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INDIA'S RISE: A STRATEGY FOR TRADE-LED GROWTH

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C. FRED BERGSTEN

1. EXECUTIVE SUMMARY

The Indian economy is now growing at about 7 percent, faster than any other large country in the world. Its growth rate needs to accelerate to 8 to 10 percent, however, to employ its rapidly rising population and to eliminate its sizeable pockets of remaining poverty. Doing so would win the admiration of the world and mark India as a global leader.

The government of Prime Minister Narendra Modi, which took office in May 2014, has proposed a series of sweeping reforms to reach these goals. But even this ambitious program will not be enough. India must also greatly expand its engagement in global markets to both meet its economic objectives and establish its leadership role in the world economy.

In particular, India must sharply increase its exports of both manufactured goods and services to achieve its target growth rate with the corresponding job creation and poverty reduction. No country, including India during its growth spurt of the past decade, has achieved such expansion without deepening its interdependence with the world economy.

But India's international competitiveness is lagging badly. The shares of both manufactured and services exports in the economy have stagnated for over three years (figures 1 and 2). The responsiveness of Indian imports to global growth has declined sharply (figure 3). The merchandise trade deficit has hit record highs in the last two years.

India's competitiveness problem is compounded by its absence from the world's new megaregional trade agreements, especially the Trans-Pacific Partnership (TPP) but also the Transatlantic Trade and Investment Partnership (TTIP). If China and the rest of the Asia-Pacific Economic Cooperation (APEC) forum join a second stage of the TPP that continues to exclude India, India's annual export losses will approach $50 billion. India is being left behind by the world trading system.

By contrast, India could experience huge export gains of more than $500 billion per year (a 60 percent increase, more than any other country) from joining an expanded TPP or participating in a comprehensive Free Trade Area of the Asia Pacific (FTAAP), now being considered by APEC. Indian national income would expand by a whopping 4 percent (over $200 billion) as a result. India could further increase its exports by participating

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Author's note: Tyler Moran provided superb research assistance.

in the major plurilateral negotiations on services, environmental goods, and government procurement that are now taking place in and around the World Trade Organization (WTO).

Numerous sectors of the Indian economy would gain substantially from such trade expansion. Cheaper imports would help fight inflation. Productivity and competitiveness would be substantially enhanced. The opening of both export and import markets would permit much greater Indian participation in global value chains. Larger export markets would bring new economies of scale to textile and many other manufacturing firms. High-technology companies, especially in pharmaceuticals and entertainment, would benefit from more robust protection of intellectual property rights (IPRs). Small and medium enterprises (SMEs) in particular would gain from the breakdown of monopolistic practices that keep domestic as well as foreign competition at bay.

To qualify for these bonanzas, and enable Indian firms and workers to strengthen their competitiveness and take full advantage of newly available foreign markets, India will need to adopt the comprehensive economic reforms proposed by Prime Minister Modi: a nationwide goods and services tax, changes in land and labor laws, massive infrastructure investment, and sharp cutbacks in numerous government subsidies. It will also need to substantially open its trade and investment regime, to further enhance its competitiveness and to convince India's trading partners that it is ready to join the liberalization process.

Indian trade policy, however, has failed to pursue these opportunities. The country has been unwilling to put its own sensitive sectors on the table and has thus been unable to persuade other countries to open markets that would be meaningful to India. It has negotiated low-quality agreements and currently seems poised for more of the same, such as the Regional Comprehensive Economic Partnership (RCEP) with a number of Asian countries.

There is an intimate relationship between external and internal reform. Domestic liberalization would permit ambitious international negotiations that would create new markets for India's most dynamic sectors. Conversely, the promise of increased foreign markets can support and even catalyze domestic reform—as countries from China to Korea to Mexico have demonstrated so dramatically in recent decades. China in particular used liberalization of its trade and investment policies, required by its entry into the WTO, to broaden and deepen the internal economic reforms that sustained its dramatic double-digit growth.

There is also an intimate relationship between trade policy and overall foreign policy. A more positive trade policy would enable India to enhance its global status and play a much more active international role. In particular, new economic cooperation between India and the United States would reinforce the efforts of both to forge cooperative responses to the challenges posed by the rise of China.

The United States can help support a new trade policy in India. President Barack Obama indicated a willingness to consider India's interest in joining APEC when he visited New Delhi in January 2015. The United States plays a central role in all the plurilateral negotiations and could facilitate Indian entry to them if it were convinced that India wanted to participate seriously. Such cooperation between the two countries would represent a tangible, and very valuable, payoff from the close personal ties that have developed between their two leaders.

India should immediately accept Obama's offer and seek membership in APEC. It should apply for participation in the TPP as soon as that group begins to contemplate expansion. It could then also join the discussion concerning the creation of an FTAAP, which will presumably begin at the APEC summit in late 2016.

Indian participation in these initiatives would move it substantially toward free trade and investment with the United States. There are additional economic issues between the two countries, however, that are not likely to be covered by the TPP or an FTAAP. Among numerous examples are US visa policies and Indian local content policies. Hence India and the United States will probably need to negotiate a bilateral "TPP plus" agreement in parallel with Indian accession to the TPP or an FTAAP (as Japan and the United States did vis-à-vis the initial TPP).

If the preferred TPP or FTAAP strategy fails to eventuate, India and the United States could pursue a bilateral free trade agreement. Such a compact could follow the traditional mode of negotiating all issues together.

Alternatively, it could proceed step-by-step, perhaps starting with investment concerns via the bilateral investment treaty (BIT) now under consideration. The United States could agree to "count" Indian participation in major plurilateral agreements, such as those addressing government procurement and tariffs on information technology and environmental products, toward the bilateral arrangement. As major services economies and exporters, the two countries could negotiate a services-only agreement en route to comprehensive free trade.

The United States has strong economic and foreign policy interests in pursuing such a course with India. As the soon-to-be third largest economy in the world, India can provide strong support for global prosperity and enhance regional stability and balance throughout Asia.

Under free trade with India, the United States could double its services exports to that country and increase its merchandise exports by 50 to 60 percent. A number of US sectors would benefit: Exports of agricultural and energy products could expand sharply, and sales of textiles, steel, chemicals, electronics, and paper products would increase markedly. Particular services gains would accrue to banking and insurance.

The crucial starting point for enhanced Indian trade must be the reform program proposed by Prime Minister Modi. Its success, coupled with new policies toward international trade and investment, can propel India to a new "growth miracle" with enormous gains for both its people and its place in the world. Its failure would forego the huge opportunities that are available and condemn India to disappointing economic and foreign policy outcomes.

Modi's reform policies, if they can successfully address such long-standing problems as intellectual property rights and preferential market access, can convince the United States and India's other trading partners that India has embraced a new economic philosophy and strategy. Doing so should then enable it to participate actively in a world of expanding trade and international economic rewards.

Any of these initiatives will take considerable time to reach fruition. Both the domestic reforms in India and the international negotiations involved are complex and highly political processes. It is thus urgent to begin the process in both India and the United States to enable the earliest possible payoff for both countries.

2. THE NEW SETTING: INDIA'S IMPROVED PROSPECTS

New developments have dramatically improved the prospects for the Indian economy, its role in the world economy, and economic relations between India and the United States.

India's economic growth has jumped back to 7 percent or more. It can accelerate further, perhaps even to double digits. The government seeks sustained expansion of 8 to 10 percent per year.

The level of Indian GDP, and income per capita, remains far behind China. However, it has the potential to expand faster—perhaps much faster—than its Asian neighbor over both the short and longer runs. India will have the world's largest population within a decade, and its labor force will continue to grow for some time while China's will soon start to decline. India is already the world's third largest economy, on a purchasing power basis, behind only China and the United States and far ahead of fourth-place Japan.

Prime Minister Modi proposes a far-reaching program of economic reform in India to promote these goals. His tax plans can create a truly national market for the first time. His "Make in India," "Skill India," and "Digital India" initiatives can stimulate a takeoff for manufacturing, which is essential for rapid overall growth. Policy changes toward trade and foreign investment would flow naturally from market-oriented economic reforms.

The bonding between President Obama and Prime Minister Modi has reestablished a strong rapport between India and the United States, dramatically reversing the difficulties that prevailed as recently as early 2014. They have instituted consultations on a wide range of economic (and other) issues in an effort to deepen the relationship, with 77 initiatives emerging from their January 2015 summit alone.

One tangible result is Obama's willingness to consider Indian membership in APEC. Joining APEC would enable India to play a much larger role in Asia-Pacific affairs and provide a path for India to join the TPP or an FTAAP. APEC itself has ended its long-standing moratorium on new members and is considering additions such as India.

Recent events in the United States reinforce these promising prospects. Congressional passage of trade promotion authority enables Obama and his successor to negotiate new trade agreements with virtually any country in the world. There were negative comments during the congressional debate about a number of potential future partners, especially China, but none concerning India.

