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## Anti-outsourcing stance not in US' best interests: Gita Gopinath

Ullekh NP, ET Bureau Oct 30, 2010, 01.00am IST

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*Gita Gopinath, 38, is the first female Indian-origin full professor at Harvard University's economics department. Widely considered an authority on international price fluctuations and business cycles in emerging economies, the young professor, a Delhi School of Economics alumna, says there's a lot left to be done in improving the financial system in countries such as India and China. She is of the view that to prevent a slowing of growth, India needs to focus on education "at all levels" which alone can ensure amore skilled labour force. Gopinath, an admirer of cricket icon Sachin Tendulkar and writer JK Rowling, says she hopes that the Federal Reserve, under the chairmanship of Ben Bernanke, could help the US economy tackle problems arising out of rising unemployment and a shrinking housing market. The Kolkata-born economist, however, regrets that the outsourcing issue, which is on top of the agenda of US President Barack Obama who is visiting India early next month, is deeply political at this point. Excerpts from an interview with Ullekh NP.*



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**What are the most interesting findings from your studies on business cycles?**

Business cycles in emerging markets behave differently from developed markets. For emerging markets, there is a sense in which "when it rains it pours" . That is, when the economy is booming that is also the period when the country receives large international capital flows, and the interest rates at which it borrows is low and fiscal spending is high. On the flip side, when the economy shrinks, capital flows dry up, interest rates rise and fiscal spending collapses. Consequently "good times" and "bad times" have a tendency to turn into "great times" and "terrible times" . There is no countervailing force that moderates cycles, unlike in developed markets.

**What do you think are the policy steps that helped countries such as India and China lessen risks of exposure to the global financial slowdown?**

India and China have many restrictions on international capital flows. This automatically reduces direct exposure to a global financial shock. Domestic financial intermediation is also heavily regulated. The crisis in the US market is increasingly being attributed to esoteric financial instruments such as credit default swaps and the high leverage that the unregulated non-banking financial institutions took on. These factors were not important in India and China. Of course, this does not mean that India and China have a better financial system. In both countries there is large scope for improving the financial system. The recent report of the committee on financial-sector reforms in India, chaired by Raghuram Rajan, provides a terrific blueprint to work off of.

**Where does India stand globally?**

Compared with 10 years ago, India has gained alot of prominence in the global economic arena. India is on everyone's radar for good reasons. It is a fast-growing economy and this is a transformational phase for the country. There are many pluses, with the demographic trend in our favour (as compared with China, for instance). It is predicted that by 2035 we should have the world's largest labour market and we (India) have a vibrant private sector, so there are many reasons to project continued growth. But to prevent a slowing of growth we need a more skilled labour force. This means education at all levels has to be a priority, infrastructural improvements are crucial and better governance is essential.

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