

# **India in a Globalizing World**

## **Maximizing Benefits and Minimizing Costs**

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Duvvuri Subbarao

# India in a Globalizing World

- India's globalization story starts in 1991.
- Swift, broad and sweeping economic reforms.
- India – a reluctant globalizer?

# **India in a Globalizing World**

## **First Point**

Globalization comes with  
benefits and costs.

# **India in a Globalizing World**

## **Second Point**

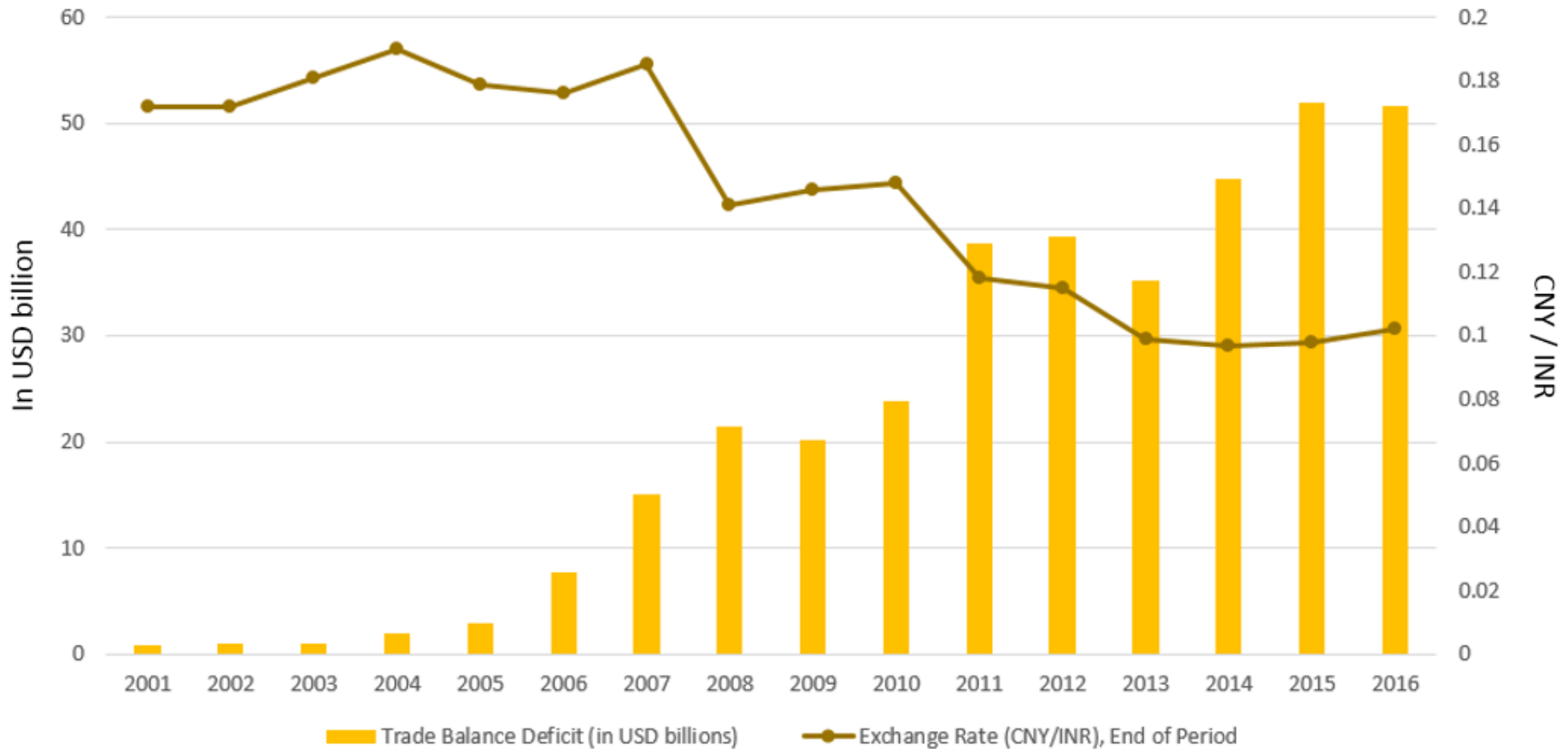
The challenge for India, as indeed for every country, is to maximize the benefits and minimize the costs of globalization.