The TPP is likely to be concluded in the near future. The agreement will generate both important costs to India, in the form of trade diversion and the adoption of cutting-edge new standards among the TPP members, and an opportunity for major economic gains if it were to join the TPP or an FTAAP. The initial TPP largely amounts to a free trade agreement between the United States and Japan, two very large economies that, like the United States and India, have a long history of complex and often confrontational trade relations, and Indian membership in the TPP or an FTAAP would encompass a bilateral free trade agreement between it and the United States.

An important related development is China's increasing interest in either joining the TPP, working out an FTAAP as an alternative, negotiating a bilateral free trade agreement with the United States, or reaching such an agreement with the European Union. China is evidently reacting, at least in part, to the substantial losses it will suffer from trade diversion from the TPP (about $100 billion of both exports and income per year; see tables 1 and 2) and the pending Transatlantic Trade and Investment Partnership (TTIP) between its two major markets. Successful Chinese pursuit of any of these initiatives would place substantial pressure on India to follow suit, for both economic (more trade diversion) and political (regional leadership) reasons.

China's increasingly assertive foreign policy, notably in the South China Sea but also on economic issues such as its sponsorship of the Asian Infrastructure Investment Bank, is also highly relevant. It underlines the importance of India to the United States as a stabilizing force in the region and vice versa.

More broadly, India appears to be moving toward a new foreign policy that would significantly alter the context for its trade policy. Foreign Secretary Subrahmanyam Jaishankar has spoken publicly of India's shifting from a "balancing" to a "leading" power, away from the nonalignment focus of the past to a much more activist stance and mindset.[1] Such a shift in foreign policy could open up a range of possibilities on the trade and economic front, including with the United States.

The recent trade debate in the United States was a pointed reminder of the contentiousness of globalization, and especially of its further expansion through new trade agreements among major countries, in a vibrant democracy where costs and losers as well as gains and winners must be taken into account. Obama countered and ultimately overcame substantial opposition to his far-reaching trade, and thus foreign policy, agenda through bipartisan cooperation. There is little doubt, however, that achievement of domestic consensus on these issues would also represent a major challenge in India.

3. THE CHALLENGES AHEAD: OVERCOMING STAGNANT EXPORTS AND SEIZING NEW OPPORTUNITIES

The overarching issue for India is how to translate these promising possibilities into rapid, sustainable, and inclusive economic growth (and to overcome the several new risks to that outcome). Major new domestic policies will be needed: reforms for the labor market and land acquisition, massive investment in infrastructure, a nationwide goods and services tax, and rationalization of the widespread subsidy regime, especially with respect

1. Subrahmanyam Jaishankar, "India, the United States and China," IISS Fullerton Lecture in Singapore, July 20, 2015.

to agriculture and renewable sources of energy. It remains true that "most of the actions needed to integrate India's economy fully with the world economy are domestic" (Srinivasan and Tendulkar 2003).

But success will also require India to sharply increase its direct engagement in the world economy. No country in modern history has achieved successful development without embracing globalization. No country, including India a decade ago, has consistently grown at 8 percent or more without rapidly expanding its exports. India cannot become "the human resources capital of the world," the central goal of the "Skill India Mission" program launched by Modi in July 2015, without a new burst of globalization. India's trade in fact soared, rising sevenfold in a decade, during its growth spurt after the turn of the century.

No country has reached double-digit growth for its manufacturing sector, which is essential for India to realize its overall growth and employment goals, without recording double-digit expansion for its exports (Johnson, Ostry, and Subramanian 2007). Even skeptics of globalization agree that "no country has developed successfully by turning its back on trade and long-term capital flows" (Rodrik 2000). India cannot achieve the growth needed to create the requisite number of jobs and alleviate the remaining poverty of 250 million of its citizens, which may exceed 10 percent per year for a while, without such enhanced international engagement.

External liberalization is doubly importantly because it can be a catalyst for domestic reform. The export opportunities offered by expanded trade can often be realized only with complementary supply-side measures at home. The increased efficiencies that follow reductions in import costs, and increased competition from abroad more generally, place healthy pressure on protected sectors (and expose their favored treatment). Synergistic external and internal liberalization is essential to enable a country to play an active role in the global value chains that now represent the dominant business model for multinational companies.

Japan and Korea rose from the ashes of war to become the world's most competitive economies in a mere quarter century through trade-led growth. China moved from autarky to the most globalized large developing country and grew by almost 10 percent annually for three decades. Mexico doubled its economic openness in two decades and left behind its repeated financial crises. Brazil and Russia, by contrast, have resisted international interdependence and have recorded much less progress.

India has already internationalized to a considerable extent. Its openness ratio—the share of trade in GDP—more than doubled over the decade to 2008 and has tripled over the last 30 years. Its tariff levels have come down from very high levels and converged toward the global average.

However, the share of exports in India's economy has stagnated for the past several years. The responsiveness of its exports to global economic growth has declined sharply (figure 3). The merchandise trade deficit has hit record highs during the past two years.[2]

Manufactured (figure 1) and services exports (figure 2) are particularly stagnant. Both have grown very slowly since 2012. The government's press release for its *Economic Survey of India 2014–15* emphasizes that "India faces an export challenge."[3] This stagnation contrasts dramatically with the need for rapid export expansion and constitutes a serious hurdle to realizing the prime minister's economic goals.

The export stagnation problem is compounded by India's absence from the megaregional trade agreements that are now being negotiated, and contemplated for the future, among its major trading partners. The TPP will include the United States, Japan, and parts of the Association of Southeast Asian Nations (ASEAN). Korea, other members of APEC, and possibly China may join it in a second stage or work out a separate FTAAP. The TTIP will link the United States and the European Union.

2. The current account deficit, however, is much smaller, and the overall balance of payments has been readily financed by capital inflows.

3. Ministry of Finance of India, "Economic Survey 2014-15 Highlights," press release, February 27, 2015, http://pib.nic.in/newsite/PrintRelease.aspx?relid=116051 (accessed on August 31, 2015).

The pacts currently being developed will generate trade diversion from India worth billions of dollars and set new standards that will further jeopardize its competitiveness.[4] The big hit, however, would occur if the TPP were expanded to the rest of APEC, including China, or if a new FTAAP with that same membership were to emerge. Such a grouping that excluded India would cost it $45 billion in annual exports and $30 billion of annual income (Petri 2015). India is in danger of being left behind by the regional trading architecture and will find it increasingly difficult to meet its economic objectives if it does not join the parade.

By dramatic contrast, India could experience export expansion of more than $500 billion per year (table 2 and figure 4) and income gains of over $200 billion per year (table 1) by participating in a TPP that included all of APEC (which might then be called FTAAP). Such gains would phase in over a transition period, probably of about 10 years. They could be decisive in enabling India to meet its ambitious growth, and thus job-creation and poverty reduction, goals. Poverty fell sharply during India's earlier growth spurts and has responded similarly to rapid growth in many other Asian countries (Ahluwalia 2002).

India's trade initiatives to date, however, have featured modest ambition, limited economic impact, slow implementation, and partner countries that themselves eschew substantial liberalization. India's free trade agreements (FTAs) have been widely viewed, both inside and outside the country, as "Swiss cheese agreements" because they have been unwilling to address significant pockets of protection in India itself and thus are unable to do so in its partner countries. India is one of the few countries to refrain from pursuing "competitive liberalization" (Bergsten 1996), a process through which countries seek to strengthen their economies by keeping up with the rapid evolution of international best practices.

Any new Indian trade and investment initiatives that seek to boost Indian growth must require its trading partners to open their sensitive sectors to Indian exports. This in turn will require India to liberalize its own sensitive sectors. Such agreements could substantially strengthen India's international competitiveness on both the export- and import-competing sides, especially in the manufacturing sector, and thus its overall economy. Agreements that include the United States—whether bilateral, regional (such as the TPP), or plurilateral (such as the Trade in International Services Agreement [TISA] in the WTO)—would meet these tests because the United States insists on high-standard outcomes. So does the European Union, albeit to a lesser extent. Agreements that are limited to Asia, such as the Regional Comprehensive Economic Partnership (RCEP) currently being negotiated or a bilateral FTA with China, would by contrast probably represent "more of the same."

Fortunately for India, the world trading system is opening toward it. Several plurilateral agreements beckon in Geneva. Negotiations for an FTA with the European Union, though currently stalled because of Indian reluctance, have been underway for some time. India is already engaged in creating the RCEP with its Asian neighbors, although this agreement is much less promising.

Perhaps most importantly, APEC is now considering the addition of new members, and the TPP will be open to new participants that can meet its terms. The upcoming APEC discussions on launching an FTAAP, cochaired by the United States and China, will provide another possible avenue for increased Indian participation. The new US willingness to contemplate Indian membership in APEC could help open these potentially powerful regional doors, as well as substantially liberalize trade and investment between India and the United States itself.

India should seize the opportunities that are now becoming available, and build on its recent economic progress and reform prospects, by adopting a three-part strategy of trade-led growth:

- promptly adopt and fully implement the domestic reforms (especially regarding land, labor, infrastructure, taxation, and government subsidies) that are required to support sustained growth of 8 to 10 percent;

4. Vijay Kelkar and Harsha V. Singh, "India Can Become a Global Trading Power if It Takes Mega-Regional Negotiations Seriously," *Economic Times,* April 13, 2015.

