



ISSN: 2036-5438

## India's Temptations and Opportunities... and European Responsibilities. A Short Note

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Perspectives on Federalism, Vol. 1, single issue, 2009

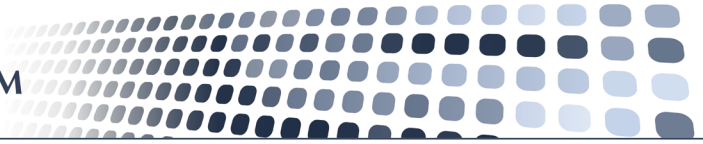


## Abstract

This note provides an overview of some recent documents regarding the Indian position in the current world economy and its key role in the context of international cooperation.

## Key-words:

India, financial market crisis, Europe



## 1. Context and Temptations

On the announcement of a Conference on “India's Macroeconomic Management in the Context of Global Slowdown”<sup>1</sup>, organized by the Reserve Bank of India Endowment Unit in Vadodara, India on 6th December 2008, one can read the following statement, which might be interesting to quote at full length:

“The financial market crisis that erupted in the United States in August 2007 has developed into the world's largest shock since the Great Depression. This has weakened the global economy as the financial turbulence has spread over to the real economy. It has triggered a deceleration in the world economic growth, which is expected to slide even further in the times ahead. There is an impending danger of the rest of the world being dragged into a severe economic slowdown that may eventually inch to wards a synchronised global recession.

In comparison to the advanced market economies which are on the verge of recession, the rapidly globalising emerging economies have been far more resilient and dynamic – India being one among them.

In the post-reform period, India stands as an economy that is rapidly – modernising, globalising and growing. India is poised as a fast growing emerging market economy in the face of the current turmoil and pessimism. The resilience shown by India comes from the strong macroeconomic fundamentals. India has weathered the storms of the recent financial market crisis with great strength and stability. India flouts a robust GDP growth rate of almost 9.0 percent in the midst of all international economic mayhem. The household sector is coming to prominence with impressive contribution in the national pool of savings. Rising investment levels and improved productivity are the engines driving growth. Indians have witnessed a doubling of average real per capita income growth during the tenth plan period.

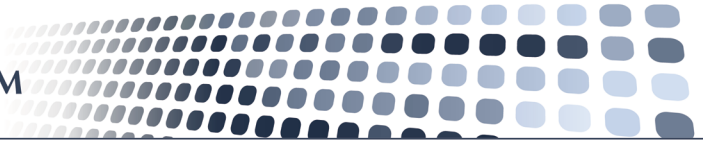
The government has progressed towards a fiscal correction. There has also been a sharp rise in net capital inflows. The strong institutional and macroeconomic policy framework in India is further complemented by the gains from trade and global financial integration.

How India is placed in the face of a global economic meltdown? How vulnerable is the Indian economy? India cannot go unscathed by the all round global economic developments. In the recent period, India has witnessed a slight moderation in her economic growth rate, shooting interest rates, an alarming rise in inflation rate and expected reversals in the capital flows.

The challenges for India, which has so far been relatively insulated from the financial turmoil, are: How long can the Indian economy resist the impact of global recession? Are the monetary, financial and banking sectors adequately equipped to meet the new pressures?

The heightened global uncertainty and economic downturn calls for strong monetary and fiscal policy measures and reforms to safeguard India's growth momentum, and to shield it from the inadvertent consequences of the ongoing international financial market muddle. At this juncture, it is pertinent to draw attention to the emerging challenges of the global economic slowdown and the strengths of the Indian macroeconomic policy and planning to cope with it.”

Such analysis and strategies echo what is written in the document published as the *Report* (available on-line at <http://finmin.nic.in/reports/index.html>) of the *High Powered Expert Committee* (a special group set up to assess the prospect of growth of Mumbai as an international financial centre). In the very moment when a *Bretton Woods II* is worldwide demanded to assist the recovery from the recent US-originated financial crisis, it is evident



how the temporary insulation of Indian financial system from the global crisis is a tempting occasion to focus on national responses and defences against the possibility of keeping under strict control the transmission mechanisms of the international turmoil in the near future.

## 2. The alternative

But India is also aware of the opportunities for greater international cooperation given by the present situation. The crisis is the chance to build a new political and economic global architecture where US hegemony is substituted by a balanced system of continental integrated areas. India is searching for its area of integration and acts on several fields.

The “traditional one” is the East-Asian region, where increasing trade interdependence may lead to greater economic, monetary and financial cooperation. We have already written a longer note on this very issue on this journal (*Asian Monetary Integration in Recent Economic Debates*), concerning the monetary integration process among ASEAN countries and the other major Pacific actors.

But also the India-EU joint Action Plan at <http://meaindia.nic.in/> shows the dynamic behaviour by the Indian Government towards industrialized countries. And India looks also somewhere else. The *Opening Remarks* by the Indian Prime Minister and External Affairs Minister at the third IBSA (India, Brazil, South Africa, i.e. new global emerging powers) Summit, held on 13 October 2008, at Vigyan Bhavan, New Delhi, generated an interesting debate about South-South Cooperation for “Shared Prosperity & Inclusive Globalization” (<http://meaindia.nic.in/>).

The interview by Pierre Rousselin to the Indian Prime Minister, Manmohan Singh and published on *Le Figaro* on 30 September 2008 with the title “India must participate in the solution of the financial crisis” shows that India is well aware of both its strength and on its weaknesses and has therefore to look for several strategies in order to secure its economic growth in the future.

## 3. European Global Responsibilities

From the European perspective, this double-sided position of India is an opportunity to play a key-role in the shaping of the future new world architecture. It will be mainly a European responsibility to show the rest of the world, and in particular countries like India, that a cooperative solution (with enforcing rules) to the global challenges is the most durable one and the need to provide global public goods is better satisfied when a new architecture of the world economic governance is based on a balanced continental system of powers and not on a hegemonic solution or, even worse, on an autarchic one.

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<sup>1</sup> [http://www.msubaroda.ac.in//commerce/upload/MSU\\_RBI\\_Seminar.pdf](http://www.msubaroda.ac.in//commerce/upload/MSU_RBI_Seminar.pdf)