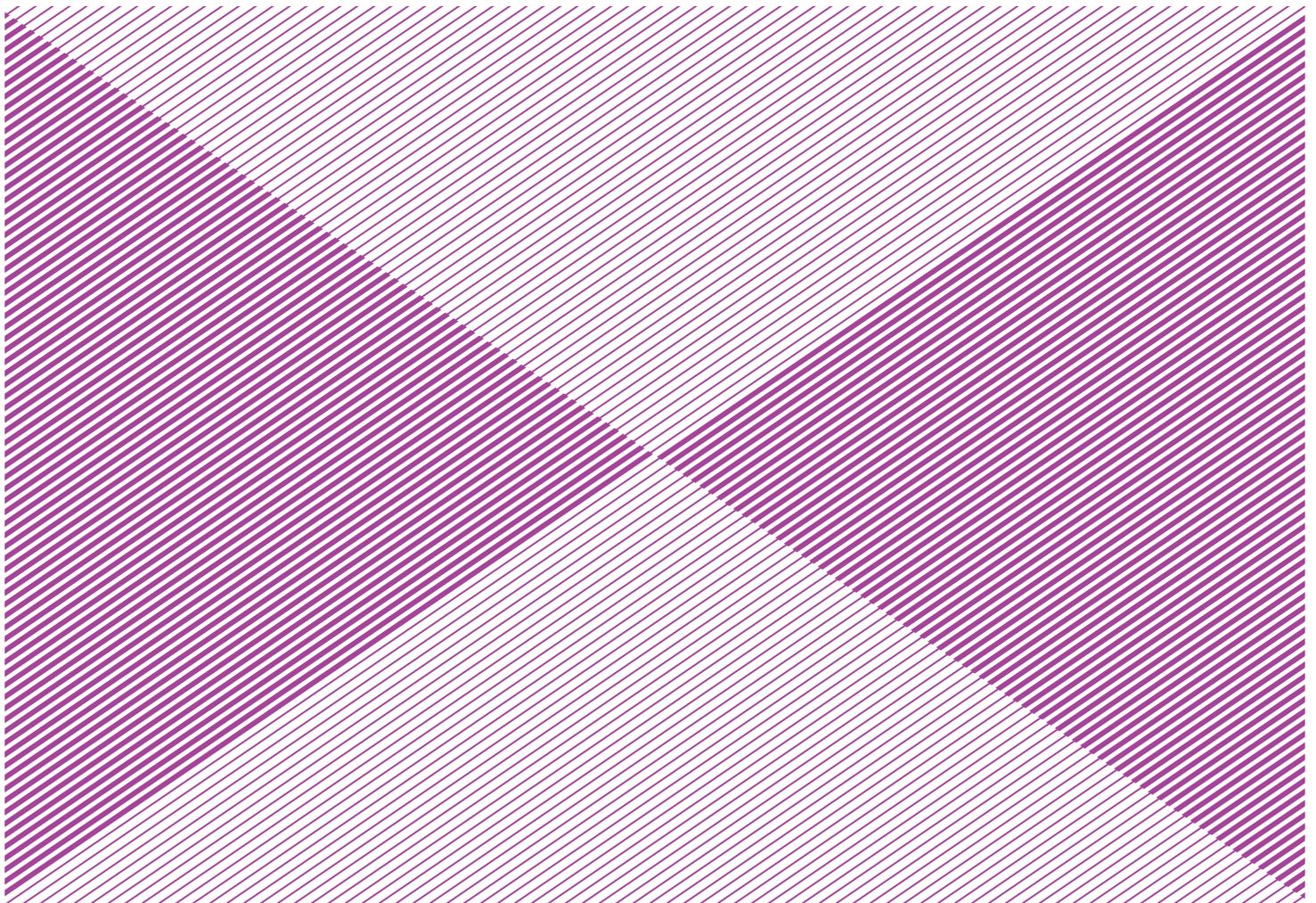


Regional Agenda

World Economic Forum on India Briefing Material

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Introduction

India remains one of the world's most promising economies, despite the recent slowdown in its growth. The country's expanding middle class and large pool of young entrepreneurs, along with the rise of Indian multinationals, all speak to its potential. Nevertheless, India faces daunting challenges in realizing that potential. Volatility in global markets has brought the economy's shortcomings to the fore – including a rising fiscal and current-account deficit, high inflation, sluggish investment, and faltering business and investor confidence. The International Monetary Fund (IMF) estimates that India's gross domestic product (GDP) will grow by 4.9% by the end of 2012 – the lowest rate in nine years. The growth rate will likely drop even lower – to 6% – in 2013¹. Moreover, the Indian economy's competitiveness has continued to slip. Its ranking in the 2012-2013 World Economic Forum's Global Competitiveness Index fell to 59th among 144 countries, down from 56th in 2011-2012 and 51st in 2010-2011. The biggest question confronting India today is how to address the slowdown in growth momentum in ways that produce enduring progress, not just short-term results.

To surmount this challenge, business and government will want to look beyond the near-term constraints on growth. For instance, the nation will need targeted reforms in education, healthcare and infrastructure to translate its demographic transition into a demographic dividend. India's growing young workforce is expected to be the world's largest by 2020, and its expanding population could well constitute the world's largest by 2030. These changes present an opportunity to shift the country's growth engine into higher gear.