- initiate a strategy of comprehensive trade and investment liberalization, including an effort to join APEC and subsequently the TPP or a broader FTAAP at the earliest possible opportunity, to both catalyze and take maximum advantage of the domestic reforms; and
- cooperate with the United States to achieve these goals, taking advantage of the close relationship between Modi and Obama, supplemented by a parallel "TPP plus" bilateral agreement that would add several elements of mutual interest (such as higher education, trade in medical services, energy, science and technology, and visa policies) to the overall liberalization and reform strategy.

The remainder of this PIIE Briefing will lay out the case for such a strategy for both India and the United States and offer a road map for pursuing it. Realization of the strategy will take at least five years, and perhaps as much as ten, because both the internal Indian reforms and the necessary international negotiations will take considerable time to eventuate. It is thus essential to begin the effort promptly. It will be especially opportune to build on the close Modi-Obama relationship to launch the India-US dimension of the program in the near future.

4. THE ECONOMIC CASE FOR TRADE-LED GROWTH

Careful studies show that India could reap very large economic benefits from participating in ambitious trade liberalization initiatives in the region and globally. *It would gain over $500 billion in annual exports (in 2007 dollars, an increase of more than 60 percent in the assumed completion year of 2025[5]) and over $200 billion in annual national income (an increase of more than 4 percent, a huge increment) from membership in a comprehensive and reasonably ambitious FTAAP*. Such gains could also be achieved through expanding the TPP to include all of APEC along with India itself (see figure 4 and tables 1 and 2). In contrast, India stands to lose $45 billion in exports and $30 billion in income annually from the trade diversion that it would experience from an FTAAP that comprised all members of APEC and excluded India (Petri 2015), following the norm that has governed the development of the Asia-Pacific trade architecture to date.[6] India's export expansion would in fact be greater in percentage terms than that for any other country in the postulated FTAAP, trailing only much larger China and the United States in absolute dollar terms.

India would achieve these very large gains from trade liberalization because export jobs and incomes would rise as India does more of what it does best. Increased competition would enhance productivity, providing a foundation for solid and sustained growth (and the economic reforms that would add to that foundation). Consumer and industrial input prices would drop, countering inflation as well as boosting individuals' welfare. In particular, imported capital goods would be significantly cheaper than those manufactured at home (Rodrik 2000); reductions in import duties on raw materials and intermediates, for example, are needed to realize the goals of the Automotive Mission Plan, a fourfold growth in output by 2026 that is at the heart of the "Make in India" campaign. Trade liberalization would help India harness its demographic dividend (Anand, Kochhar, and Mishra 2015).

5. The analysis assumes a 10-year phase-in of the liberalization program. It arbitrarily chooses a base year of 2015, which is obviously now impossible, for expansion of the TPP to additional members or a similar FTAAP. A more realistic but still quite ambitious timetable would commence in 2020 and conclude in 2030.

6. Other members of the South Asia Free Trade Area (SAFTA) will also experience losses from the TPP. Textile exports from Bangladesh, for example, will have to contend with the preferential access accorded to Vietnam in the US and Japanese markets. As the leader of SAFTA, India might therefore need to consider whether to pursue new megaregional alternatives on its own or with some parallel efforts by its immediate neighbors.

India also needs to escalate its participation in global value chains. Trade and investment integration across borders is at the core of corporate strategies around the world. Most trade agreements are driven by these considerations. But India's relatively few and weak agreements have left it largely outside these engines of worldwide economic activity. India has much catching up to do to start participating effectively in this cutting-edge process, especially as the TPP will leave India further behind. Access to global value chains is especially important for small and medium-sized enterprises (SMEs) in India, and new trade and investment agreements along with the supportive domestic reforms could greatly enhance their ability to do so.

Increasing annual exports by $500 billion would significantly contribute to Modi's goal of creating 12 million new jobs annually and is in fact probably the only way to do so. To meet this employment target, India needs the manufacturing sector to increase sharply. But the current share of manufacturing is very small, less than 16 percent of GDP. It has been falling further in recent years in a unique example of deindustrialization from a low base. It is very low compared with most other developing countries at similar stages of their evolution. The prime minister has set a goal of raising the share to 25 percent by 2022.

A large majority of international commerce still takes place in manufacturing. Hence a trade-led strategy would contribute powerfully to emphasizing that sector. In addition, exporting firms exhibit considerably higher productivity growth than other Indian manufacturers; international engagement forces them to greater efficiency with higher levels of wages and benefits. These firms could contribute disproportionately to India's desired dynamism, adding further to the case for mounting such a strategy. Domestic economic reforms, especially infrastructure modernization and new labor laws, are necessary both to enable Indian companies to take advantage of enhanced export opportunities and to support trade liberalization itself (see next section).

Very specific economic gains lie beneath these aggregate numbers. Any of the trade options would likely reduce tariffs on apparel, which remain high in most countries, and thus promote that component of manufacturing in India. Freeing trade with the United States alone would almost double Indian textile exports to that market and increase overall output in the textile sector by more than 7 percent (Fukase and Martin 2015). An agreement with the United States could provide India with preferential access to US exports of natural gas and strengthen its key power sector. Uniquely, such an FTA with the United States could also promote much-needed improvements in the Indian education system, the last refuge of the "license raj," or bureaucratic red tape, especially at the tertiary level.

Such a liberalization program would benefit many sectors of the Indian economy. Expanding manufacturing and services firms would welcome the opportunities to develop economies of scale that greater export markets would bring. SMEs would gain from the lower costs of imports of final goods and large firms from the lower input costs from expanded intermediate imports (Nataraj 2011). SMEs and many large firms in India would like to break down monopolistic practices in India that keep domestic as well as foreign competitors at bay. Indian high-tech firms, notably in pharmaceuticals and entertainment, want robust IPR protection as much as US and other foreign firms do. Financial sector reform would benefit Indian companies by creating deeper capital markets, which would bring competition to the dominant and highly politicized public sector banks and would generate sizable capital inflows. Construction and supplier companies would gain from the infrastructure investment that would be generated by the debt and equity capital provided by foreign insurance companies. Indian firms and consumers would gain from chipping away at the present monopoly practices by the services professions including lawyers, accountants, engineers, and architects. Indian consumers would benefit from the lower prices of food and other products deriving from reduced import barriers.

These numbers, sizeable as they are, probably underestimate the payoff to India from liberalization because the models underlying them cannot capture many of its dynamic benefits. Adding investment effects alone would probably expand the gains by at least 20 to 25 percent. New trade agreements would also help protect India from protectionist steps that its partners might adopt in the future (e.g., the United States on visas or outsourcing). A reduction in government-imposed restrictions, especially at the borders, would sharply curtail the scope for corruption that is so pervasive in India and so erosive of both economic progress and social cohesion. Trade liberalization could strengthen institutions central to the long-run success of India's development, particularly those that promote property rights (especially intellectual property rights) and successful conflict management (Rodrik 2000). Many previous forecasts of the effects of trade liberalization have significantly understated actual results.

Trade liberalization, like any dynamic economic change, also implies that some jobs will be lost (mainly in import-competing industries) along with the jobs it creates in other sectors and benefits that it brings to the economy as a whole. Detailed analyses of each of the trade policy options will be necessary to discern how they may affect net employment in India. Specific government programs may be needed to cushion losses for individual workers and firms, and perhaps even whole sectors, and to make sure that poverty is not exacerbated. But India's rapid growth, especially if it can reach the 8 to 10 percent goal with the help of trade expansion, will provide the best means to absorb the inevitable dislocations. The overall impact on the Indian economy will be hugely positive, as it has been for so many other developing countries around the world.

China's decisions on these same issues will influence Indian trade policy. If China joins the TPP or FTAAP, virtually all other APEC members would probably do so as well (as they may in any event). The sizable trade diversion losses that would result for India would make it difficult for the country to stand aside, for both economic and foreign policy reasons. If India were to join, however, the huge trade gains would then be available.

Conversely, India could be much more relaxed if China limits itself to the RCEP (in which India is already involved) and Asia-only FTAs of low quality. But China has joined several of the plurilateral negotiations in and around the WTO. It is now showing keen interest in the TPP. It has taken the lead in promoting the idea of a separate FTAAP. It is thus quite plausible that, over a period of five to ten years, all or most of the Asia-Pacific nations now grouped in APEC will achieve that institution's long-standing Bogor Goal of "free and open trade and investment in the region." Success in these pursuits would leave India still further behind if it remained outside them.

A competitive race could develop between the Asian giants. The other members of these regional pacts, including the United States, might be willing to add one or the other to their new agreements but be reluctant to add both. India might thus lose out on a lasting basis if China moves first.