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## Third Point

Maximizing the benefit cost ratio of  
**trade globalization**  
is a complex challenge.

# India-China Trade Balance and Exchange Rate Movement (2001-16)



Data Source: UNCOMTRADE Database; IMF, International Financial Statistics

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## Fourth Point

If maximizing the benefit cost ratio of **trade globalization** is a complex challenge, maximizing the benefit cost ratio of **financial globalization** is an even more complex challenge.

# Subbarao's Law

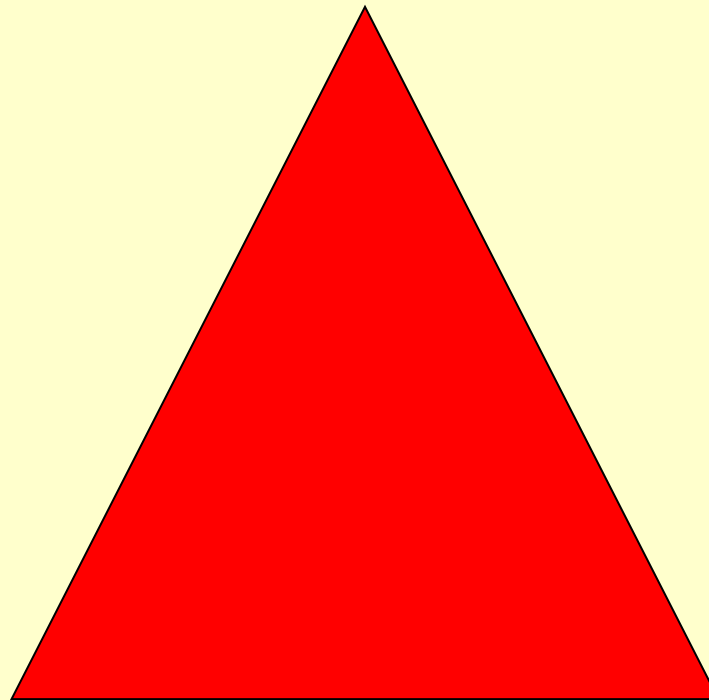
You never get capital flows in the exact amount or in the exact form or at the exact time you want them. They always come in the wrong quantity, in the wrong form and at the wrong time.



# Impossible Trinity

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Fixed Exchange Rate



Independent Monetary  
Policy

Free Capital Flows

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## Fourth Point

If maximizing the benefit cost ratio of **trade globalization** is a complex challenge, maximizing the benefit cost ratio of **financial globalization** is an even more complex challenge.

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## **Fifth Point**

Global cooperation is critical  
to managing globalization.

# **Bernanke in his book 'The Courage to Act'**

“I argued that because we are an important trading partner for many countries, the rest of the world would benefit from a stronger US recovery. I said that countries with sound monetary, budget and trade policies could better withstand any short term disruptions from our easing.”

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## **Fifth Point**

Global cooperation is critical  
to managing globalization.

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## **Sixth Point**

The irony in the globalization story is that tables have turned as between developed and developing countries.

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## Seventh Point

India's approach to full capital account convertibility will be '*festina lente*' – which is Latin for 'make haste slowly'.

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## Eighth Point

Even as India is globalizing,  
it cannot replicate the China  
model of export led growth.



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## Ninth Point

Maximizing the benefit cost ratio of globalization is a long haul effort.

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## What have I said so far..

- Globalization comes with benefits and costs.
- The challenge of globalization is to maximize the benefits and minimize the costs.
- Maximizing the benefit cost ratio of trade globalization is a complex challenge.
- Maximizing the benefit cost ratio of financial globalization is an even more complex challenge.
- Global cooperation is critical to managing globalization.
- The irony in the story of globalization is that tables have turned as between developed and developing countries.
- India's approach to full capital account convertibility will be *festina lente*
- Even as India is globalizing, it cannot replicate the China model of export led growth.
- Maximizing the benefit cost ratio of globalization is a long haul effort.

# Managing the Costs and Benefits of Globalization – India's Agenda

1. Beware of the twin deficits.
2. Keep financial stability on the radar screen - always.
3. Manage the impossible trinity.
4. Improve the ease of doing business.
5. Make regulation credible and efficient.
6. Reduce inequality.
7. Improve the capacity to negotiate at global forums.
8. Focus on the fourth channel of globalization