



A Seminal Visit by India's Prime Minister

Arvind Subramanian says that Prime Minister Manmohan Singh, in the first state visit of the Obama administration, will hold crucial talks on climate change, energy, the global economic crisis, Iran, and the wars in Afghanistan and Pakistan.

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Steve Weisman: This is Steve Weisman at the Peterson Institute for International Economics. Arvind Subramanian, senior fellow at the Institute, is here to talk about the upcoming visit of Prime Minister Manmohan Singh of India and its significance for US-Indian and indeed global economic relations. Arvind, welcome.

Arvind Subramanian: Thanks, Steve, very much.

Steve Weisman: Pleasure to have you here. You are our resident expert at the Institute on India and the Indian economy. And, like Prime Minister Singh, you have a PhD.

Arvind Subramanian: In economics, although he got it from the other school. I was at Oxford and he was at Cambridge....No, no. I take it back. He got his PhD at Oxford, too.

Steve Weisman: Oxford and Cambridge, it's like India and Pakistan.

Arvind Subramanian: That's correct.

Steve Weisman: Arvind, this is President Obama's first state visit. So it's very interesting and significant that the prime minister of India is his guest. Tell us what is the significance in other ways.

Arvind Subramanian: Steve, as you said it's the first state visit, so that's a high honor being conferred on India and the recognition of the importance of the US-India relationship. But interestingly also it comes on the heels of President Obama's visit to China and other countries in Asia, where I think what this China trip has shown is that, although the China-US relationship is a key element of the international architecture, it's not the only relationship. And there are other relationships, including the one with India, that need to be nurtured if one is to have a peaceful, stable, prosperous world economic order.

Steve Weisman: It's often said, for example, that you can't have a global trade agreement, you can't have a global climate agreement without China. But the same is true of India, isn't it?

Arvind Subramanian: Absolutely, Steve. For example, if you look at the Doha Round [of world trade talks under the WTO], India was a key player. And of course India has been seen as somewhat of a recalcitrant trade negotiator. But the fact is that India remains key to the negotiation, especially in the context of opening up the Indian agricultural market that the United States values quite a lot. So India is a key player in the trade negotiations and on climate change as well. India is a large emitter of emissions. You

know, it's not as big as China and the United States. But any meaningful agreement to reduce emissions has to involve India on the table and India making some commitments at some point to cut its emissions.

Steve Weisman: Do you see these economic and trade and climate issues at the top of the agenda?

Arvind Subramanian: I'm not sure about trade but certainly climate change and energy will be up there among the things that President Obama and Prime Minister Singh will discuss. There will be maybe even a kind of sectoral agreement to collaborate more on green technologies and clean energy technologies; something like what China and the United States have been doing. So climate change is going to be an important item. I think, you know, the civil nuclear agreement—I think apart from the economic issues, other political issues and defense issues are going to be very important.

Steve Weisman: Let's talk about the nuclear agreement, because that's in the energy area. And if there was one major factor in the improvement of US-Indian relations in the last few years it was this agreement.

Arvind Subramanian: Oh, absolutely. You know if you look at President George W. Bush's ratings around the world; he is loved in India. And that's partly because he was instrumental in pushing the civil nuclear agreement.

Steve Weisman: Remind our readers and listeners what that agreement was.

Arvind Subramanian: India was not part of the nonproliferation treaty because it had nuclear weapons. The agreement basically lifted the prior status that India had as a nuclear power and brought India into the fold as it were—legitimized India's position of nuclear technologies and nuclear weapons. And also crucially, made it possible for India to acquire nuclear reactors and nuclear fuel from outside.

Steve Weisman: From primarily Europe and the United States.

Arvind Subramanian: That's correct. The interesting thing, of course, is that the United States—having been instrumental in doing this—has actually fallen behind on the commercial side of this because of complex regulatory hurdles that prevent the United States from selling equipment to India. In fact, India has already signed agreements with both Russia and France for the supply of nuclear-related equipment. But one of the big deliverables at this meeting between President Obama and Prime Minister Singh could be the elimination of those regulatory hurdles, so that the United States can actually supply two big nuclear reactors to India.

Steve Weisman: The United States went through an agonizing debate in Congress for its part on this negotiation and approving it. But Prime Minister Singh did as well. In fact, there was a huge amount of opposition in India to its part of the agreement, which called for inspectors of India's civilian facilities. And that was seen as a breach of sovereignty. What kind of a hand does the prime minister have in having won agreement domestically for this?

Arvind Subramanian: It's a very good point, because domestically the Indian prime minister, until the civil nuclear agreement was signed, was seen as a somewhat weak leader, unwilling

to stake out major positions and follow them through. But on the issue of the civil nuclear agreement, he took a very strong stand at the expense of breaking his then ruling coalition. The Marxists whose support he needed for staying in power actually pulled out and withdrew their support, but he was still able to cobble together a coalition. But what that incident revealed was that the prime minister was willing to go to bat for an issue that he felt strongly about. And cooperation with the United States on the civil nuclear thing was the one issue where I think people felt he exercised very strong leadership. And that got reflected in the subsequent election, which the Congress won quite handily and surprisingly.

