor of it which was Shinawatra's short tenure in Thailand. Irrespective of the fact that he was a massive beneficiary of the connections and not the cleanest of the clean shall we say. Nevertheless, the policies he and to some extent NATO insisted he adopted and some smell of that and I think this is the danger of his arrangements coming to bits. Now, on Rakesh's really interesting point, is there a level at which this all becomes dysfunctional and you switch gears? This I think well, I am partly answered it a little bit by what I have just said. But it just wants to go back to South Korea. Because South Korea after all is a damn sight richer than Spain and Portugal now. So, it is a rich country. It's come from not much to something quite substantial in a very quick period of time. It is an utterly impressive case. But the nature of the country is such that it is enormously concentrated as I showed there. Irrespective of Rakesh's doubts about the concentration ratio as a measure. Essentially the economy is dominated by about five business groups. And one in particular is approaching a quarter of national income. Now, how do you unpack that? Actually, most of the debate in South Korean policy circles is how... I don't want to kill the goose that still lays the golden egg because Samsung and others do... that goose is well this is stretching the metaphor a bit... is a competitive goose, shall we say. It is not one that's been fattened up for domestic

consumption, it has to compete in you know... so, it is an efficient goose. But it doesn't allow very much to grow in its shadow and this is the great debate, how you can bring this about. So, my answer to you is that I don't think there is any particular level at which this becomes particularly dysfunctional but more to the point, as it becomes more and more entrenched, dealing with it in policy terms becomes more difficult. So, I actually think, there is more scope for dealing with market power and political privilege, political business privilege in India than there perhaps is in Korea. Because radical actions like breaking up the business groups aren't likely to be done for the reasons I alluded to. But also, because those actions can be highly disruptive. If you started breaking up Samsung right now, I think the South Korean economy would really nosedive. So, those are some of the issues. On Rakesh, I just want to clarify. You are absolutely right to talk about Asia. I should have said at the outset the book really is about what is sometimes rather stupidly called middle income Asia. We are actually not dealing with Laos or Cambodia or Nepal and the like. It is really about lower middle to upper middle-income Asia. Although we use Japan as an example in more cases than not, we aren't really dealing with Japan. So, I think that there is huge heterogeneity, but there is much less than that might have been implied if we lump the whole sink in there. Yeah, your point about productivity, okay, that is the menemic of GDP per capita. So, I grant you that. I am using it as a stylistic way of driving the point home. I think the CR scale are useful. Ok, yes, the US is a very, very big economy. So, it doesn't really show up. But in Germany if I put that number up, I think Germany probably would be about seven or eight percent for the CR5, something like that. Because big companies are... the Siemens of this world are much more important. So, I am not sure that I agree on that. And competition policy design I think, what I found was Israel was the most interesting. There is a very nice set of papers by a guy called Hamdani and few other authors that you will find on the web that describe both Israeli government's break up of some of the business groups and also attempts to limit market shares. I don't know whether that's been compromised by the current government and the like. But it certainly offered some potential. We gave this talk at the ADB and Albert Park the chief economist they just had a meeting with a whole bunch of competition policy people. He argued that there was an attempt to bolster the quality of these agencies. But frankly the political will was almost entirely lacking. So, you had fairly good technocrats, but you had very little support. Having said that, one of the reasons I got going on this book was I was working for quite a while in Indonesia and honestly the quality of the Indonesian institutions is nothing to write home about. But the one institution that has somehow or the other and I am not quite sure how, is the anti-corruption agency which has got a lot of independent traction and despite the attempts of some of the politicians to undermine it, it is extremely effective. So, it is not impossible to create these things but they seem to be very idiosyncratic and in not susceptible to a sort of harmonized interpretation if you like. Is the connections world different from corruption and criticism? I would say corruption and cronyism are components of the connection's world. But as we try and argue, the nature of these networks is far more overarching than just simply cronyism would summarize. After all, this tremendous book on China by Minxin Pei called China's crony capitalism and that is mainly about how party officials and the like transact with businesses and is extremely valuable. But I think in some ways you might get more out of it analytically in policy terms from looking at it in this framework and simply looking at a set of bilateral relations.

**Rakesh Mohan:**

Thank you, Simon. More question?

