



Modi's US Visit Offers Window for Economic Opening

C. Fred Bergsten says Indian Prime Minister Narendra Modi's last official visit to the United States under President Barack Obama opens a unique opportunity to boost economic ties between the two nations.

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Pedro da Costa: Hi, I'm Pedro da Costa, Editorial Fellow here at the Peterson Institute for International Economics. I'm joined by Fred Bergsten, Director Emeritus and founder of the institute. Thank you for joining me.

C. Fred Bergsten: Great to be here.

Pedro da Costa: So, let's talk a little bit about Prime Minister Modi's upcoming visit to the United States and his meeting with President Obama. The two seem to have a fairly good relationship but not much has come out of it in terms of new economic linkages in trade. What are you expecting from this visit and how significant is it potentially?

C. Fred Bergsten: Well, it's true that President Obama and Prime Minister Modi have struck up an enormously friendly and warm personal relationship. They have visited back and forth a number of occasions. They have worked together on a number of issues with some success. But they don't leave, at this point, any legacy. President Obama, obviously, only has six months left to go in office. So the question is whether this summit, unlike the previous ones, can create some ongoing framework for the relationship.

President Bush 43 actually did that with the civilian nuclear agreement back before Obama came in. That set a new security framework for the US and India, which has prevailed, and the US and India actually have very close and growing ties in the security area. The paradox is that there's nothing like that on the economic side despite the US being the biggest economy, India being on its way to being the third largest economy—

Pedro da Costa: And one of the fastest growing now, which I would assume would be a big incentive for the US to want to work with them.

C. Fred Bergsten: India is now the fastest growing large economy in the world. It's got a demographic dividend coming with a very young population, whereas China is already aging—

Pedro da Costa: The opposite of Europe and everybody else.

C. Fred Bergsten: Exactly. So, for all sorts of reasons the US has a huge interest in developing a much closer economic relation with India, supporting India's own economic growth so it can become a locomotive for the world economy like China was for the last couple of decades. But nothing much has happened and the question is whether on this visit they can at least start a process that would begin to put an economic foundation for the relationship in place.

Pedro da Costa: And what have been the sources of hesitation on either side and inaction? And what's the most we can hope for in terms of that framework?

C. Fred Bergsten: Well, as usual there's blame to go around. But in this case I think India probably is the main laggard. Prime Minister Modi came in with a very ambitious reform agenda that led to a lot of high hopes here and around the world, as well as in India; but very; but very little of it has eventuated. So, that needs a big new push.

In addition Modi had one big gap in his strategy, which was an increased internationalization of the Indian economy. See, India's a big country, it's growing fast, but it's not very open to the world economy, much less so than China for example. And that reflects – this is the other part of the answer to your question – that reflects India's historical protectionist tendencies, feeling that we're a big country, no need for us to open up to the world, reluctance to expose its less competitive sectors to the world.

Now, some of that's the same protection you get everywhere, but India has carried it to an extreme and to its credit, of course, India is the world's biggest democracy. And it's got all sorts of interests groups like we're very familiar with here, which resist opening up themselves to more competition.

And so India is among all the big countries, widely reputed as the main foot dragger, which has tried to hold back global trade negotiations, regional negotiations. Their bilateral agreements are just so full of holes everybody calls them Swiss cheese agreements. So, India actually is at risk of being left behind by the global trading system.

As the world is doing mega regional deals, transpacific partnership, transatlantic trade investment partnership, and as big plurilateral sectorial agreements are being negotiated around the world -- trade organization, on services, on environmental goods. India's in none of this. They're going to be left behind.

Pedro da Costa: So, that was my question, how does India look at this? Does it understand that it's being left behind? Does it see itself as large enough to withstand it? Does it see the TPP negotiations with some trepidation and feel like it's a ...

C. Fred Bergsten: There's a growing debate on all this within India. Much of the Indian business community is still protectionist, but a very large part, the most competitive part, the services sectors, the high tech folks, are fearful of being left behind.

When the US and the partner countries in the TPP announced that agreement last fall there was something of a TPP shock in India. They suddenly said, "Uh-oh, this is going to be discrimination against us." Vietnam is going to have access to the US and Japan, and everywhere else in TPP for its textile exports. And that's still the biggest export in India and they're going to be left behind there. Even high tech stuff where other TPP countries like Japan, Australia, even Vietnam, even Malaysia in some sectors will get a leg up, and a big one, on India.