On the other hand, India could steal a major leg up if it could beat China into a broader new grouping. It might do this by moving expeditiously to join APEC and sign a bilateral investment treaty (BIT) with the United States ahead of China, which is also now negotiating one. Both US domestic politics and US foreign policy might support moving India ahead of China in these queues and might even deny China altogether (although this would create a sharp confrontation with China).

The bottom line is that *India is being left behind in the current competitive liberalization race and suffering from de facto trade isolation.* It will increasingly lose out from trade diversion as other countries sign and implement new agreements without it. It will forego huge opportunities that are essential to permit realization of its ambitious growth and job creation goals. The good news is that recent developments in both India and the rest of the world appear to align in favor of new initiatives to overcome these problems. It is now up to India to seize the moment.

5. TRADE AND DOMESTIC REFORM

There is an intimate association between a trade-led growth strategy and domestic economic reform. Prime Minister Modi's program recognizes that the traditional Indian model of government-led industrial policy cannot be effective in today's market-oriented global economy. India placed 142nd among 189 economies in the World Bank's latest ranking on the ease of doing business,[7] a huge deterrent to foreign direct investment (FDI) and integration into global value chains, and the prime minister has pledged to vault India into the top 50. The World Economic Forum's *Global Competitiveness Report 2013* placed India 88th out of 148 countries in terms of burdens of customs procedures (WEF 2013).

The prime minister's "Make in India" initiative would be greatly enhanced by increased opportunities for Indian firms to sell to foreign markets. Domestic industries, through the help of more trade and FDI, will need to become more competitive to activate the supply side of the equation. The "Make in India" component of this year's governmental Economic Survey notes that "sectors that are capable of facilitating structural transformation" must be tradeable and that registered manufacturing, construction, and several services sectors—particularly business services—"perform well" on that test (Government of India 2015).

Many of Modi's planned reforms will be essential for ambitious trade liberalization to proceed. India's services trade has expanded spectacularly over the past two decades, and its success in this area is one of the most visible achievements of earlier trade policy reforms, allowing access to imports and technology at exceptionally low rates of duty (Ahluwalia 2002). But barriers to its exports remain high in many countries, including the United States. Its own barriers to services trade are among the highest in the world, and four or five times those of countries in the Organization for Economic Cooperation and Development (OECD), so liberalizing trade could boost the domestic economy by reducing both costs to consumers and input costs to manufacturers. Increased FDI by foreign-based services firms would increase the competitiveness of Indian manufacturing companies. Such liberalization would also enable India to participate in serious international negotiations to bring down foreign barriers to Indian services (and perhaps other) exports. As much as two thirds of the overall trade gains for India can be obtained in the services sectors.

Conversely, an active trade agenda could promote political acceptance of many of the domestic reforms now envisaged. The political appeal is partly because of how trade can directly help with domestic policy issues; for example, approval of FDI in large-scale retailing would reinforce the payoff from using competition policy to cut costs and counter inflation. The resulting export gains would help India attain its goal to become a regional electronics manufacturing hub through the "Make in India" and "Digital India" programs. Indeed, it may be only in the context of ambitious trade agreements that politically difficult issues, where crippling restrictions in India often lie in regulatory systems and professional associations, could be successfully resolved. Trade agreements can also lock in domestic reforms against the risk of reversals by subsequent governments.

Many countries have used external liberalization to promote and lock in domestic reform. China joined the WTO 15 years ago largely for this purpose, deliberately adhering to the higher international standards to force provincial and party officials to adopt new policies. Prime Minister Shinzo Abe has widely touted Japanese membership in the TPP as an integral driver of the structural reforms that represent the "third arrow" of his recovery strategy, with an emphasis on agriculture and some of Japan's cosseted services sectors. Mexico joined the General Agreement on Tariffs and Trade (GATT), and subsequently negotiated the North American Free Trade Agreement (NAFTA) with the United States and Canada, to enable it to implement new policy approaches that ended its cycle of financial crises and propelled it to OECD membership. Korea opened its economy with an ambitious set of FTAs over the past decade to help it escape the "middle income trap" and qualify to join the OECD. India itself used a similar strategy to some extent in the 1990s, enacting some of its reforms during that period in response to GATT disapproval of the import quotas that it had continued to apply on balance-of-payments grounds that were ruled to be spurious.

All of these countries, especially China, provide successful examples of strategies that are relevant to India today. They were all large, low-income countries (except for contemporary Japan) that were among the most closed economies in the world before they launched the trade-led development models that boosted them by

7. World Bank, Doing Business Economy Rankings, http://www.doingbusiness.org/rankings (accessed on September 4, 2015).

magnitudes that they could not have imagined when first adopting them. By contrast, countries that have hesitated to liberalize, such as Brazil and Russia, have faltered and dropped well behind both in the global competitive race and in realizing their own development potential.

Trade and investment expansion, on both the export and import sides, could thus become a key driver of the Modi reform program. The domestic political difficulties of adopting such a strategy should be respected but not overemphasized. India's applied (though not bound) tariffs average only about 10 percent and are zero on the main agricultural crops. The share of trade in India's economy is more than 50 percent and doubled during the country's growth spurt a decade ago. Annual FDI flows have risen tenfold in both directions. Increased trade and FDI would hardly be new concepts in India, and a new emphasis on them should be feasible.

Modi's record, in Gujarat and his first year in New Delhi, demonstrates that he and his policies are clearly pro-business. The question is whether they are also pro-market and pro-competition. Both are essential to trigger the required growth and job takeoff.

6. THE FOREIGN POLICY BENEFITS

A trade-led economic strategy would also advance India's foreign policy and national security goals. A major foreign policy challenge for India, like everybody else, is managing the rise of China in a cooperative manner. Much of that challenge is economic. India can address this issue directly through its international economic policy as well as indirectly via strengthening its domestic economy.[8]

Moreover, as the world's third largest economy in terms of purchasing power, India is on a trajectory to become third largest at market exchange rates within the next decade. Hence it must begin thinking about global issues as it shapes its own international policies.

The strategic focus of Modi's foreign policy will drive the choice of FTA partners. A decision to strengthen ties with China, for example, could counsel pursuing an FTA with China itself or the RCEP as a regional compact centered on China. A decision to further hedge or insure against the rise of China would commend FTAs with like-minded countries both in the region (e.g., Australia) and outside it (e.g., the United States and the European Union). Continuing the current "cooperate and hedge" or "integrate and insure" strategy might suggest doing both—including doing them together via an expanded TPP or a new FTAAP. India's "Act East" policy and the US "pivot to Asia" have a similar focus, primarily China, and the two countries could thus work together quite usefully (if informally) in this trade policy context. Alternatively, or in addition, a Modi focus on democracy and shared national values could point toward agreements with the United States and other countries that are similarly disposed (a "club of democracies").

India's previous FTAs, especially with ASEAN and others in the region, were clearly undertaken primarily with foreign policy goals (including responding to China's similar steps) in mind. Those "Swiss cheese" agreements, however, have done little to expand India's economic relations with its partners and have had little impact on its overall ties with them.

By contrast, meaningful new trade and investment compacts could deepen India's ties with new or, through revised agreements, previous partners. Bilateral accords would generate the most intensive integration with other economies. Regional deals would do some of the same, plus strengthen Asian or Asia-Pacific linkages. Multilateral and plurilateral compacts usually have the smallest foreign policy payoff (though blocking them can negatively affect foreign policy, as India learned recently with respect to the Bali commitments on the Trade Facilitation Agreement in the WTO).

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8. Tellis and Mohan 2015 make a compelling case, on foreign policy and national security grounds, for India and the United States to negotiate a bilateral free trade agreement.

To be sure, pursuing ambitious trade agreements can generate short-term frictions as well as long-term strengthening of relationships among partners. For example, US insistence on high standards and inclusion in trade negotiations of such contentious issues as labor and the environment can produce conflicts and even the occasional impasse. On balance, however, integration should greatly improve bilateral relations by applying common norms on a number of issues, using an agreed dispute settlement mechanism and providing an ongoing process of consultation that further deepens ties.

For example, the dispute settlement mechanism in an FTA with the United States would be far superior to the ad hoc, case-by-case approach that has proved ineffectual in reconciling US-India bilateral trade conflicts (which could become considerably worse if the United States, as a member of the TPP and TTIP, increasingly discriminates against Indian products). A trade agreement cannot resolve all commercial conflicts, and politics will always be involved, but it can provide governments with a channel to refer most of their disputes. A dispute settlement mechanism reduces the risk that special interests can dominate the decision-making process and undermine the overall relationship. As trade and investment between any pair of countries grow, the need to routinize dispute resolution grows at least apace, and the value of an agreed dispute settlement mechanism rises accordingly.

The foreign policy benefits would range well beyond enhanced understanding and improved procedures among officials and bureaucrats. Private sector actors would be drawn closer together by increased economic exchange itself, as well as by government consultations with them on the progress, or lack thereof, in translating the new agreements into reality. Tourism and other people-to-people exchanges would expand dramatically and can in fact be promoted directly in trade agreements through visa and other policies.