**Audience - Anupam Khanna:**

I have a couple of question in the segue from your own comment. My first question is Latin American corporatist state. When you studied in history of industrial organization you had corporatist model in Latin America and you compared it for example with Italian or the French business groups. In some ways you are saying that this is somewhat similar to what is in Asia today, what was in the 30s. question to you is, is it really... because there is another big dimension which is different, the sociology which is important for connections. It was east Asian countries which we are mainly talking about are extremely homogenous, when Latin America you had a very racially polarized economic situation. Secondly this question about connections that is being used, you have of course, described the connections as they have picked up. You haven't really talked about the positive dimension of it. In fact, just the latest in the NBR paper which talks about unpacking social capital is basically saying a lot of it that has to do with connections. And we did the same. So, another dimension of that I was going to say is which with their capitalism paper... with the socialism. The Chinese and Russian models actually come down to the nature of connections between the two. So, have you looked at the socialist societies since you worked in EBRD. One question I have methodological one. I have a problem with one of your charts. The question of quality of R&D. If you look at the three countries which fall below the line, are the three countries which are I would dare say the most doing the best by conventional wisdom in high tech. So, you may have a compositional problem. Israel is bad, US is bad and China is bad. I would say those are precisely the three countries where the type of R&D we are talking about the performance is best. I am talking about quality of patents. I think the difference there lies is because the patent is very poor measure of. Lastly, this has to do with the sociology one. You haven't had time perhaps but I think in the end have you looked at the nature of the interplay of political power. Most of the arguments is couched very much in terms of economic work. But actually, the reason these things are entrenched and the way they play out in terms of economic policy, it has to do with the exercise of political power unless economic power facilitates that exercise. These are the four different questions.

**Audience – Nalin Kohli:**

Thank you. Nalin Kohli. I am presenting a very micro perspective and not the macroeconomic one. I have as a business in India, I used to buy components from South Korea from one of the chaebols. They we quickly shifted over to Taiwan. Just there are no chaebols there. They are mainly small and medium enterprises. So, you could probably influence the competition policy in a country but in a global sense it doesn't go beyond your own jurisdiction. So, maybe your comments on that. The other thing where you talk about connections and in our own context in India, we have started using a lot of IT in our decision making. Where the connections have started losing that importance. A lot of things are happening, take for example the start-up situation. We have money which is given through a mechanism which is totally digitized. So, what would be your observation that, is the digitization really, even in the Asian sense, breaking this connection bit?

**Audience - Rajesh Chadda:**

I am Rajesh Chadda from CSEP. I have a query and a question. The query is that one month ago in the same hall we had a discussion on the rise and fall of Brazil. Given the context of connections was there some element... you discussed in between... was there an element of that and may be corruption because we just had it one month ago. My second question is regarding... when we talk of the future of Asian economic growth, apart from connections I think what we are seeing is given the uncertainty in the global economy and the loosening of WTO and multilateral discipline, the two things that are going to play for the future of Asian, you said the middle income Asia or even for India's context would be whether it is the trade policy that would dominate or the industrial policy would make its way back into many of the economies that need opening up further. So, apart from connections, the connection between trade policy and industrial policy if you have... because I have not read the book... but if there is any discussion on that I would really appreciate that.

**Simon Commander:**

There were so many interesting things there. That is answer to Anupam's points. I agree like, has different sociology or racial sort of mix up. But I wouldn't stress, I wouldn't actually think that Asia is that homogenous. I mean just, maybe in India that seems more striking but if you look at Indonesia Southeast Asia actually many of the business groups are owned... and Thailand... are by Chinese. This is quite a significant bit of sociology there. I mean they were integrated in the economy but they also for instance the largest family business group in Thailand, the Charavanont family, they have Chinese origin. A significant part of their contracts and activities in recent years have been bringing Chinese technology, railways and the like and other projects into Thailand as well as executing projects in the people's republic. So, I wouldn't necessarily say that the sociology is totally different. There is less homogeneity than one might think. But I grant your point. There are different dynamics, different religions, different sort of assumptions and so on. The socialist systems, well I spent 8 years working on the Soviet Union and the Russia and the like and we see what an appalling state that has landed in. Not least of all because of some very ill-considered measures that people like ourselves when we were working in the World Bank proposed and then implemented notably in the way in which assets were privatized and subsequently recombined. But having said that, Russia remarkably quickly reverted back to something sort of much more feudal than the world we describe here. Where power really emanated from very few places politically and very few industries politically. In other words, it essentially is a game about oil, gas, diamonds and few other assets being controlled by the kremlin and business groups around it. Most of whom are now back in state hands either explicitly or implicitly. So, I think that is a different game. China got... that is going to take a whole another day to deal with. Because it is much more interesting and much more complex. But I, think our view on China is that they sit on the horns of a massive dilemma which is the very things that have got so many industries going and some of them both innovative and dynamic runs into the political agenda which is to restrict the room for maneuver of the founders and the management and the like. If Russia and other places anything to go by, invention which is the soul of the innovation doesn't do very well when you get ordered what to think and the like. My feeling is that maybe they will work their way out of it but this is something that drops down from the constraints of the political system and particularly as it's come to be configured under Mr. Xi. Your point on R&D I agree with that. It is not best measure, there is a lot of noise in that. But we didn't have anything much better to do. In fact, innovation is filthily measured generally speaking and a lot of these indices have a lot. The