To restore investor and business confidence, the government will need to demonstrate its commitment to reforms it has already initiated. It will also want to plan additional strategies for getting the Indian economy back on the path of stable and sustainable growth. By laying the groundwork for its transformation today, India can position itself to overcome its challenges and set the stage for future growth.

Moreover, securing its place as a regional leader in South Asia could help the Indian economy to capitalize on growth in other emerging markets, and to uncover and strengthen areas of comparative advantage. India could foster regional integration with its neighbours and help them apply lessons from its own recent development to enhance quality of life for people throughout South Asia.

As India looks to the year ahead, it will need to adopt a proactive and long-term mindset focused on reviving its economic growth by advancing long-term economic reforms. It is in this context that the 2012 World Economic Forum on India is convening leaders from business, government and civil society under the theme "From Deliberation to Transformation". This document, prepared by Accenture, a Strategic Partner of the World Economic Forum, explores ways in which India's business leaders and policy-makers can collaborate to meet the country's growth imperatives. The document is organized according to the meeting's three thematic pillars: Redressing Risk; Developing Human Capital – Prioritizing Girls and Women; and Fulfilling the Future Promise of India.

Redressing Risk

India can no longer take the high GDP growth rates of former years for granted. A lingering global recession and structural weaknesses on the domestic front are jeopardizing India's growth potential. However, if the government can augment recent reform measures with further action, it may help push the Indian economy onto a more stable and sustainable path to renewed growth. Three courses of action may be useful: pressing the pedal on reforms, restoring business and investor confidence, and focusing on information security.

Pressing the Pedal on Reforms

The growth stutter that hit India following the 2008 financial crisis stemmed largely from macroeconomic developments at the global level. Today, India's growth challenges derive from a combination of domestic and global forces. The latest GDP growth estimate of 6.5% for the fiscal year 2012 is the lowest India has witnessed

in nine years.² This lukewarm growth has been accompanied by persistently high inflation, presenting serious policy challenges for India (see Figure 1). In the absence of significant economic reforms from the government, India could head into a prolonged phase of stagflation. Almost all stakeholders, including the IMF, have lowered their forecasts for India's GDP growth for 2013.

India's high fiscal deficit is only worsening the deceleration in its growth. When compared to other emerging markets on macroeconomic indicators including inflation and fiscal deficit, India today is an outlier (see Figure 2).

India's fiscal deficit for FY2013 will almost certainly exceed the estimate of 5.1% of GDP, with only 66% of the budget estimates being hit in the first five months of the year.³ The high deficit has limited the government's ability to kick-start the economy by giving tax breaks and by

stepping up public expenditure. At 4.2% in 2011-2012, India's current-account deficit has also far exceeded the country's comfort level, and the Indian currency has depreciated by about 20% year on year.⁴ With crude prices remaining high and exports softening because of the global downturn, the rupee could remain volatile over the next few quarters. Thus, India is battling the problem of twin deficits, a situation that leaves little policy headroom for the central bank to stimulate growth. In an interconnected world, the European debt crisis, fiscal woes in the United States and fears of a slowdown in China's economic growth will pose further challenges for the Indian economy over the next year.

Still, the government has recently adopted several measures that hold out promise for the future. For example, it has cut fuel subsidies, and to relax foreign direct investment (FDI) restrictions in sectors such as retail, aviation, broadcasting and insurance. However, a sustained economic

Figure 1 Stagflation on the Horizon?

Source: Reserve Bank of India

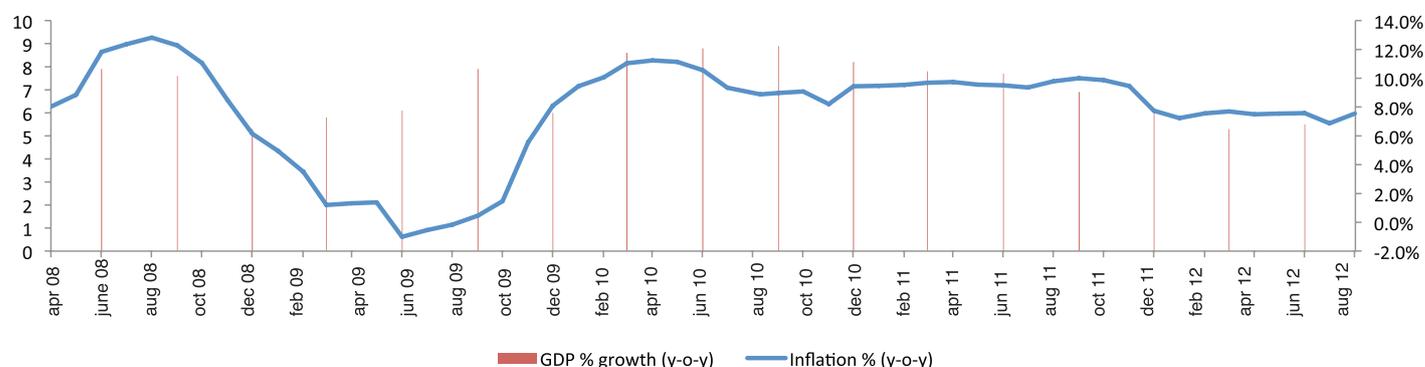
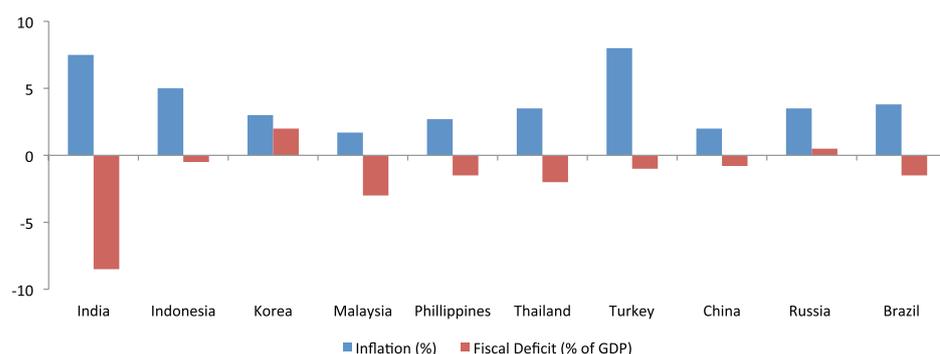


