The Quotings of Dr.Duvvuri Subbarao on the Topic "G20 and India"

*Dr. M. Mohammed Siddik

*Principal, RDB College of Arts & Science, Papanasam –614 205

Abstract

The reserve bank recognized shroff's expertise and innovation thinking early on when, in 1953, it set up a committee under his chairmanship to examine how the flow of finance to the private sector could be enlarged. The shroff committee recommendation played a key role in defining the basis for institution building in the financial sector-ICICI and at later date IDBI, were set up as development financial institutions, a deposit insurance corporation in the shape of DICGC came in the early sixties and the committee's suggestion of setting up unit trusts as vehicles to channelise small savings into investments provided the basis for the later day UTI

❖ Clearly a man ahead of this time. A.D.Shroff's understood the Importance of private investment in nation building in a liberalized. Market –driven environment. Like every great idea awaiting its time, the liberalization that he so fervently advocated had not fully arrived in the country till the early nineties.

❖ The economic liberalization that we started in the nineties has meant India integrating with the rest of the world, a process that is still work in progress. Over the last ten years, India's two way trade flows as a proportion of GDP have doubled.

❖ India's embrace of globalization and the remarkable transition the economy went through after the economic reforms of the 1990s are an eloquent testimony to eminent thinkers with foresight and conviction like A.D.shroff

G20

❖ The global financial crisis of 2008/09 and the Eurozone crisis since 2010- that have taken a devastating toll on global growth and welfare. Indeed when the history of this crisis I written, the London G 20 Summit in April2009 will be acknowledged as the clear turning point when world leaders showed extraordinary determination and utility.

❖ Five years on the crisis is still with us. Only its epicenter and the main actors have changed. During these five years, the world has also become privy to the differences on some vital issues within the G20 membership.

❖ My own is that these differences should not be exaggerated. After all, in a world comprising nation states, there is no natural constituency for the global economy. There are bound to be differences when the agenda is so abroad and country level compulsions are seen to be clashing with global interests

What is the G20?

❖ The G20 is an informal club with 19 member countries and the European Union which together represents 90 percent of global GDP 80 percent of global trade and two-thirds of the global population.

❖ Contrary to popular belief, the G20 is not a new international grouping triggered by the global financial crisis. It was, in fact by an earlier crisis, the Asian crisis of 1997

❖ The chair of the G20 rotates every year from country to country. The chair country take the lead in formulating and driving the agenda. The G20 leaders meet at the summit level once a year.

Why is the G20 important?

❖ The G can be seen as a watermark in international economic diplomacy in at least two ways.

❖ First, it is a major step forward from the old divisive style of global governance by little communication and much acrimony between major developed (G 8) who were largely seen as donors, and developing (G77) countries that were seen as the recipients of bilateral and multilateral aid.

❖ This new style of international governance had been in the making for some time. The bigger EMEs, particularly the BRICS, were growing at a much faster pace than OECD countries for a long time, and were becoming increasingly systemically important.

❖ The sector factor that makes the unique is its attempt to coordinate the macroeconomic policies of systemically important economies to make them more effective in a world where national macroeconomic policy instrument are being blunted via rapid global integration through trade and financial markets.

Global Rebalancing

❖ Almost everyone I agreed that one of the root causes of the global financial crisis is the buildup of global imbalances. In as much as global imbalances-no matter whether economies or a 'savings glut' in EMEs- were the root cause of the crisis, reducing imbalances is a necessary condition for restoring global financial stability.

❖ The posts-crisis debate on global imbalances has three interrelated facets. The first is the role of exchange rates in global rebalancing. The second relates to capital flows in to EMEs raising the familiar challenge of managing the impossible trinity. And the third facet is the framework for the adjustment process. Let me turn to these one by one.

❖ First, on the role of exchange rates-a prime lever for redressal of external imbalances. Global rebalancing will require deficit economies to save more and consume less. They need to depend for growth more on external demand which calls for a real depreciation of their currencies.

❖ The problem of capital flows came centre stage in the aftermath of the quantitative easing by advanced economy central banks when the excess liquidity in the global system found its way into faster growing EMEs. The most high profile problems thrown up by capital flows, in excess of a country's absorptive capacity, are erosion of monetary policy effectiveness, currency appreciation and loss of competitiveness.

❖ In the G20 debate on capital flows, popularly but mistakenly referred to as' currency wars'. EMEs agitated mainly two points. First, than in as much as lumpy and volatile capital flows are a spillover from the quantitative easing of advanced economies, the burden of adjustment has to be understood as legitimate and acceptable defence against speculative capital flows.

❖ Global imbalances and their correction were the main concern in the G20 frame work and Mutual Assessment Process (MAP) exercise. The MAP exercise is aimed at making countries commit to external sector policies that lead to strong, substained and balanced growth at the global level.