interplay with political power is absolutely granted. In fact, my next book is actually on the economics of authoritarianism and where we are trying to look at how this and when I say authoritarianism I mean from Hungary and Turkey, right through to China and indeed to Russia. Mr. Kohli's point about shifting to Taiwan, I think yes, a)- you have a choice and why not then take it. But I think this brings in the big issue of trade liberalization which I haven't mentioned enough about. And it is a good criticism of the book. I mean clearly trade liberalization can achieve a great deal. You can allow in competitors and as the South Koreans above all have shown this can be a tremendous discipline and a spur. But there is a caveat which is that a lot of what we describe precedes in activities that are either non-tradable or in services or where although trade barriers may have come down, non-tariff barriers may and other informal barriers may still be highly important. So, there is a limit to... can IT be used for new start-ups and financing. Can this free you from the clutches of connections. Well, I think in principle it can. But it obviously depends on how you use it and who is using it and my guess is that it will prove to be a very incomplete breaker of those links. On Brazil rise and fall, I don't know I know enough to really venture there. But I think, my point was that I made a bit earlier and which Brazil most certainly feed into the earlier strategies of basing nation growth on large scale sector. And some powerful privately owned business groups ran into the sands quite a long time ago. The detritus of that lives to the day. They still have a massive state sector, probably the biggest drag on the budget are pensions for public sector workers and the like. And many of the business groups, a lot have actually shrunk. And the politics turned nasty for some of the reasons that I mentioned more generally. Trade policy, industrial policy which will be more dominant. Well, I think ideally you could probably have both and I didn't mean by that sort of picking winners type industrial policy. I think very few people sensible people advocate that. But bringing sort of means of coordination, infrastructure and the like, but one feels wary about listening to that when you hear the man himself or the government suggesting that Mr. Adani is India's answer to the large-scale infrastructure. So, I think these sorts of things can end up being captured rather quicker than one might imagine.

**Rakesh Mohan:**

Thank you, any burning questions? We are about to come to the end of our time. Yes.

**Audience - Nivedita Mukherjee:**

Hi, good evening. I am Nivedita Mukherjee from the Sunday guardian newspaper. I wanted to know, as you know India has opened up looking to trade in Indian rupee. How does that work for the future of India's economic growth? Is the world really ready to take the rupee trade on, because lot of countries have expressed interest in doing so?

**Rakesh Mohan:**

There was one at the back?

**Audience - Mahesh Kushwaha:**

My name is Mahesh Kushwaha. My question was whether the book talks about whether these connections travel across borders and if they do what kind of form does that take? And I guess a follow up question to that would be if there is a thing like a connections world that is characteristic of Asia, what are your arguments against the possibility that the non - Asian world would not adapt to this culture of connections instead of Asia kind of...?



**Rakesh Mohan:**

Would you like to answer before I add my three questions?

**Simon Commander:**

For the lady from Sunday guardian, I think I feel nervous answering that question. I think Rakesh should really answer because he knows so much more about it. Because on exchange rate liberalization as a whole issue of capital account, current account there is an endless debate on that. And I don't feel well informed enough to make any prognostication on that. But I think trade opening, it's very clear that there have been enormous benefits to this country. Certainly, should be a strategy that is continued to be pursued and broadened but how that will proceed in the geo politics, I have no idea because I mean if nothing else you see that in the states you know Biden's policy on trade isn't an awful lot different from Trump's policy. So, there are lot of headwinds. So that is not a very good answer. But that is probably the best I can do at the moment. On Mahesh's point which is very interesting. In the book we do chronicle a few examples. The thing about the way connections work is it is very hard to do it in a quantitative sense. Because a lot of this is under the counters as well or in an informal way. So, you have to do it by picking up stories and the like. Several of the stories we pick up, I alluded to one for instance the Chearavanont family's link to China and the party and that. That you see right throughout Southeast Asia, the leveraging of that by Chinese diaspora, that companies' big business groups in Indonesia, Thailand, Malaysia and the like. There is a case that we bring up which also spills into corruption as well, linking some largely South India, entrepreneurs with the Malaysians are over a bunch of transactions. I think at the far end of the Mahathir, our first second government or whatever it was. So, they definitely do work across borders. In interviews with businesses a few of the ones done, there is no doubt that when these types of business groups look to transact in other jurisdictions or open up, their natural instinct is always to go towards entities that look like them and operate like them. But and this is a big but, they know perfectly well from their own behavior that those sorts of entities are not likely to be trustworthy, so they are on the horns of a dilemma always. But having said that, knowing how your partner is going to dance is an awfully good way of predicting their moves. So, in general my suspicion is... not suspicion... I mean it is clear that yes, sort of business groups will of this type of nature will try and connect with similar and rather than more sort of arm's length type arrangements.