There is not yet much empirical evidence on either the economic or foreign policy results of trade agreements between large countries from different parts of the world. Most of the major FTAs in the past have been among contiguous nations: the European Union, US-Canada and then NAFTA, Mercosur, ASEAN, and Australia–New Zealand. It is only now that more far-flung tie-ups have been engineered: the Korea-US FTA and Korea-EU, the Comprehensive Economic and Trade Agreement between Canada and the European Union, India-Japan, and a few others. But the results of the neighboring associations have been unambiguously positive, in both economic and foreign policy terms, especially when their templates have been more demanding (e.g., contrast NAFTA and Mercosur).

India's relationship with the United States could benefit uniquely from a major new trade initiative. In fact, their relationship is characterized by three paradoxes. Although the two countries engineered a dramatic breakthrough in their security ties with the civil nuclear agreement of 2005, they have achieved nothing comparable on the economic side. Indeed, their economic linkages have been marred by an ongoing series of unresolved disputes over specific, sometimes minor, issues. Within the economic domain, trade and investment "on the ground" has expanded rapidly, and indeed tripled in nominal terms in 2005–09, but trade in both directions in the decade after 2000 was nevertheless 25 to 50 percent below the levels predicted by standard economic (gravity) models (Mishra and Roy 2013). And this rapid increase in commercial transactions occurred in spite of a wide array of policy conflicts that have defied resolution for protracted periods. A comprehensive new framework that would elevate the economic relationship, as has occurred on the security side, thus commends itself.

This possibility is underlined by the unanticipated personal ties that have developed between Modi and Obama. They have launched many wide-ranging initiatives that have already begun to revitalize the relationship. But the new linkages need to be institutionalized; pursuing a far-reaching economic accord would be a fitting, and potentially highly productive, way to do so.

The Modi government might thus make significant progress toward achieving both its economic and foreign policy goals through adopting a strategy of trade-led growth. The next questions are how that strategy might be pursued and how the United States could contribute to its successful realization.

7. UNILATERAL INITIATIVES

India has liberalized unilaterally in the past, in particular by reducing its applied tariffs well below the levels committed to the WTO and by eliminating many of its traditional import quotas. It could launch a strategy of trade-led growth now with one or several unilateral steps. By definition, these could be implemented much more quickly than any that require international agreement. Unilateral action would signal a new approach, that the Modi government meant business and that India's reluctance to liberalize further was being revised. Such signals would be particularly useful now that critics of the government are questioning the pace at which it is achieving the reforms it has espoused.

The Modi government can most clearly signal a new approach through a sharp policy reversal, or adoption of a fundamental reform, on a controversial topic or two. Such a dramatic step might in fact be necessary to persuade India's potential foreign partners, particularly investors, to view the new approach as credible. Many remain skeptical of promises and pronouncements as a result of the frustrations and disappointments over previous reform programs gone astray. Long unresolved issues provide frequent reminders of the absence of a level playing field. It will be difficult to convince skeptics that a new era is dawning without a bold move or two that represent a clear break from the past. A new Indian effort to join APEC or the TPP, for example, might require such movement as a confidence-building measure. The United States insisted on several "prior actions" by Japan, reflecting the long contentious history between those two countries, before accepting it into the initial TPP negotiations, and similar considerations might well apply to India.

The Modi government has already taken one such significant step: withdrawing India's blockage of the Trade Facilitation Agreement (TFA) in the WTO. The government did not offer to modify the agricultural support policies that underlay that dispute, however, so the signal was mainly tactical and related to India's international isolation on the issue.[9] It was a very helpful step in the right direction—removing a source of hostility between India and the United States and a number of other countries—but not enough to indicate that India is adopting or even seriously contemplating a new approach to trade. Fully implementing the TFA itself, especially with respect to customs modernization and improvement, would be a meaningful further action.

Convincing the skeptics would almost certainly require resolving at least one, and preferably a couple, of the leading irritants of India's current trade policies to its foreign partners including the United States. The most likely candidates are IPRs, taxation, and preferential market access. Breakthroughs in any of these issue areas, and especially in all of them, would represent significant confidence-building measures that could set the stage for subsequent cooperative steps with other countries. Another possible signal of a new approach would be rapid completion of the BIT with the United States that has been under discussion for many years, as discussed below.

Intellectual property rights (IPRs), including copyrights, trade secrets, and patents (mostly related to pharmaceuticals), have long been the most contentious issue in India's trade policy, especially but not only with the United States. India has sought to exploit the flexibility in the Trade-Related Aspects of Intellectual Property Rights (TRIPs) agreement in the WTO by using compulsory licensing, occasionally denying patent protection and adopting regulatory obstacles to dilute that protection. Because of India's strong consumer groups and its generic drug industry, Indian law—though strengthened considerably to implement the TRIPs agreement—tends to favor weaker rather than stronger protection of IPRs.

However, India is transitioning from being a net user of technology (which favors weak IPRs) to being a producer as well (which favors stronger IPRs). The Indian drug industry itself is evolving toward companies with greater focus on research and development. The large entertainment industry (including "Bollywood") has a keen interest in copyright protection, and there is considerable convergence between that industry (and

9. Those underlying policies will have to be addressed as part of any comprehensive liberalization strategy, although the WTO membership, in resolving the TFA impasse, gave India an indefinite pass on its agricultural support programs.

the media sector) in the two countries on the issue. Hence a move toward increased IPRs would be pushing on a door that is opening if not fully open yet. Inward FDI would increase as a result of stronger IPR protection.

Tax policy has also been a source of contention between India and its main trading partners. Rapid settlement of long-standing disputes with individual companies would be a prototype of the demonstration effects advocated above. India has already foresworn or at least sharply circumscribed retroactive taxation. Revised rules on tax avoidance (General Anti-Avoidance Rules, or GAAR) could be promulgated and faithfully adhered to, as proposed by Indian commissions and adopted in several other countries. This would bring new transparency with prompt and reliable procedures, replacing the opaque and seemingly arbitrary rulings that are currently too frequent.

Preferential market access policies (including local content requirements) are a third area for potential unilateral action. India has already agreed to avoid such policies for the private sector. It could adopt a similar stance for procurement by its central government, perhaps joining the Government Procurement Agreement (GPA) in the WTO in the process. Such steps would be economically efficient, promoting higher productivity and lower government spending in India. They would meet priority international concerns about the country's economic policies.

Enacting some or all of these unilateral steps would clearly indicate that India had adopted a new trade and investment strategy. It would then behoove the United States and India's other major trading partners to respond in kind (possible US actions are elaborated in the last section of this PIIE Briefing). Steps of these types by India and the United States, and perhaps India's other trading partners, would represent both important indicators of a new policy approach in India itself and confidence-building measures that could reward and reinforce that new approach. They should be pursued as aggressively as possible.

Political economy considerations, however, suggest that some of the proposed steps may be possible only in the context of negotiated agreements. The trade policy history of many (especially developing) countries shows that while unilateral actions can often reduce excessively high tariff levels—or "water in the tariff"—removing the last 10 percent or so of protection is much tougher in terms of domestic politics. Export interests frequently need to be mobilized to overcome those who defend import barriers. This in turn forces the country's trade officials to negotiate reciprocal "concessions" from other countries that can be used to build domestic support for the needed changes. India's applied tariffs are now at about the 10 percent level that has frequently required such strategies elsewhere. Its nontariff barriers, especially its very high restrictions in some services sectors, may prove even tougher to overcome without sizable offsetting benefits.

8. PLURILATERAL AND MULTILATERAL INITIATIVES

Joining existing plurilateral or multilateral trade negotiations is a second avenue for India to apply a trade-led growth strategy. India has always supported the multilateral trading system and, of the large economies in the world, has been one of the most reluctant to embrace regional and bilateral alternatives. Ramping up its involvement with the other trading powers in this way might constitute an attractive means to overcome its economic isolation. A wide array of the Indian public may view a multilateral approach as more acceptable than entering into negotiations for a bilateral or even regional FTA with the United States, China, or other potentially controversial partners. Active engagement in the plurilaterals would send a strong signal that India was embarking on a new strategy of trade liberalization.

There are at least three plurilateral possibilities. The most interesting is probably the **Trade in Services Agreement (TISA)**. Expanding international trade in services is important for India, so its nonparticipation is an anomaly.[10] China has applied to join but has not been admitted, so India might be able to move ahead, or at least in tandem, in this space. It would presumably ally in the talks with other major services exporters, such as the United States and the European Union, and thus improve its trade (and perhaps broader) ties with them in the process.

Services are so important to the Indian economy, and the foreign barriers that it faces are so significant, that an initiative of this type would presumably attract domestic supporters. The fact that India maintains very high barriers to protect many of its own services sectors means India could gain significantly from liberalization. In addition, it means that India has a great deal to offer and thus considerable leverage to induce the large services importers to put their barriers on the table. The services sector is also domestically sensitivity and politically difficult, however, so India will have to sort out its policy in this sector before proceeding. The TISA will probably operate on a conditional most-favored-nation basis, with benefits accruing only to countries that participate, so it is clearly in India's interest to join the group.