So, India is very worried. Our studies show they will be hit by a lot of trade diversion if they stay outside the TPP. Conversely, if they join the TPP, particularly when it expands to other Asian countries in the second phase, they would get huge benefits. We calculate they would gain as much as \$500 billion per year of additional exports and boost their whole national income by 4% or 5% if they came in to an expanded TPP. Now that's over the next five to ten years. It gives India plenty of time to prepare, to adjust, to get ready.

And there's one specific thing that could come out of next week's meeting to move in that direction. So far, all TPP member countries have been members of APEC before that, the Asia Pacific Economic Reform, which was the incubator for the whole TPP idea and for its second round of expansion. India's the only big regional power not in APEC.

And so one deliverable from this upcoming Modi/Obama meeting could be the US putting its arm around India, shepherding it to the APEC. Now, to do that, the Indians have got to put up some credible plans to liberalize, move in the direction of trade opening. But if they did that, a very lasting outcome from Obama/Modi, a new framework for US India economic relations would be India's joining APEC which at least opens the doors for their coming to a second phase of TPP; assuming we ratify it and it goes ahead.

At the moment there's no such pathway. It doesn't commit India to do it, joining APEC, but it would open the door and that could be a big breakthrough one would look back to, in historical terms, between US and India.

Pedro da Costa: Now, let me ask you one last question about the other side of the coin, which is the -- while India may be the biggest foot dragger, there's certainly anti-trade rhetoric increasing everywhere and the US is dragging its own feet. Does that put President Obama on shaky ground or does that kind of reinforce the imperative that he really needs to set the tone for these negotiations so that whomever wins the election that there is at least a ground that's been laid for the relationship?

C. Fred Bergsten: Well, I think it's some of both. Certainly, as I said earlier there's plenty of blame to go around. And the fact that the US is now hesitating, to put it mildly, about moving ahead with TPP itself, is a big question mark. And obviously the protectionist minded folks in India and everywhere else use that to justify their view, you know, "Why should we go ahead if the great Americans, the leaders of all this, are themselves waffling around?"

So, it does underline and reinforce the absolute imperative of our going ahead, even aside from India. If we were to back away from TPP, it would be a massive disaster for US foreign policy. It would hurt our economy. It would be a historic withdrawal. I mean this would be like Woodrow Wilson walking up the path to the League of Nations and then the US not joining it. On that scale, in terms of our relations in Asia and in the world, in terms of our leadership.

The positive side is that if Modi would indicate a willingness to join in the initiative it would add further to the stakes for us to go ahead. India is actually a key country for the United States. As I said, it's a huge economy, it can provide global growth. But it also is a central element in the pivot to Asia, the balancing of China's rising power in Asia, for the US to have a strong, India is very, very important. And there's no better way to get it up to 8% to 10% economic growth, China type levels of the past couple decades, then for it to expand its international involvement and particularly to join APEC and maybe down the road the TPP.

So, the US stake in it is huge. The TPP is the instrument, with APEC as its way station, as I said, to really further underline the payoffs to us --

Pedro da Costa: Both from a geopolitical and economic perspective it sounds like.

C. Fred Bergsten: It's important in economic terms, it's even more important in geopolitical terms. It's important to remember, as is often lost sight of in the current frenzied debate, every major US trade initiative in the last 50 years has been driven mainly by foreign policy concerns.

NAFTA was driven by a concern to avoid a fail state on our southern border. The whole TPP was driven by the president's understanding that unless the US started moving with economic conditions in Asia, we were turning the continent over to China. And the same thing would apply in spades if we backed away having now led the other into the negotiation.

Trump wants to get rid of TPP and be tough on China. He would be handing over the whole region to China. His results would be opposite of what he says he's for and what he claims he would achieve. So it would be a huge disaster. And the engagement of India in the process would add further to the stakes, especially in geopolitical terms and overriding US national security interests.

Pedro da Costa: Thanks so much for your time, Fred. We'll catch up after the visit and see how far they got.

C. Fred Bergsten: See what happens.

Pedro da Costa: Thanks so much.