**Rakesh Mohan:**

Thank you very much Simon. One, you kind of alluded to some of these. One, would it be the case that one difference between Latin America and Asia as you define it, is that many of the business leaders, the conglomerates, whatever we call them, had origins in being landowners or essentially roturiers. And presumably they are similarly true in Philippines and so their behavior is very different from fellows like Samsung and co or the Japanese conglomerates who did not have origins in land partly because land was not that great in any case. And partly because of the post war major land reforms in these countries. So, they were much more into tradeable, which you alluded to earlier and therefore whatever kind of connections, industrial policy, trade policy, whatever, they were certainly subject to international trade and competition. Where they had to do... either they competed or they sunk. Like Daewoo did in Korea. That is one common. Second, I am a little surprised by the employment informality issue. Because from whatever number, I haven't seen them more recently, but whatever

numbers I saw I guess maybe eight years ago or something on China that they had more than hundred million people employed in manufacturing in the organized sector. Unlike our still 15 million. And we have many more of course, in the informal sector. So, I didn't think that informal employment was true in China, partly because it was allowed for ages. Now I don't know how much it is. That I am a little surprised by. Same thing I would say for Korea, same thing I would say about Taiwan, but I don't remember their numbers. I certainly do remember the China's numbers eight years ago. So, I am little surprised by that. Third on size actually, the McKinsey global institute usually a reputable organization and it must be reputable since I am a senior advisor to them. (laughs) So, they did a big study about five years back or four years back, on out performers. 2018, so five years back. And one of the big points they made was that the competitiveness of 'the out performers' which was mostly these countries we are talking about was really because they had large companies in tradable and exports. The two succeed in exports. In India we had the fable of the fancy SMEs but if you look at the whole export market it is really large firms who dominate across the world. Partly from within multinational trade but also otherwise. So, this is a question in the sense that if you have relatively small countries like Korea or Thailand or Vietnam, if you are going to have some size in the companies, there would be a significant share of GDP. I wouldn't say the same for China. So, that is an interesting issue that if you want to get productive and then this also comes to the issue of R&D, which by the way we have a question from zoom. I will translate the question. The question actually states, why is India's R&D proportion in GDP is so low. And what do we need to do to increase it so that we can grow much faster. Although this is from Anil Kumar Kanungo and he says what do we have to do to attain a 5 trillion economy which is not very far actually. Because we already have a 3.4 or 3.2 or something like that. But anyway, I will broaden that question. On R&D once again to have effective R&D you have to in the private sector have large companies. Otherwise, you can't do it and of course, profitable. I will stop there. Now you have 2.5 minutes. I don't see people running away. So maybe you can take time.

### **Simon Commander:**

Well, that point about landowners is fascinating. You only need to look at your neighbor Pakistan to understand the nature a)- of the connections world and b)- of their capitalism. When you see it is so configured by these business groups, yes, absolutely and their ability also to protect their interests and to protect their sector. And that for a variety of reasons not least of all\_wasn't there in South Korea. It is quite interesting by the way that Vietnam is still largely an agricultural economy and it has a huge agricultural labor force, but for one reason or the other that has not managed to dominate the policy menu even if there are elements of protection and the rights. The informality numbers are quite high for China. I mean they may be mismeasured, but I still I don't find them as surprising as you do. Remember after all that most of the Chinese cities, well in most Chinese large cities, the Hukou system still operates. Large numbers of people don't have the permits and therefore they are outside the formal sector. One bit in the book which leads back to all the stuff about unemployment and labor markets is that I still find it tremendously striking that in not so much in this country, because of the level of income and the like. But certainly, in China and to some extent even in South Korea, there is such reluctance to move towards more organized forms of social protection in particular time in unemployment insurance. There is some unemployment insurance in China, but it is for a very small number of essentially state-owned enterprise workers. It is just a way of shoehorning