❖ China's exchange rate policies were at the centre of the debate in the G20.As on date, china's current account surplus (in relation to its GDP) has declined from the pre-crisis peak, and china's real effective exchange rate has also appreciated since 2005, even though it is widely believed that is needs to appreciate further.

❖ India co-chair along with Canada, the G20 frame work 'MAP' working group (FWG). This provides India and opportunity not only to get an early preview of the macro and micro consequences of global initiatives, but also to actively contribute to such initiatives.

Global Reserve Currency

❖ The global crisis has revived the familiar concerns about the robustness of the international monetary system, and in particularly about the global reserve currency and the provisions of liquidity in times of stress.

❖ In line with the Triffin paradox, the US has met the obligation of an issuer of reserve currency by running fiscal and external deficits while enjoying the 'exorbitant privilege" of not having to make the necessary adjustment to bridge the deficits. With no pressure to reduce the deficits.

❖ The problem with the world having only a single reserve currency came to the fore during the crisis as many countries faced dollar liquidity problems as a consequence of swift deleveraging by foreign creditors and foreign investors.

❖ Based on the experience of the crisis, several reform proposals have been put forward to address the problems arising from a single reserve currency. One is to have a menu of alternative reserve currencies. But this cannot happen by fiat.

❖ A second solution to the single reserve currency issue is to develop the SDR as a reserve currency. This does not seem to be a feasible option.

❖ Another option, a third possible solution, is to expand the SDR basket by including the currencies of countries that are increasingly important economically and politically.

❖ The fourth option is not actually an alternative, but is in part a solution. It aims at reducing the need of self-insurance and thereby the dependence on a reserve currency by supporting a multilateral option of a prearranged line of credit.

Protectinism

❖ In the posts- crisis world, there may not actually be deglobalisaton' but the earlier orthodoxy that globalization is an unmixed blessing is being increasingly challenged.

❖ Recent international developments mark an 'ironic reversal' in the fears about globalization. Previously, it was the EMEs which feared that integration in to the world economy would lead to welfare loss at home.

❖ Following the global financial crisis, the G 20 leaders determined not to repeat the mistakes of the 1930s when the brunt of protectionism exacerbated the great depression.

❖ Indian opposes protectionism in all its forms. However, at the same time, we have to respect the WTO-consists policy space available to the developing countries to pursue their legitimate objectives of growth development and stability.

IMF Quota and Governance

❖ The global economic and financial crisis of 2008 exposed critical weakness in the structure of the international Architecture as well as in its governance. The G 20 has been trying to address these governance and structural weakness while at the same time end eavouring to stabilize the global economy through a process of mutual consultations and policy co-operation.

❖ While agreement has been reached in the G 20 for effecting major reforms, implementation has so far has been disappointing.

❖ There has been some criticism that IMF quota and governance issues should be settled within the IMF management and not at the G 20. The dominant view thought has been that the G 20 should continue to be the main forum for overall guidance not only on the direction that the comprehensive review of the formula should take but on continued reform of the international financial Architecture.

❖ Global institutions can only be legitimate and credible if their vote share and governance structure reflect members share in the world economy.

Financial Sector Reforms

❖ Received wisdom today is that financial deregulation shares the honors' with the global imbalances a being one of the twin villains of the crisis..

❖ The broad contours of the international initiatives spearhead by the G20 on financial sector reform rest on four broad pillars: regulation supervision, resolution, especially in respect of global systematically important financial institutions (or SIFIs), and assessment of the implementation of new standards.

❖ However, the process of regulatory reforms that proceeding across various jurisdictions has come to pose new challenges especially as the global economy continues to be marked by new risks.

❖ All the G20 members have committed to the implementation of the Basel III package.

❖ As we move forward in the area of regulation, the investment needs of the emerging market and developing economies also deserve special attention.

❖ Second, the more demanding regulatory standards should not lead to deleveraging by global financial institutions out of emerging markets.

❖ Collaboration between financial authorities on these issues is an important, *albeit* a difficult and painstaking task. Collaboration becomes difficult especially when it entails profound structural changes in the face of volatile financial markets and anemic growth.

Future Challenges for the G20

❖ The first challenge is drawing a balance between short-term compulsions and medium term sustainability.

❖ The second challenge for the G20 is to nudge countries' policies in mutually agreed directions and hold sovereigns accountable for commitments.

❖ The third challenge for the G20 is that the success of domestic policy actions in an increasingly globalizing world with growing policy and market spillovers is linked to global outcomes.

Conclusion

❖ The G20 is by all accounts a bold initiative. It is unique from earlier international initiatives in the sense that it is not formed by a charter, has no mandate for global governance and its decisions are not legally blinding and enforceable. In short it is based on the realization that in a globalizing world. Our futures are tied together and the only way we can all prosper is though policy cooperation and on the belief that the only way global governance can be pursed is through an honors code.

References:

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