A second possibility would be the **GPA**. Government procurement accounts for an estimated 15 percent of the global economy or well over $10 trillion per year. Most governments are under intense pressure to buy locally, but budget constraints are increasingly pushing them to seek cost-effective solutions, including imports. Hence the GPA has become an increasingly important component of the WTO system (and procurement agreements are prominent in a number of regional and bilateral agreements as well). It functions on a fully reciprocal basis, so only participating countries gain access to each other's markets.

As a relatively low cost supplier, India might be able to compete effectively for government contracts in a number of the 50 or so countries now participating in the GPA. Even a 1 percent success rate for Indian suppliers in regard to GPA-covered procurement would translate into about $7 billion in annual export sales for the country (and eventual success rates might well be higher) (Anderson and Singh 2014). Even if it failed to win frequently, the experience of involvement would add to its competitiveness. India would have to offer access to enough of its own governmental procurement, perhaps including at the state level, to be accepted for membership, so it would need to calibrate a package that seemed likely to offer net benefits for its growth and employment. Passage of the Public Procurement Bill currently before parliament would galvanize Indian reforms on this issue and is a prototypical example of the potential linkage between domestic reform and greater international engagement.

The **Environmental Goods Agreement (EGA)** is the newest of the plurilateral negotiations, commencing in early 2014. China became a charter participant at the last minute after it agreed to accept the terms of reference worked out by the United States, the European Union, and a few others. The EGA will probably operate on a purely reciprocal basis, like the GPA, at least until it reaches a critical mass of world trade in its sector (like the Information Technology Agreement). India has begun developing a renewable energy sector, so it has a clear interest in the agreement, but it would have to calculate the net impact that participation might produce.

The final, and only fully multilateral, option now on the table is the **Doha Round** of the WTO itself. India has been one of the blockers of completing the Round, most recently via holding up the 2013 Bali agreement and the TFA for almost a year. Relaxing that veto has been the Modi government's most positive trade signal to date, and more extensive cooperation in Geneva could carry an even broader message to the world.

10. It was also an anomaly that India, despite being a member of the original Information Technology Agreement (ITA) and a relatively high-tech country, did not participate in the recent revision of that compact (ITA II). That negotiation was recently completed, so it is too late for India to get involved. It in fact opposed the extension of the agreement and will be accused of free riding on the considerable expansion of its coverage that the other parties worked out, since the ITA, unlike the other plurilaterals, functions on an unconditional most-favored-nation basis.

9. STRENGTHENING EXISTING AGREEMENTS

The next rung of possible implementation of India's postulated new strategy could play out within the universe of trade agreements in which it is already involved or is currently negotiating. One of the "Swiss cheese" FTAs India is engaged in, the RCEP, is considerably less ambitious than the counterpart with which it is usually compared, the TPP. The RCEP has reportedly sought agreement to eliminate tariffs immediately only on 80 percent of its current tariff lines, a modest goal, but India has been unwilling to do even that, proposing to eliminate immediately only 65 percent of lines while holding off for 10 years before moving even to 80 percent. It has apparently offered fewer tariff cuts for RCEP partners with which it does not already have FTAs than for those with which it does. Even China has reportedly cooled on the RCEP because of Indian foot-dragging.

One innovative approach for India would be to elaborate and extend, or even renegotiate, these agreements to convert them into more meaningful contributions to its postulated new trade-led strategy. India has probably limited the ambition of most of its agreements, especially with advanced economies like Japan, and at least some partner countries might be receptive to strengthening them.

Some of the Asian FTAs have a built-in mechanism for elaboration since they usually work out their less controversial components (goods) first and then move on to more difficult areas (like services and investment). An Indian initiative of this type could be particularly compelling, in terms of both economic impact and signaling a new approach, because of its widespread reputation as among the more reluctant of the partner countries. India could clearly reap much bigger economic and foreign policy benefits from many of its existing agreements through such a strategy.

This might be particularly the case with the RCEP. Even on modest assumptions concerning its degree of liberalization, the RCEP could provide India with gains of about $100 billion (almost 2 percent) of annual national income (table 1) and over $200 billion (more than 25 percent) of exports (table 2). These gains would only approximate half of India's benefits from an FTAAP, however, which posits considerably deeper integration as well as a much broader group of participants.

Strengthening the RCEP would clearly enhance the gains to India and its other participants, including later via an FTAAP if the RCEP became one of its important constituent parts (as assumed in the tables in this PIIE Briefing). A stronger RCEP would seemingly be acceptable, and even desirable, for the several members that are also participating in the more rigorous TPP (Japan, Malaysia, Vietnam, Singapore, Brunei, Australia, New Zealand, and prospectively Korea) and would thus already be implementing reforms of the type postulated here.

10. NEGOTIATING NEW AGREEMENTS

The most aggressive variant of the proposed strategy to trade-led growth would be for India to seek ambitious new trade liberalizing agreements with the world's most competitive countries. This could be done bilaterally or regionally (but probably not multilaterally in the WTO, where ambition is inherently limited by the consensus rule). The most promising partners, on this criterion, would be the United States and, to a lesser degree, the European Union. The United States could be engaged either bilaterally or regionally via the TPP or an FTAAP. The other challenging bilateral partner would be China, because of its competitiveness rather than the degree of difficulty of its FTAs.

India would have three options if it chose to pursue ambitious new agreements via the regional route. One would be to complete a beefed-up RCEP and then seek to mesh it with the TPP into a comprehensive FTAAP. A second, taking into account the slow pace of the RCEP, would be to go straight to an FTAAP. The third would be to seek membership in a second stage of the TPP, which might subsequently evolve into an FTAAP. All three options would achieve free trade and investment between India and the United States as a central component of their much broader regional coverage; from the standpoint of economic relations between India and the United States, any of these regional arrangements would be largely equivalent to a bilateral free trade agreement.

The TPP and FTAAP options confront the political reality that, up to this point, only members of APEC have been deemed eligible for either (although the TPP agreement itself is likely to provide for accession by non-APEC countries if all initial TPP participants agree). Hence India would have to become an APEC member, or the current norm would have to be waived, possibly via the "TPP-RCEP amalgamation" variant since India will presumably be a charter member of the RCEP. Either route would require agreement by the United States as well as all other members of the trade compacts.

India's choice will be heavily influenced by whether a sharply expanded TPP or a new FTAAP seem likely to evolve without it. In that case, India would face the risk of sizable trade diversion as well as the very large opportunity cost of failing to participate. The difference between the two outcomes ranges upward of $600 billion (almost 70 percent) of annual exports (figure 4) and $250 billion (almost 5 percent) of annual income for India (Petri 2015). It would thus face huge incentives, indeed virtual imperatives, to find a route into the process.

In his visit to New Delhi in January 2015, Obama indicated for the first time that the United States was ready to contemplate Indian membership in APEC. Most of the other countries in APEC would presumably welcome India on both economic and political grounds. China views strong Indian growth as an important contributor to an Asia that is both prosperous and less vulnerable to radical extremism, and in fact invited India (along with several others) to attend the 2014 APEC summit in Beijing.

For the United States, the choice between a bilateral agreement with India and a TPP or FTAAP including India would be primarily political. On the one hand, the relatively easy acceptance in US domestic politics of Japan's joining the TPP suggests that the multilateral route might be less difficult; a bilateral Japan-US FTA would almost certainly have faced much stronger opposition in Congress. Moreover, an India aligned with US high standards would be a useful partner in the inevitable debates with China and others over how far to liberalize. On the other hand, even a reforming India might link up with the "go slower" faction in the TPP or FTAAP; it has been India's long-standing recalcitrance on trade liberalization, after all, that has motivated the United States and others to oppose its accession to APEC heretofore. And the potent Indian diaspora in the United States, which was decisive in winning congressional approval for the civilian nuclear deal, would presumably be more excited by a bilateral US-India pact.

There is a way to combine the regional and bilateral approaches. Even ambitious Indian participation in the TPP or an FTAAP would undoubtedly leave unresolved a number of issues of particular importance for the India-US relationship because they would not be covered by the regional compact. Examples include US visa policy from the Indian perspective and Indian agricultural policy from a US viewpoint. Hence there would be a need for a parallel India-US bilateral agreement, like the bilateral agreement between Japan and the United States (on agriculture and autos) that became an integral part of the TPP. Such a "TPP plus" arrangement would add an important bilateral dimension to the regional strategy. Several potential elements of such a package are addressed below.

The US government is still debating the desirability of welcoming India into APEC, let alone into any expansion of the TPP or eventual FTAAP. The trade policy community, wary of India's traditional approach to trade policy, continues to oppose Indian accession; the foreign policy and national security community, with broader objectives, tends to support it. The latter group prevailed sufficiently before Obama's 2015 trip to New Delhi to enable him to "welcome India's interest" in joining APEC, as it did in the similar debate over accepting Japan into the initial TPP a year earlier. However, significant Indian movement toward adopting the reformed trade strategies advocated in this PIIE Briefing would clearly be necessary to tilt the debate within the United States in India's favor.

