Limited Expectations for Obama’s Passage to India

Arvind Subramanian says India-US relations continue to improve, but the two countries need to guard against their protectionist and nationalist tendencies.


Steve Weisman: The dust of the 2010 election will barely be settled before President Obama heads to India. This is Steve Weisman at the Peterson Institute for International Economics, with Arvind Subramanian, senior fellow here, author of many books and articles about India. Recently he has briefed both President Obama and Lawrence Summers, director of economic policy at the White House, about India. Thanks for joining us, Arvind.

Arvind Subramanian: Thanks, Steve.

Steve Weisman: Arvind, you seem to think that we should have limited expectations for this visit. Why?

Arvind Subramanian: I want to begin by setting this trip in context. US-India relations, after being kind of tepid for many years, got a boost with the Civil Nuclear Agreement that the Bush Administration pushed through for India.

Steve Weisman: Just to remind readers and listeners, this is the agreement that allowed India to obtain technology for its nuclear plants without complying with the Nuclear Nonproliferation Treaty.

Arvind Subramanian: Right. That agreement was actually signed last year. So the recent past has been very heady for India-US relations. I also think that if you look forward, fundamentally this relationship has a lot of promise, apart from the usual clichés about shared values and commitment to democracy and things like that.

India is growing very rapidly, so it’s an attractive trading partner for the United States. And I think there will always be a shared concern or interest in dealing with a rising China. So that’s the long term.

Why I think we should lower expectations for now is that the present is somewhat problematic. It’s problematic because on AF-PAK [Afghanistan-Pakistan] and Kashmir, although the objectives are shared, I don’t think India and the United States see completely eye to eye on what needs to be done now.

Second, on the American side, India now watches, with increasing anxiety, this whole American possible turn toward protectionism that might affect India’s IT [Information Technology] sector. A leading Indian policymaker wonders, or he thinks aloud, whether there is a kind of intellectual climate change on attitudes to globalization in the United States.

Steve Weisman: Let me interrupt you for a second. You also have concerns about some recent steps by [the US] Congress on this score?
Arvind Subramanian: Exactly. Congress slapped on a visa fee, which raised the cost of getting skilled personnel from India. And of course, another Schumer-Reid bill was mooted in the house, but was defeated. But that gives you an indication of the kinds of pressures in Congress to push through protectionist legislation that might affect outsourcing and Indian information technology sector companies.

But equally for the United States, I think they’re worried about India perhaps not treating foreign investors as well as India should. India passed a Civil Nuclear Liability bill, which gives the impression—at least de jure—that the liability of suppliers of nuclear equipment will be kind of open ended. And that can chill prospects for investment into India.

So on both sides there are lots of anxieties and concerns in the short run. That’s why perhaps we should lower expectations.

Steve Weisman: Does India need foreign investment?

Arvind Subramanian: I think the irony, of course, is that India is getting lots and lots of foreign capital. But the ratio between hot money and foreign direct investment is not what India probably needs now. India needs a lot more foreign direct investment, and maybe less of the hot capital.

Steve Weisman: That’s just going in for speculative—

Arvind Subramanian: Speculative investments, exactly. But India needs more foreign direct investment, without any doubt; and especially also from the United States.

Steve Weisman: The Republicans seem poised to take the House. Isn’t that going to diminish these protectionist sentiments in Congress?

Arvind Subramanian: Well, I think in the short run, having a Republican Congress will be viewed more favorably by India. I think a Republican Congress tends to be less protectionist than a Democratic Congress. I think in the short run, that’s going to be good news. I think perhaps that’s one area where the Democratic administration and Congress can come together, pushing the outstanding free trade agreements with Colombia and Korea, among others.

But Steve, if you look at what is happening over a longer term in the United States, the conditions are not that conducive for maintaining openness towards outsourcing. Median wages [in the United States] are stagnating, inequality is going up, mobility has come down—so there’s a lot of anxiety in the United States of a longer duration, which always could spell trouble in terms of how open the United States remains. And I think that is the underlying fear of India.