Figure 2 India: An Outlier among Emerging Markets

Source: IMF



recovery will require more substantive reforms aimed at addressing fiscal consolidation, expanding India's service tax base, enacting the direct tax code, accelerating the implementation of a goods and service tax as well as easing land acquisition and environmental clearances processes.

Restoring Business and Investor Confidence

Slow decision-making by the government, uncertainty about which policies may be coming and infrastructure bottlenecks continue to dampen investor and business confidence in India (see Figure 3). As a partial result, FDI fell by 28% year on year in the first five months of 2012.^{5a} Industrial production throughout the country also remains sluggish – indicated by a cumulative Index of Industrial Production growth of just -0.1% for the period April-July 2012. Investors have long waited for a transparent land acquisition law, a more efficient tax regime and liberalization in key industrial sectors. But these reforms either have not materialized or the government has only partially implemented them.

A restoration of private and public investment could help drive economic recovery for India. The government can play a key role in this effort. For example, if the plan for a National Investment Board was successfully implemented, infrastructure projects currently underway could be completed more rapidly. Assertive policy-making would help restore business and investor confidence in India's growth story, fuelling new flows of investment.

Focusing on Information Security

India ranks fifth in the world in terms of the degree of economic damage inflicted by cybercrime.^{5b} Information security and privacy are becoming more critical than ever in this vast nation. Given the ever-deeper Internet penetration in the country, Indian businesses are facing serious enterprise security risks from the use of social networking sites, mobile devices and cloud platforms. Security is an even bigger worry for the government, because IT infrastructure supports essential national assets such as power grids, emergency communications systems, financial systems and air-traffic control networks.

Figure 3 Stagflation on the Horizon?

Source: World Economic Forum, The Global Competitiveness Report 2012-2013

Note: From the list of factors above, respondents were asked to select the five most problematic for doing business in their country and to rank them between 1 (most problematic) and 5. The bars in the figure show the responses weighted according to their rankings.

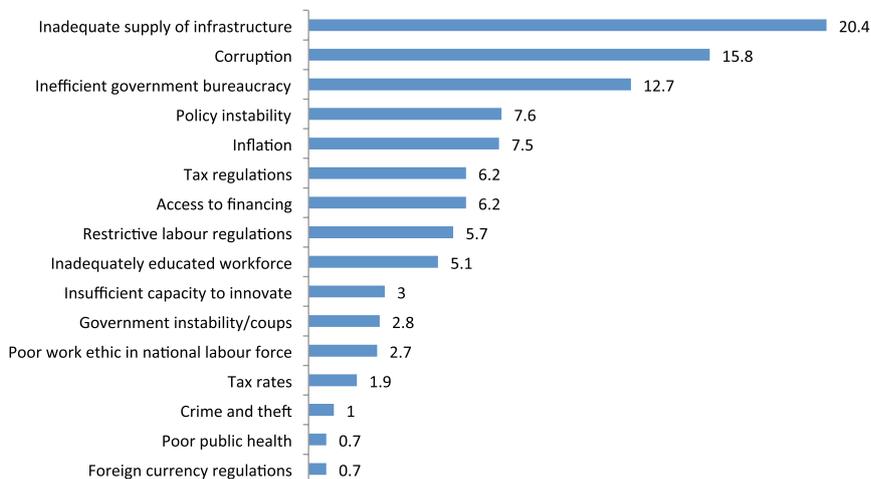
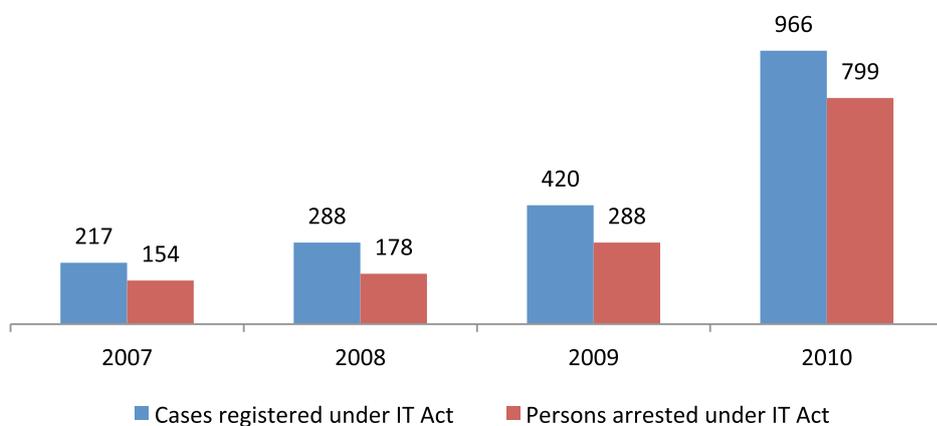