From India's standpoint, a regional deal would assure it of equal treatment with its main partners and competitors. It might raise fewer substantive controversies, including because the demands of the deal would be less ambitious (albeit less rewarding). Despite having sought membership in APEC for almost 20 years, however, India has been curiously passive in responding to Obama's offer. This may partly reflect doubts about substance, reflecting India's traditional stance on trade policy, and partly uncertainty over whether a renewed Indian application would in the end be accepted by the United States. But Obama's offer is on the table, and India could opt to pursue it at any time, presumably in time to participate in the APEC summit in late 2016 that is scheduled to discuss the "collective strategic study" that its senior officials are now preparing concerning pursuit of an FTAAP. Membership in APEC, with its focus on trade facilitation, would help India prepare for the much more extensive commitments that would be required in a TPP or an FTAAP.[11]

Given realistic timetables, none of these alternatives could move ahead very quickly. The RCEP is off to a very slow start. The initial TPP negotiations will probably be completed in 2015, but parliamentary ratifications will take a while, so entry into force is unlikely before 2017–18, and the charter members may not be eager to enter into an expansion negotiation right away—especially with a major country such as India (or China—or especially both). The FTAAP "collective strategic study," which at most will trigger a modest start toward an eventual comprehensive FTA in the region, will not be delivered to APEC leaders until their annual summit in late 2016. India is probably not yet ready to meet the terms of the TPP, as initially negotiated, and will have to adopt at least some of the reforms now being discussed to do so. So these options will likely be available only around 2020 or even later, at the outside of Modi's first term and that of the next US president or, more likely, early in a second term of both.

Hence any strategy to address these issues will have to be fairly long term in nature, requiring patience and perseverance. Considerable time is required to devise strategies and to build coalitions to support them in a vigorous democracy. It is necessary to begin the process as soon as possible to give it a maximum chance to succeed.

As mentioned above, a race between India and China for membership in the TPP or an FTAAP could emerge. Some partner countries might be willing to accept one but not both Asian giants, especially in an existing agreement (TPP) but even in a completely new one (FTAAP). This is in part because of the combined competitive threat but also the fear that they would work together to limit the ambition of the negotiations. As a member of APEC, China would seem to have the advantage—it could block Indian accession to APEC itself, and thus to the TPP or an FTAAP under the existing norms—unless India were to move very quickly to enter the queue before China itself did; US sponsorship would be essential for this to happen but would require a fairly overt confrontation with China. India could otherwise find itself relegated to the second tier of the RCEP and thus lose more ground in the competitive liberalization and global value chain contests.

The bilateral option with the United States or possibly other partners could be implemented in a manner that is more graduated, and sequential, and thus less delayed. Rather than adopting the traditional "single undertaking" strategy, where everything is negotiated together and nothing is agreed until everything is agreed, a step-by-step methodology could be employed.

Conclusion of the BIT would be a good way to start. It would indicate that India was "open for business" and saw an important role for foreign direct investment in its economy in the future. Serious steps to conclude that much-delayed negotiation would provide a fresh impetus for the India-US relationship and for India as well. The Indian government should reengage with the United States soon—as it must if it wants to get in the door ahead of China, with which the United States has already had 20 negotiating sessions but where agreement still seems far off. As a modest step in this direction, in response to concerns that Modi heard during his visit to the United States in late 2014, the government has set up an interagency committee to resolve problems experienced by US investors. At the same time, however, the latest draft of India's new model BIT would make such a negotiation much more difficult if not impossible (Jandhyala 2015).

11. At least a dozen other countries are seeking to join APEC as well. Membership for India would thus be complicated by the need to address these additional applicants.

India and the United States could then move on to sector-specific issues, hoping to both liberalize those sectors themselves (and thus promote domestic reform of them) and use them as building blocks toward a more comprehensive compact over time. One possibility would be a tariff-only agreement, which should be relatively easy for India, since most of its applied tariffs are far below their bound levels and provide little actual protection for most sectors. The defense sector is another possible candidate, building on the civilian nuclear agreement. Agriculture would have to be addressed at some point in light of US political imperatives. Simultaneously, they could agree to pursue such topics as government procurement and some tariffs via the plurilateral agreements (GPA, EGA, maybe TISA) cited above.

A particularly intriguing possibility might be a services-only agreement. Both countries are highly competitive in this sector and thus might be able to fashion a fairly ambitious deal. US exports of services to India could then be expected to double (Fukase and Martin 2015). Both have defensive as well as offensive interests, however, that would have to be taken into account and addressed.

The ultimate goal of an all-encompassing agreement could be articulated at the outset of the step-by-step process, in an effort to help drive that process through the close relationship between Obama and Modi, or be left to eventuate if the constituent parts worked out as hoped and provided impetus for moving ahead to subsequent components. Such a step-by-step approach would be unusual for the United States, since its FTAs have always been pursued on a comprehensive basis and its domestic politics tend to pull in that direction (to permit intersectoral tradeoffs), but it could be part of an innovative new approach for an initiative with India.

Another possibility along this path could be for India and the United States to incorporate issues in their sequencing that are different from standard FTAs. For example, they could agree on steps to liberalize the Indian higher education sector, whose value is an estimated $100 billion and badly needs reform to meet its massive demand-supply imbalance with huge problems of cost as well as quantity and scale, including an opening to US (and maybe other foreign) providers of such services. Science and technology issues, which have not been part of previous US FTAs but are a constructive element of current India-US cooperation, could be included. An advantage of the bilateral approach would be its flexibility in adopting unorthodox issues such as these. On the other hand, the complexities of the US political system, especially the role of the Congress, would produce frustrations as well (for US negotiators and their Indian partners). A long-term strategy, carried out with patience and perseverance, would be needed here too.

As noted above, a hybrid possibility would be to include some of these issues in a parallel India-US bilateral agreement that would accompany Indian participation in a second stage of the TPP or a new FTAAP. The bilateral and regional negotiations would proceed together. Possible US contributions to a side agreement are considered in the next section.

Any or all of these international trade initiatives would obtain important benefits for the Modi government in moving toward a trade-led growth strategy. First, they would bring clear benefits for Indian exports and hence economic outcomes—especially from those plurilateral agreements (TISA, GPA, probably EGA) that bestow their benefits only on participants. Second, their reduction of import barriers would bring more competition and lower prices, thus helping counter inflation and strengthening Indian competitiveness. Third, both of these effects could promote much greater Indian participation in global value chains, which would in turn reinforce interest in India as a locus for investment. Fourth, they should thus help mobilize domestic support in India for a broader pro-trade strategy and indeed the overall Modi economic program.[12] Fifth, they would begin building awareness and confidence around the world in a new Indian approach and should thus elicit positive responses. Indeed, the United States and other partner countries should and probably would reciprocate to further encourage the Indian initiatives and new strategy.

12. Srinivasen and Tendulkar (2003, pp. 142–47) address the political economy of trade reform in India with a focus on four groups: large industrialists, farm interest groups, bureaucrats, and labor unions.

11. WHAT ROLE FOR THE UNITED STATES?

A fundamental strategic question for India is why it should be satisfied with its current low-standard trade agreements with minor trading partners, and the "more of the same" that would probably accrue from a "successful" RCEP negotiation, rather than pursuing high-standard agreements with the world's largest economies that would deliver major economic and foreign policy benefits. In particular, the warm relationship between Modi and Obama raises the issue of whether India should seize this unique moment to seek a trade initiative with the United States.

A successful India is very much in the interest of the United States. Its rapid growth and financial stability will contribute increasingly to global prosperity as it becomes one of the world's largest economies. Its enhanced security as well as economic role will provide welcome balance in the Asia-Pacific region, and it is in fact a lynchpin of that balance. A failing India would be a substantial setback for the United States (Tellis 2015).

In purely economic terms, the United States would reap worthwhile gains from an FTA with India. The two governments have already set a goal of expanding their bilateral trade from the current level of about $100 billion to $500 billion. Table 3 shows that the total could exceed $600 billion by 2025, due mainly to the economic growth of the two countries (even assuming only 6.5 percent for India and 2 percent for the United States) but with an additional 35 to 40 percent deriving from an FTA (achieved either bilaterally or through a regional agreement) under which tariffs were eliminated and barriers to services trade were cut in half.

US merchandise exports to India could rise by 50 to 60 percent as a result of such an FTA. Services exports could double (Fukase and Martin 2015, Mishra and Roy 2013), with particular gains for banking, insurance, and retail trade. Investment would probably increase as much or even more.

A number of US sectors would benefit substantially from an FTA or its equivalent with India (Fukase and Martin 2015). Exports of agricultural products, especially processed agriculture, could expand severalfold. Energy exports could rise by a factor of three or four. Textile exports could more than double (while apparel imports would rise sharply too). Several other sectors could experience a doubling or more of their exports including steel, chemicals, paper products, electronics, and an array of light manufacturing items. The payoff would be even greater if intellectual property rights protection in India were raised to Western European and US levels (US International Trade Commission 2014).