them into retirement actually. But for everyone else there is nothing other than the family. Before China became rather closed, I went there and we had some quite interesting discussions at the end of which people who may remain nameless, but who are quite high up in the system said oh, well we are not in the slightest bit interested in having a modern system of social insurance. We don't want to end up like Europe. You can understand some of that argument. But you can't understand all of it. And I think even if it doesn't totally work in China and its maybe a little bit self-obsessive, I think one of the reasons why governments are so loath to move towards hands length, arm's length systems of social insurances they like the discretion that comes from creating jobs and playing God as it were. This is a major impediment and I think this will backfire on them. You are right, look, on R&D and probably you need large firms. I mean it is not a problem when I refer to size distribution, I am not saying ok they are large firms. They are actually not enough of them. There should be more. And they should be more competitive with each other. That is not the issue. The size pyramid is just occupied by too many really not very well performing countries and yes, small economies may need larger companies. I can see that argument runs that way. I guess a lot depends on what endowments they have. And also, what sort of skills they are investing in and what would it do to take India to do R&D and innovate more and the like. Well, we were discussing it over lunch and it was something of a mystery. But my guess is that one of the main... in the book we really in the innovation space we highlight three places that are both have more innovation in a way now and now much more potential India China and South Korea. And in India's case the main limits I think we find are to do with skills and education and the complementary infrastructure. But they are the issues that Rakesh raised during lunch about. For instance, the inoperability or the failure to use tax incentives effectively to get greater innovations. There are lots of issues there that I don't think I want try and answer at this moment.

**Rakesh Mohan:**

Thank you. Shankar?

**Shivshankar Menon:**

I just want to add to what Simon just said about land in China. All land being state owned the use of land for development, I think in China is unique. I don't think you can compare that with the experience across the rest of Asia. I think that factor needs a whole separate... but all land is state owned in China. (Inaudible comments by Rakesh Mohan.) but you can. Because the right to use you end up a roturier. So, you\_rather than... so, it is a bit more complicated. But on employment they have had 220 million migrant labors in the labor force. Now, that is without the Hukous of course, without the rights, I mean that is informal. And now you are talking about 22% unemployment among people below the age of 30. You have again a much more complicated situation today for Chinese employment than you have ever known before. Xi's reaction is to tighten control and regulate. I am not sure how that is going to work. So, I think we are dealing now with a very different set of... so, what you said is true, the role of these very large firms, because these firms have actually grown on the backs of that, of the informal employment structures and have a vested interest in maintaining it in China. Not just in China, across the board. But that is a relationship that is maybe worth examining in your next book. Labor with business groups.

**Simon Commander:**

But just very quickly on... I think I have popped it on that... that is absolutely true right through Asia. Many of the larger companies use informal labor for outsourced purposes or subcontracting. There are massive amounts of subcontracting and why not. It is cheap and very few obligations.

**Rakesh Mohan:**

Thank you very much. Just one last comment on R&D actually on top of the skills. One thing that is very interesting and strange is that I have not studied this, but the people who have been now giving very large numbers of multinational firms mostly western who have huge R&D operations in India with all Indian engineers, scientists etc. but not Indian firms. So, I do have a friend who was first in a very large pharmaceutical company, now his business is running contract research organizations and he is in pharmaceuticals. And he says all the contracts they are getting are from foreign firms. None, even though we are doing well in pharmaceuticals, even the large Indian pharmaceutical firms are not giving him any contracts to do R&D. it was a big puzzle. But that doesn't... but numbers. The one that looked at Naushad Forbes... (audience inaudible) ... whatever it is Indians are doing it. It is included in the R&D numbers. It is interesting that Indian firms are not even doing that. So anyway, that was just pharmaceuticals. But this is in all kinds of activities actually. So, I don't have the numbers but that is something that is very interesting that this seems to be not a problem of skills. But again, I am just saying hearsay actually. So, it just remains for me to thank you Simon for taking all the time, spending I hope that this is the best session you've had on the 13 that you had in the world.

**Simon Commander:**

Of course.

**Rakesh Mohan:**

And Shankar, thank you so much, for to some extent coming out of your comfort zone which why we had you here. To give us some different perspectives.

**Shivshankar Menon:**

I was educated and thank you.

**Rakesh Mohan:**

I was certainly educated. So, thank you very much again.