Figure 4 A Sharp Rise in Cybercrime

Source: National Crime Records Bureau



More than 9,000 Indian websites, including those of government departments, were hacked into during the last five years.⁶ According to some recent estimates, India loses approximately US\$ 6.4 billion annually to cybercrime.⁷ But framing an effective response is difficult, owing to the diffused nature of the threats and the intangible nature of the perpetrators. National Crime Record Bureau statistics show that between 2007 and 2010, police recorded more than 3,000 cybercrime cases under the Information and Technology Act – but got only three convictions (see Figure 4).⁸

India took a positive step when it enacted the Information Technology Act in 2000 for safeguarding the interest of its Internet users, and then amended the act in 2008 to tackle advanced cybercrimes.⁹ India has also established Computer Emergency Response Teams responsible for identifying and eliminating major security.¹⁰ The nation could make additional progress on this front by building such forces even in its smaller cities, where cybercrime is rising fast. Moreover, it could use training to strengthen law enforcement and understanding of the technical sides of IT security and cybercrime.

Developing Human Capital – Prioritizing Girls and Women

In many countries, women are serving as leaders in industry, civil society and government, and are also at the forefront of political and social change. India needs to do more to educate, empower and engage women so they can contribute more to the nation's growth. Several strategies can help: supporting women's health and education, fostering a culture that embraces girls and women, and nurturing female business leaders.

Supporting Women's Health and Education

Only 23% of India's female population participates in the nation's workforce, as compared to 35% in Brazil, 36% in Mexico and 52% in the United States¹¹. According to a 2010 United Nations Development Programme report, raising the participation rate of women to 70% from existing 23% would help boost the country's GDP by 4.2% annually. Achieving this outcome requires India to empower women through better healthcare, education and economic participation.

More money for healthcare and nutrition needs to be spent on women than on men because of their unique requirements during pregnancy, birthing and child raising. In developed economies such as the United States, per capita expenditures on healthcare for women are 32% higher than for men, and per capita differences are the largest for women of child-bearing age.¹²

The World Bank could play an important role in India's efforts to enhance women's health. One of the World Bank's eight Millennium Development Goals is to improve maternal health by 2015. Central and state governments around the globe receive World Bank investments for projects that give women better access to effective healthcare.

The Indian state of Tamil Nadu has launched such initiatives. It has set up a network of specialist medical centres for mothers and young children and provides free ambulance services from anywhere in the state. Now comprising more than 80 healthcare facilities, these centres are fully equipped with skilled staff, equipment and blood-bank facilities to provide emergency medical care to expectant mothers and newborns. More than 99.5% of births in Tamil Nadu now take place in healthcare facilities, and infant and maternal mortality rates in the state have fallen significantly.¹³

Attainment of education up to the tertiary level is also essential for enhancing women's status in the household and in society overall. The proportion of female students who enrolled for higher education rose to 41.5% in the academic year 2010-2011, but enrolment of female students for graduate-level courses is only 12% and is just 0.8% for doctoral research.¹⁴

Improving women's education can improve their employability as well, boosting their participation in the workforce. And the more women can play a role in business, the more successful Indian industries will be. Mann Deshi Business School (MDBS) is making strides in this area. Established in 2006 for illiterate women and centred in the state of Maharashtra, MDBS is a symbol of empowerment for rural women. Over the past six years, it has set up four branches in Maharashtra and one in the southern state of Karnataka, and has helped more than 40,000 women to become successful entrepreneurs.¹⁵

Fostering a Culture that Embraces Girls and Women

India also needs to foster a culture that embraces women. The country's "missing women" phenomenon speaks to the urgency of this need. The "missing women" phenomenon relates to the higher rate at which girls and women die relative to the male population due to reasons such as sex-selective abortion, female infanticide and the gender disparity in the levels of healthcare and nutrition provided. In 2008 alone, more than one-third of the world's 3.9 million women went "missing" because they died at birth. Of the 1.4 million female infants who died at birth, 1.1 million were in China and 260,000 were in India.¹⁶ The child sex ratio (0-6 years) in India has worsened over the past five decades (see Figure 5). World Bank findings reveal that the cultural preferences for boys over girls in both China and India have intensified as economic conditions have improved. Higher incomes have increased access to sex determination through technologies such as ultrasounds – the use of which, despite being banned by law, remains rampant.