Steve Weisman: I would say it could extend to the Republicans and the Tea Party Movement—they are populist, some are anti-immigrant, maybe also anti-outsourcing—

Arvind Subramanian: Exactly. Remember, Ross Perot was against NAFTA. Also, Pat Buchanan also has these protectionist tendencies. So, we’ll have to wait and see how the long-term trend towards American openness is.
Steve Weisman: Let me circle back to something you said about the Afghan-Pakistan situation. In Afghanistan, the sense one gets is that both India and Pakistan, as well as the United States, are jockeying for influence with Afghanistan for their own reasons. And yet India doesn't want to be a part of any solution to Afghanistan because it feels it's a geopolitical player with bigger fish to fry. How do you think the administration is handling this aspect of its relationship with India?

Arvind Subramanian: I think this is a very, very tricky situation for the administration. On the one hand, the US military position is probably closer to the Indian position, which is, “Let’s not get into premature negotiations with the Taliban for a political settlement.” I think that’s where the commonality is, as expressed to me by Indian experts. I think India's bottom line on Afghanistan seems to me [to be that] they don’t want a return of a Taliban type of government, which would sponsor terrorism that would spill over into Kashmir. So, I frankly don’t know how this kind of minefield is going to be navigated by this administration.

Steve Weisman: Tell us a little, from having met with President Obama, of what he thinks about India?

Arvind Subramanian: I think President Obama has very good relations with the Indian prime minister. There's a lot of trust between them. And I think he sees India very much as a rising power, which needs to be both accommodated and encouraged.

But at the same time, he looks to India to take on some of the responsibilities that come with [being] an international player. So I think that's the challenge for India: on the one hand, trying to seek what it wants, but also thinking more carefully and hard about what it can contribute also as a global player.

Steve Weisman: What about the always nettlesome problem of Kashmir? You also mentioned that India seeks, and maybe deserves, a permanent seat on the UN Security Council. But doesn't it have to clear up the future of Kashmir as a high priority? Doesn’t the administration want India to do that?

Arvin Subramanian: I think the big question is whether the administration should do its urging publicly or in private. I think the Indians would prefer that it be done in private. But I think more and more Americans feel that perhaps the US can play a public role in urging India towards a solution on Kashmir.

The interesting thing is that the situation in Kashmir itself has changed in a way that's provoking more debate within India about the need to address this problem much more seriously. I think most Indian liberals would accept deep down that India’s claims to [the UN] Security Council will be burnished significantly if India can address the Kashmir problem.

They may not admit it in public, but I think that’s what they feel they’ve done. Because I think it’s—Kashmir’s kind of a millstone we carry around our neck—especially when we make these claims about being democratic and kind of internationally legitimate.

That being said, I think it’s also equally true that the makeup of the Security Council is now totally anomalous compared with current realities. One of the points I made to
President Obama was that the United States took the lead in changing the structures of economic governance by creating the G-20. And India is actually very appreciative of the fact that it has a seat at the table, thanks to American initiative. I think India's looking to the United States to extend that initiative to the political and security government structures, which is to give India a seat as a permanent member of the Security Council.

As to President Obama's and many people's concern about India stepping up to the plate, I think you do notice the change within India. Having a seat at the table means that India can no longer routinely say no to every international issue. It has to think much more seriously about its responsibilities.

Steve Weisman: The Indian economy: We read that the Chinese are worried about overheating. Is there any comparable concern in India? You mentioned hot money coming in. That might have an effect on interest rates or currency levels. What are India's challenges on the economy as President Obama visits?

Arvind Subramanian: Yes. I think you raised a very good point, Steve. A lot of hot money—foreign capital—is pouring into India. The difference between India and China, which makes the problem much more difficult for India, is that India has much more open capital accounts. So all this money does come into the domestic economy. China still has a lot of controls on foreign capital coming in.

So China's relatively more insulated from this. And in some, of course, perverse ways the fact that China is closed means more capital is diverted to other emerging-market locations. Second, China has huge current account surpluses. In the Indian case, we're actually running current account deficits. So the economy's overheating more. More money is coming in, which means that there's always a threat that all this money will create instability.

I think it's a really big problem in terms of bubbles building up in the Indian economy. And, at the moment, the policymakers seem to be OK with allowing all this money to come in. But I'm not so sure that they are doing the right thing. I think some early action to limit these flows might turn out to be prudent down the road.

Steve Weisman: One last question: how is India doing on cricket these days?

Arvind Subramanian: We had a great series against Australia. In the test matches, we won two out of the three tests. So this is unprecedented. We're doing well on cricket. I think the Indian mood on the cricket front is quite buoyant.

Steve Weisman: Thanks.

Arvind Subramanian: Thanks, Steve.