Steve Weisman: And despite rough weather because of the global financial crisis, it was pretty interesting that he won reelection. You might have expected the Congress party and its partners to have suffered more of a rejection.

Arvind Subramanian: Absolutely. I think the Indian intelligentsia, people in the cities, they say voted in part because they felt that this was an important issue for India. And the prime minister stuck his neck out; showed resolve and courage and boldness, and they rewarded him for it at the polls.

Steve Weisman: Both of us are familiar with his political career. But remind us; he was instrumental, going all the way back to the 1980s and 1990s, as an economist with the entirety of India's economic liberalization.

Arvind Subramanian: Yes. Even more specifically in 1991 when India had its major external crisis: It was running out of foreign exchange. He was then the finance minister, and he instituted a radical U-turn in India's economic policies—away from stateism away from controls, away from being closed—and really steering the Indian economy in a completely new direction. And he was the architect of that in 1991 as finance minister.

Steve Weisman: Now that the world has suffered this gigantic financial and economic crisis, more and more countries and leaders are blaming the liberalization of financial regulations and controls and capital controls. Where is India in that discussion?

Arvind Subramanian: As you said earlier, Steve, India actually managed to escape relatively unscathed the financial crisis. I say relatively because compared to the growth rate it was posting before the crisis, there was a decline. India was growing at about 9 percent, and the crisis took that growth rate down to about 6 to 6.5 percent, which is still substantially greater than what the US and major Western economies—the growth rates that they're posting. So relative to its past, it kind of took a dip. But relative to many other countries it did very, very well. And the reason for that, of course, was that the economy was well managed. India had a lot of foreign exchange and it has to be said that although India had liberalized on the financial side, it hadn't completely deregulated the economy, which might have exposed it to some of these toxic assets—assets that caused the problem. The Indian financial sector is still heavily regulated, still heavily state owned. And in good times that's a problem; it holds back growth and efficiency. But in bad times, when there's a crisis, state support—as we've discovered in the United States and Europe—is crucial to maintaining stability. And India, for maybe completely unintentional reasons, found itself on the right side when the economy turned down, in terms of having state support for these banks.

Steve Weisman: Two more questions. First on Iran, Arvind. India has been a supporter of the United States in its effort to get Iran to abandon its nuclear ambitions, to cease enriching uranium. But it's also not been as supportive of the kinds of sanctions that the United States may now be demanding. What do you think is the importance of this subject when the two leaders meet?

Arvind Subramanian: Clearly this will be a more important subject for President Obama than for Prime Minister Singh, because I think India finds itself trying to straddle two objectives here. On the one hand, I think it wants to be seen as supportive of a broader international effort to try and prevent Iran from acquiring nuclear weapons. For example, India voted against Iran in the International Atomic Energy Agency (IAEA) recently and against Iran acquiring nuclear weapons. However India, like China, has insatiable energy needs. And one of the sources for obtaining energy is, in fact, Iran. So I think that's the difficult balancing act that India is trying to do. I think so far it's managed to straddle that reasonably well but going forward, we don't know. If for example Iran were to really get closer to acquiring nuclear weapons and if the international community wanted to take a much stronger stance against Iran, I'm not sure how the Indians will come out on that.

Steve Weisman: Finally, on another foreign policy area that's more political than economic: Afghanistan and Pakistan. The United States is putting a lot of pressure on Pakistan to crack down on the Taliban but Pakistan's abilities are limited by the fact that most—I think it's 70 percent, 80 percent—of their troops are on the border with India, and they see India as a much bigger military threat than the Taliban. What might you expect in the way of discussions on whether India has a role to play in that critical theater?

Arvind Subramanian: I think on this, what the Indians will stress is that India and the United States have a common objective in that region, which is a stable Pakistan, a stable and prosperous Afghanistan. And the elimination of the terrorist strongholds there, because both India and the United States are targets of terrorist activity. Of course with 9/11 here, we had our 26/11 last year, which is the Bombay killings. And that said, however, I think what the Indians will say is that the inability of, or the unwillingness of, Pakistan to go after its own terrorists should not be linked to the presence of Indian troops on Pakistan's eastern border, because the Indians will claim that they have no aggressive interest at all in Pakistan. So that shouldn't be invoked as an excuse for not taking action against the terrorists and the Taliban elsewhere. In fact, I think the Indians will go further and say that, what is really required to improve the security situation and the political situation fundamentally in Pakistan is a recognition within Pakistan that the real enemy is the Taliban and terrorists and the armed Islamists, rather than India. Once you have that recognition, I think that's what the Indians will say; that there's scope for greater cooperation between India and Pakistan but also, more broadly regionally between India, Afghanistan, Pakistan, and the United States.

Steve Weisman: Arvind, thanks for joining us.

Arvind Subramanian: Thank you very much, Steve.