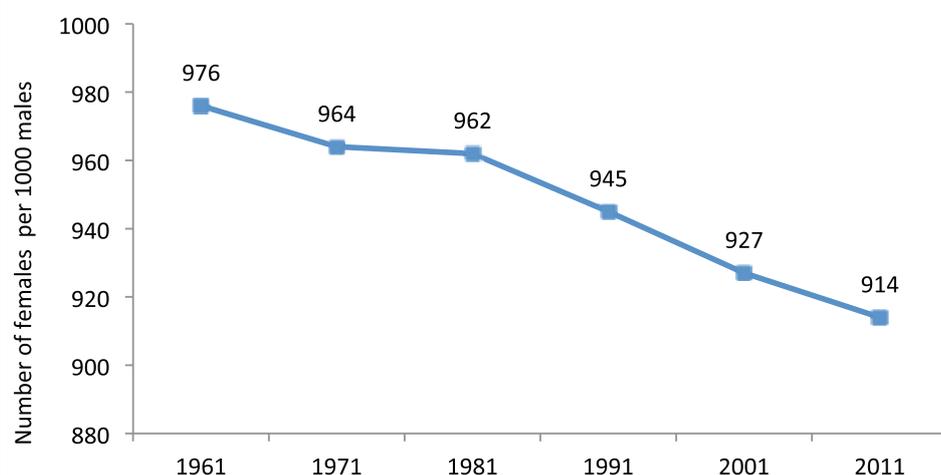
Surmounting this problem will require a radical shift in how Indians view issues of family and fertility. Indians households would need to challenge deeply entrenched social and cultural norms as well as address the economic factors leading to the preference for boys. Preventive measures initiated by the government will have to be complemented by measures at the societal and even household level.

For instance, public awareness programmes, the introduction of gender studies at the university level and positive images of girls and women in the media could go a long way towards addressing the problem and complementing legislation curbing foetal sex determination. Laws now strictly regulate medical professionals' use of sex-determination techniques and tools, and the government has made it illegal to advertise such services.

Some state governments are trying novel approaches to changing attitudes towards girls and women. For instance, Maharashtra plans to enlist schoolchildren as agents of change. It distributed more than 80,000 illustrated booklets in government-run primary and secondary schools across the state during 2011-2012. The booklets aimed to propagate the "Save the girl child" message and spread awareness about the Pre-Conception and Pre-Natal Diagnostic Techniques Act in easy-to-understand local languages and an accessible format.¹⁷ The idea is that schoolchildren who are made aware of these messages through the booklets will understand the importance of women in society and family and will not tolerate or engage in discrimination on the basis of sex.

Figure 5 **Missing Women**
Child sex-ratio (0-6 years) in India

Source: Press Information Bureau



Female role models from the fields of business, sports, entertainment and politics can play an equally critical part in enhancing women's image in Indian society. Through movies and TV shows, such role models can communicate the importance of creating nation-wide awareness and appreciation of girls and women. Role models can also inspire young girls to set ambitious personal and professional goals by showing what empowered women can achieve.

Nurturing Female Business Leaders

Indian companies can further empower women by creating an organizational culture and environment where the best talent, both male and female, can flourish. Women will soon constitute a significant portion of the untapped talent pool available to companies, and Indian enterprises' competitiveness will depend on whether and how they use female talent.

Although women are continuing to achieve higher levels of education, disparities in job opportunities and wages for women and men persist. According to The Corporate Gender Gap Report 2010 by the World Economic Forum, India had the lowest percentage of female employees (23%) among 20 countries (see Figure 6). Moreover, close to half of the Indian companies surveyed indicated that they had no women on their board of directors, while in more than half of the companies, less than 10% of senior management positions were held by women.¹⁸ Equally troubling, the World Bank data suggests that Indian women holding salaried positions earn 64 cents (on average) to every US\$ 1 earned by male employees in salaried positions, as compared to 80 cents to a dollar in Mexico and 82 cents for Egypt.

When asked about the barriers to women's rise to positions of senior leadership, the companies that were surveyed identified norms and cultural practices within Indian enterprises and society overall as the topmost hurdles (see Figure 7).

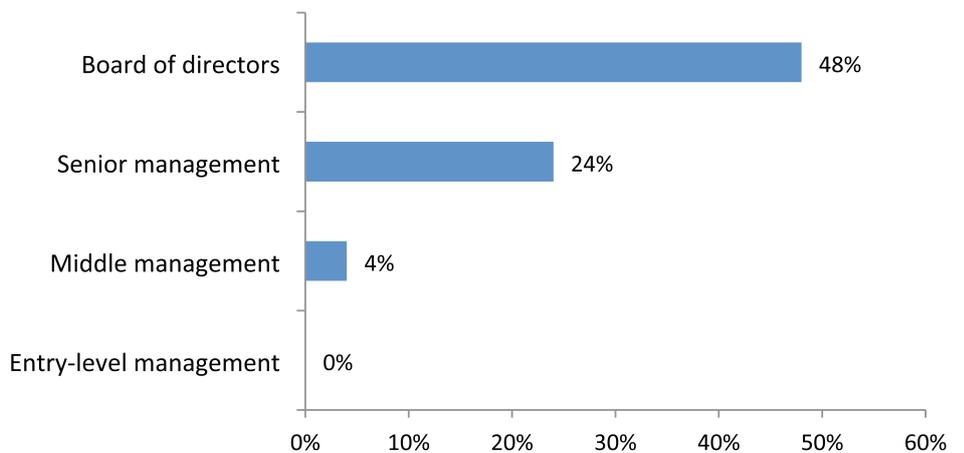
Still, signs of hope exist. Almost 34% of the Indian companies surveyed offered mentorship and/or training programmes tailored specifically to women. Another 38% had defined targets, quotas or other policies to increase the percentage of women in senior management or executive positions.

