

## Raghuram Rajan: Bold face of India's economy speaks out

Interview with Dr Raghuram Rajan, Governor of the Reserve Bank of India, in *The Australian Financial Review* published on 24 February 2014.

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*Emerging markets* Jacob Greber and Greg Earl report on governor with an impeccable pedigree.

Raghuram Rajan represents the bold face of India's potential new economy – impeccably credentialed, upbeat and ready to force himself onto centre stage in the global debate about the reshaping of the world economy.

Appointed as governor of the Reserve Bank of India in September, Rajan has taken no time to make himself heard in international financial markets.

Last month he took the United States Federal Reserve to task for failing to recognise the negative consequences to emerging markets from its tapering program, saying international monetary co-operation was breaking down.

On Saturday, in an interview with *The Australian Financial Review*, he warned against allowing a world order to emerge in which “everybody is in their own boat and they sink or swim. We're in it together.”

The former International Monetary Fund chief economist and Harvard economist is also leading the charge against the US Congress for stalling reforms to the fund that would increase the say of emerging economies.

“There is only so long the world can wait for the US to get its act together [on IMF reform]”, he said, alluding to the fact that countries such as Brazil, India, Indonesia and China are more likely to consider building alternative bodies to act as emergency lenders to troubled nations and as a global “truth teller” of economic realities. Above all, Rajan – a long-standing member of the global policymaking elite – wants to push emerging markets to the centre of agenda setting.

Long dominated by the major post-war economies of the North Atlantic, India, alongside China, is part of a vanguard determined to be recognised for its ever-rising role in the global economy. “We emerging markets have to step up to be part of the agenda setting, rather than [remain] passive when the agenda is set and then reacting to the agenda”, he said in a hotel conference room overlooking Sydney Harbour.

“But I do think if the international fora are not responsive, both in terms of quotas but also in terms of hearing and allowing to the agenda to be set by more emerging markets, you will see a drift away towards more regional groupings, which would be unfortunate”, he said.

Rajan abandoned a high-flying career as a global economist two years ago to return to India as the chief economic adviser to the Indian government. It was then facing a sharp downturn in growth and looking for a growth strategy before this year's elections, which the Congress Party-led Coalition government is expected to lose.

There was speculation he was a destined for an even bigger job and that came with his appointment as governor of the Reserve Bank of India.

He has since pursued a more focused approach to monetary policy, with three rate rises.

*Capital Economics* Asia economist Daniel Martin said in a recent report: “Overall, he has made a good start. He has taken a tougher stand on inflation and is looking to push through a broader reform agenda, both of which could lay the foundation for stronger long-term growth.”

“But there are limits to what a central bank governor can achieve, which is why so much is riding on the make-up and performance of the next government.”

## Prescient forecaster

Rajan was chief economist of the International Monetary Fund from 2003 to 2006. While there, he came to the attention of global financial markets when he raised questions about the health of the global financial system at a celebration honouring former US Federal Reserve Board chairman Alan Greenspan just before the global financial crisis broke out.

He argued financial sector managers were encouraged to “take risks that generate severe adverse consequences with small probability but, in return, offer generous compensation the rest of the time”. This comment is now seen a prescient forecast of what happened after the collapse of Lehman Brothers.

One of the other participants in the weekend G20 meeting says: “To have a person of that pedigree in an emerging market central bank is quite a change. He’s the first star appointment to an emerging market central bank. No one has been appointed with this sort of profile.”

“There’s a lot of interest in what he will have to say because no one knows just what he meant when he said what he said about tapering. He will be closely questioned”, the G20 delegate said off the record.

Not surprisingly, Rajan is a determined champion for the Indian economy.

He urges Australian companies which fear perceived corruption and heavy-handed Indian bureaucracy to learn from the experiences of Western companies that have stayed the course.

“With risk comes return, and people have learnt how to make money in India”, he says.

While he admits there are the usual difficulties that come with an emerging market, many of India’s states are supportive to new businesses.

“If you look at companies that have spent a few years trying to figure out how do things – and I don’t mean that in a negative sense – how the system works; you can survive without being corrupt, without having to pay bribes and actually make a ton of money.”

He cites the example of Vodafone, the “poster child for companies with difficulties in India” after it was hit by a huge tax claim, which is now investing in more spectrum and buying out Indian minority holders of its local shares, a sign it sees the country as a good long-term bet.

“You see that again and again: companies that have stayed the course in India are making money – more money than they are making elsewhere.”

“Some of the foreign banks; foreign telecoms, across the board, if you go and spend some time trying to figure out how things work – and yes, it’s not a first world country, but there is rule of law, there is a supreme court which functions and gives reasonable decisions – and once you understand that things take a little time, there is money to be made.”

“My banker friends tell me that multi-nationals are investing for the next five years. Credit to multinationals is picking up in India, even while Indian companies are a little uncertain because of the elections and of course new entrants are perhaps waiting also for the elections.”

Part of his optimism is based on the fact India is one of the world’s fastest-growing economies, with major infrastructure and energy projects slated to transform the nation in coming years.

“I’m hopeful as that comes, we will start seeing a slow pickup in growth away from the 5 per cent [pace] it has been trundling over the past few quarters and back to the sixes and sevens.”

He argues India is still 10 to 12 years behind China when it comes to pursuing growth boosting reforms.

“If we can get anywhere near China’s rate of growth, with the kind of controls on the environment that we have, we would be very lucky. But I think we can get near that.”

“We need to do a few big things, and those include, for example, business regulation and infrastructure. We have some massive infrastructure projects on the way [such as] the Delhi-Mumbai corridor.”

“These ... will create an environment where logistics will be better, power will be better. I’m hopeful these will come on stream over the next three or four years.”

“We must work harder on our human capital. We’ve got fantastic doctors and engineers and so on, but we need the mass [of people] to be better trained, better electricians, plumbers, factory workers, and those combined with the factories that are set up in this new infrastructure environment will be very helpful.”

“And last, we need a financial sector which is first rate.”