When businesses make an effort to include women in the workforce, both the women and the companies benefit. Take Hindustan Unilever's Project Shakti, which has enlisted almost 40,000 women to serve as individual distributors of the company's products. The project covers 100,000 villages across India. A typical Shakti distributor earns between INR 700-1,000 (US\$ 15-\$20) a month, and their total efforts account for

Figure 6 Under-Representation of Women in Business

Percentage of Indian companies with no female managers

Source: The Corporate Gender Gap Report 2010, World Economic Forum



more than 15% of HUL's sales in rural India (nearly US\$ 160 million).¹⁹ Initiatives like Project Shakti have not only enhanced the image of women in rural India, they have also given these female entrepreneurs confidence in their ability to build a business and help support their households.

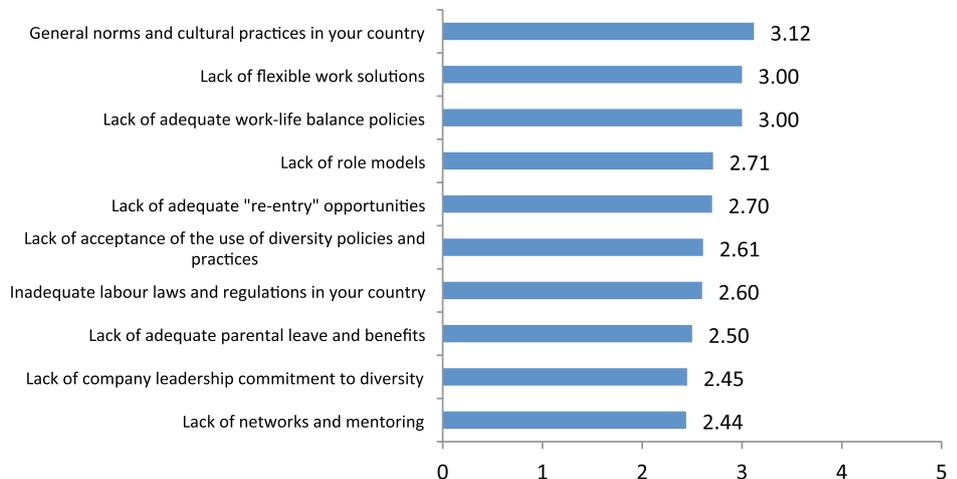
But women must also look beyond corporate walls to exercise their leadership skills – by participating in the political and civic arenas. There is some evidence to suggest that women in local government roles in India make decisions with better outcomes for communities than men when charged with budget decisions. They also appear to be more competent

representatives than men, obtaining more resources for their constituencies despite having significantly lower education and relevant labour market experience²⁰. The Indian Institute of Management (IIM) in Bangalore recently launched a programme aimed at helping aspiring female politicians to hone their leadership skills. IIM-Bangalore's Centre for Public Policy collaborated with the Centre for Social Research, a New Delhi-based non-governmental organization, to develop a course titled "India – Women in Leadership", which seeks to equip female leaders with skills and knowledge needed in governance.²¹

Figure 7 What Is Keeping Women out of Senior Leadership Positions?

Barriers to women assuming leadership positions, marked on a scale of 1 (least problematic) to 5 (most problematic)

Source: The Corporate Gender Gap Report 2011, World Economic Forum



Fulfilling the Future Promise of India

As India looks to fulfil its future promise, the task facing business and government is to ensure that the key drivers of India's economic growth remain on track. Indian companies and government agencies at the national and state levels will need to focus their efforts on three fronts: making the most of the country's demographic transition; deepening inclusive growth through better governance; and identifying new economic levers of peace and prosperity in South Asia. Below, we take a closer look at each of these imperatives.

Making the Most of India's Demographic Transition

Demographic change has already begun to transform India. According to an IMF Working Paper, India's demographic transition could add as much as 2% to the country's annual growth in per capita GDP over the next two decades.²² Looked at another way, favourable demographics now offer India the rare opportunity to lift hundreds of millions of people out of poverty quickly.

However, realizing the benefits of demographic change will not be easy. India already needs innovative solutions to expand critical aspects of its economy – including education, healthcare and job creation – to meet the nation's current requirements. With a population slated to become the world's largest by 2030, the pain of these existing shortcomings will only grow more acute if the necessary action is not taken now.

Government, business and civil society need to accelerate efforts to make the most of India's demographic transition. One step in the right direction would be to focus on reforms that take into account variations in demographic profiles across India's states. While most states will experience an increase in their working-age population, many southern states will also experience a spike in the number of older dependents (individuals aged over 60). By contrast, the majority of states in the north will continue to see an increase in the number of young dependents (persons aged under age 15) and an explosion in the number of individuals set to enter the workforce.

At the state level, different strategies are needed to effectively manage demographic change. For example, states with booming populations of young people would benefit by ensuring that this age cohort is productive and healthy. Improving paediatric healthcare would be a good place to start. Moreover, training

programmes must reach many people while also building the skills that businesses are hungry for. Gujarat's "iCreate" (International Centre for Entrepreneurship and Technology) project is an example of this kind of initiative. iCreate is a world-class incubation centre that seeks to provide an ecosystem for young entrepreneurs who want to develop new ideas and products through the use of technology. The project will be guided by leaders from academia and industry. The state government has also launched 20 Superior Technology Centres (STC) to provide specialized industry-led training using state-of-the-art technology. Each STC is related to a specific industry, such as automotive servicing and solar technology²³.

Some states have initiated reforms specific to the rise in the number of older citizens (see Figure 8). For instance, in 2008-2009, Velinallur Block Panchayat in the Kollam District of Kerala launched the Geriatric Health Care Programme "Ayurarogyam" with the support of the National Rural Health Mission (NRHM). The scheme was mainly aimed at improving elderly people's health status and quality of life. Tactics included community-based health surveys; health worker training; geriatric clinics; free wheel chairs, walking sticks, eyeglasses, dentures and counselling; and free

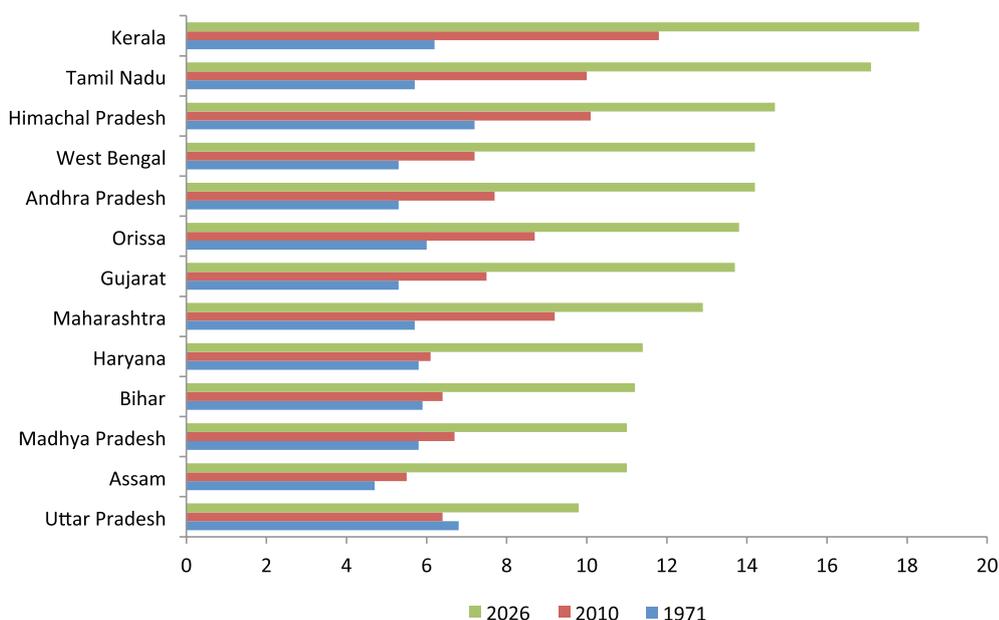
medicines for poor people suffering from chronic ailments. Buoyed by the success of this project, NRHM now plans to scale up the project to other blocks in the district²⁴. Keeping older individuals healthy can create a pool of experienced workers who are capable of imparting knowledge and skills and making India's young workers more productive.

Business and government must recognize that there is no one-size-fits-all solution to making the most of India's demographic transition. Given the demographic diversity across India, the country needs to develop diverse solutions. Technology offers one way forward by providing a platform to focus the global exchange of ideas on building solutions tailored to India's unique needs. The central government has taken an important step with its efforts to establish the National Knowledge Network – a technology platform aimed at connecting all of the country's universities and research institutions for the purpose of knowledge exchange. The National Skills Development Council's e-learning "skillspedia" initiative is another case in point. Drawing on input from businesses, the distance-learning platform offers online certification courses targeted towards states' training needs. Additionally, the recently established "Ideas for India" online

Figure 8 Ageing Populations

Percentage of population aged over 60 (select states)

Source: ADB Working Paper. Demographic Dividends for India: Evidence and Implications Based on National Transfer Accounts, December 2011



forum presents a new opportunity for India to tap into its large diaspora population. Established by a Massachusetts Institute of Technology economics professor and an Indian cabinet minister, the online forum encourages the world's leading thinkers – many of them of Indian origin – to share ideas for addressing India's most pressing challenges in a way that is accessible to all literate people, not just specialists.²⁵

Deepening Inclusive Growth through Better Governance

Realizing India's inclusive-growth vision has always hinged on the ability to establish inclusive governance. The key to such governance is transparency, along with access to services for all. India has substantially strengthened its e-governance capabilities in recent years, improving access to government services for hundreds of millions of Indians. It has also increased transparency with the Right to Information Act, 2005. But deeper inclusive growth will come only through better alignment of government services with citizens' needs.

For instance, e-governance can become much more citizen-centric. To achieve this, the country's e-governance platform must continue expanding its reach while ramping up efforts to do more with the data collected through the platform. Efforts to expand the scope of e-governance would benefit from more coordination between central and state governments. The implementation of e-governance in Madhya Pradesh is a prime example. By integrating the rollout of the central government's platform into its existing e-district government services, the state has quickly brought fresh government services, including a feedback hotline, to most of its citizens.²⁶ Meanwhile, the government of Andhra Pradesh is introducing multipurpose Aadhar-based smart cards to its citizens so they can more easily receive social welfare benefits owed to them. Smart cards will be usable across all point-of-sale (POS) machines as well as in various service departments in the state. The state government plans to set up fingerprint-based POS terminals at all welfare departments' service centres, state-road transport depots, and departments responsible for managing pensions, commercial taxes and other functions²⁷.

The central government is also ramping up investment to bring e-governance to 250,000 village governments ("Panchayats") by way of optical fibre networks by early 2014.²⁸ The initiative includes a framework for doing more with data collected through e-governance.

For example, by analysing data about ailments most common in each village, the government can improve healthcare training in local villages.

Identifying New Economic Levers of Peace and Prosperity in South Asia

India is at the forefront of the economic surge now sweeping South Asia, accounting for about 80% of the region's GDP. According to a recent IMF Working Paper, an increase in GDP growth in India by 1 percentage point has fuelled an increase in the South Asian economy's GDP growth by 0.37 percentage points since 1995.²⁹

Recent efforts to improve trade relations between South Asia's largest economies – India and Pakistan – may help to realize more of the region's economic potential. Trade and the possibility of peaceful relations between the two nations could markedly improve, and hopeful signs have emerged. For instance, both countries have recently committed to substantially lowering the number of products on their sensitive-items list that face tariffs under the South Asia Free Trade Area pact.³⁰ Moreover, Pakistan has recently moved to provide India with most-favoured-nation trade status. Thanks to this development, trade between the two countries may reach US\$ 6 billion by 2017 and US\$ 10 billion by 2020 – up from US\$ 2.7 billion today³¹. This could also pave the way for other countries in the region to demonstrate similar collaboration, a development that could enable South Asia to ultimately emerge as a free-trade zone.

But what India and South Asia need now is to build on improved India-Pakistan relations to develop transparent trade regulations. By working through the auspices of the South Asia Association for Regional Cooperation (SAARC), the two economies could further improve trade flows and deepen regional integration – fostering links in investment, trade, tourism and flows of workers across geographical borders.

Yet, the agenda is not just about improving trade ties. For India to fulfil its potential as a regional leader in South Asia, it needs to apply the lessons it has learned during its own development to improve quality of life for South Asians. India's contribution to livelihoods in South Asia mainly takes the forms of education and healthcare. For example, the country has long been a popular destination for students across the region seeking higher education. India is also helping to train Afghan civil servants, diplomats and police, while in Bangladesh

and Bhutan it is providing technical assistance for the implementation of power projects. Moreover, India remains a hub for tackling some of the most pressing healthcare challenges in South Asia. Of more than 600,000 medical tourists that visit India every year, a large percentage of them are from neighbouring countries. The recently established Centre for Mental Health in Delhi, for example, is coordinating efforts across institutions in South Asia to better understand and treat cases of mental illness in the region³².

The Path to Transformation

The next chapter in India's growth story will be shaped by how well businesses and government work collaboratively to move the country from deliberation to transformation.

One of the biggest tasks at hand for Indian policy-makers is to revive GDP growth in the near term while also laying a foundation for sustained growth. Reassessing spending plans to shore up government finances is certainly an important step in this direction. But to realize near-term gains, government and business will need to match these fiscal efforts with steps to address the structural supply-side pressures – such as lack of infrastructure – that contribute to high inflation.

The need for more and better infrastructure requires a variety of solutions. Improvements in roads, ports and steady access to power, to name a few, are critical but not sufficient for long-term growth. India also needs to push for advances in digital infrastructure, including Internet access and e-commerce, while guarding against the increasing threat of cyberattacks.

Perhaps most important, India requires a more effective capacity to nurture the potential of its human capital. Government and business can prioritize the implementation of reforms in healthcare and education. They also can become catalysts for changing mindsets, especially regarding the role of women in society and the workplace, if India is to generate continued high growth through its people.

By addressing these issues, India has the opportunity to translate its core strengths – including favourable demographics and entrepreneurial spirit – into growth drivers that can endure in the long term.

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World Economic Forum
91–93 route de la Capite
CH-1223 Cologny/Geneva
Switzerland

Tel.: +41 (0) 22 869 1212
Fax: +41 (0) 22 786 2744

contact@weforum.org
www.weforum.org