The United States thus has a keen interest, in both economic and foreign policy terms, in encouraging India to pursue a trade-led growth strategy. It could promote the process by supporting Indian entry into the big plurilateral agreements in Geneva where India is not now involved (and where the United States has sometimes kept China out). Even more consequentially, building on the partial policy change that has already occurred on the issue in the United States and contingent on the credibility of adoption of a serious reform strategy by India, it could sponsor Indian membership in APEC or in a second stage of the TPP or an ultimate FTAAP. Obama said in his Brisbane speech in November 2014 that "we support a greater role in the Asia Pacific for India,"[13] and these would be the most effective steps in that direction.

If the United States decided to seriously pursue such a role, its first task would be to help persuade the government of India to make specific decisions that would lead toward a trade-led growth strategy. While India would make such decisions based on its national interests, determining those interests is seldom clear cut. More than one domestic interest group almost always competes for an outcome that will promote its respective preferences. Injecting foreign concerns into the debate can sometimes tilt those outcomes in directions that otherwise would not be chosen.

13. Barack Obama, remarks at the University of Queensland, November 15, 2014, Brisbane, Australia (https://www.whitehouse.gov/the-press-office/2014/11/15/remarks-president-obama-university-queensland).

To play such a role, the United States would need to demonstrate to Indian authorities that it can be a trusted partner. It would have to shed the image of promoting mercantilist predilections in favor of an attitude that India would view as genuinely concerned with its successful development (while still pursuing legitimate economic gains for the United States). The United States might find achieving such a perception difficult, especially given the current mistrust between the two countries on most economic matters. It might be able to do so if it gave the issue sufficient priority and time to gel, however, building on the close partnership developed on nuclear issues and between Obama and Modi at the present time.

The United States has played such a role in at least one other country, though under circumstances quite different from India. It was a full partner in devising Korea's successful trade-led growth strategy in the mid-1960s, working intensively with the Korean government on virtually every aspect of its development plan. That partnership continued in succeeding years and eventually culminated in a Korean FTA with the United States itself half a century later.

The United States would have to take several steps at home to facilitate, or even make possible, such a supportive stance vis-à-vis India. It should start consulting with the Indian diaspora, with its demonstrated ability to influence the US political process, and seek to mobilize its support. It should start educating the American public on the virtues of expanding economic relations between the two countries, including the fact that India, with its relatively underdeveloped manufacturing sector (unlike China), is not much of a threat to US wages and low-skilled jobs—and that all the anxieties of a few years ago about outsourcing have proven to be largely imagined. Also unlike China, India has neither run current account surpluses nor manipulated its exchange rate in recent years.

The US administration should work similarly with the Congress and begin paving the way for moving toward free trade with India, as part of the conversation about "what next for the TPP" that will begin soon after that agreement is implemented. There will inevitably be resistance to liberalization with any country with low wages and low labor standards, and especially to a new megaregional agreement that might include both China and India (as opposed to "only" Vietnam and Malaysia in the initial TPP). Hence any administration will need to give priority to this educational effort.

The United States could also undertake unilateral confidence-building measures of its own, responding to India's well known list of "asks," thereby strengthening India's willingness to work closely with it toward commonly sought goals. It already agreed to follow up on the meeting of the Trade Policy Forum in November 2014 by launching a dialogue on promoting investment in manufacturing to identify best practices in specific policy areas that can attract FDI to India.

The most important policy step would be increasing visas for Indian high-tech workers, especially those engaged with Indian firms in the United States, and rejecting any negative (especially discriminatory) measures on that highly sensitive topic (Kirkegaard 2015). There are over half a million employment-based Indian immigrants in the United States, with annual inflows averaging about 100,000. They contribute almost as much to the Indian economy as the country's combined exports of goods and services to the United States. As part of a "rolling FTA" program, or a bilateral accord that accompanied Indian accession to the TPP or an FTAAP, the United States could create a new visa category for nationals of the world's largest democracy as it has for Australia. Or it could "carve out" preferential access to India under the annual aggregate quota ceiling, as it has for Chile and Singapore.

However, those steps associated with earlier FTAs led to a sharp backlash in Congress that would have to be overcome to permit their replication. More realistic though still difficult would be an increase in the overall quota for high-skilled workers, for which there is already considerable pressure from US business. Indians now obtain more than 60 percent of the visas issued (with China next at 8 percent), so they do not have a good case for preferential treatment. But they would clearly benefit from any expansion in the aggregate ceiling, and such a measure would enhance India-US economic relations (as well as significantly boost US economic competitiveness).

A second possible US step would be to permit some degree of pension system reciprocity ("totalization") through which the United States would either let Indian ex-workers in the United States receive the Social Security benefits that they have funded, exempt them from paying (about $3 billion annually) into a fund that will not compensate them,[14] or devise creative offset arrangements such as reducing the H-1B visa fees for Indians. A third possibility, in anticipation of a free trade arrangement down the road, would be expeditious approval of liquefied natural gas (and maybe crude oil) exports to India, which would require substantial Indian investment in new infrastructure (and thus energy policy reform) to be implemented but could help India expand its electricity generation to bring power to the tens of millions of residents who now have none.

Any US administration that adopted such a strategy, like any Indian government, would have to do so as a long-term proposition with full resolve to sustain the effort over many years (and probably more than one administration in both countries). The Congress would have to be a full partner in the strategy, so at least the key committee chairs and ranking members would need to be engaged. The policy would necessarily evolve over a number of years, with many moving parts, that would demand continuity as well as an ability to innovate to meet the inevitable turns in the road.

The United States could also seek to enlist countries that are both its own allies and some of India's other major trading partners in any effort to promote Indian adoption of a trade-led growth strategy. If that effort took the path of welcoming India into the TPP or a subsequent FTAAP, other key participants in those talks (such as Australia, Canada, and Japan) would be natural partners. A key issue would be the posture of China: Would it side with the United States in promoting ambitious liberalization, or would it reinforce India's traditional reluctance to open its markets and retard the desired evolution of Indian trade and economic policy?

Whatever the modalities, the rewards of successful Indian pursuit of a trade-led growth strategy could be significant for the United States as well as for India. The priority economic and foreign policy goals of both would be served. An ultimate "Free Trade Area of the Democracies" would be icing on the cake, but even a lesser outcome would be fully worth the effort. A parallel bilateral agreement to accompany Indian membership in the TPP or an FTAPP is probably the most promising route to effective cooperation between the two countries. The business communities and other constituencies in both countries should start contemplating the possibilities now and begin urging their governments to start down the very long road that would be required.

12. CONCLUSION

India stands at a potentially transformative threshold. It is en route to becoming the world's third largest economy. It is now growing faster than any other large country, including China. Its prime minister has set lofty goals and formulated an ambitious reform program to realize them. India can move into a positon of global prominence if it exploits these opportunities with skill and perseverance.

One key element is missing from India's strategy, however: a concerted effort to achieve the trade expansion needed to meet the country's growth and job creation targets. India's international competitiveness has declined and its exports have stagnated in recent years. It faces increasing discrimination in global markets as other major countries—including China, the United States, and the European Union—conclude or contemplate new preferential megaregional agreements. It continues to emphasize unambitious trade deals with relatively minor players. Despite the warm embrace that has developed between Prime Minister Modi and President Obama, it currently envisages no major economic initiative with the United States, although such efforts could

14. Kirkegaard 2015 notes that, though the merits of such an agreement "are obvious on standard economic efficiency and welfare grounds—and indeed individual fairness," it would be a very difficult "give" for the United States because of the large budgetary cost involved and congressional unwillingness for over a decade to rectify a somewhat similar situation with Mexico.

provide a major boost to both its economy and its foreign policy. No country has ever achieved the expansion of manufacturing that India must attain to meet its economic goals without rapid export growth.

There is an intimate linkage between India's proposed economic reforms and a bold new thrust for its international trade and investment policies. Successful reforms will allow India to increase foreign access to its markets, including in agriculture and services, both strengthening its own economy and enabling India to demand that other countries expand Indian access to theirs. The growth and jobs that such increased access will deliver to India, especially in manufacturing but in services as well, will in turn provide crucial political support for the needed liberalization in India itself. Other large Asian countries, including China a decade and a half ago and Japan today, have pursued such strategies of trade-led growth.

Numerous channels are available to India to adopt and implement such a strategy. It could follow up on Obama's willingness to contemplate Indian membership in APEC and then participate in the inevitable expansion of the Trans-Pacific Partnership (TPP) or a new Free Trade Area of the Asia Pacific (FTAAP) (either of which could include China as well as the United States and Japan). Huge gains would result for India: Its exports could expand by $500 billion and its GDP would grow by 4 percent from an ambitious FTAAP as it simultaneously eliminated the trade losses it would increasingly suffer from remaining outside these agreements.

Indian participation in such a megaregional project would inter alia achieve largely free trade between it and the United States. Alternatively, India could conclude a bilateral investment treaty with the United States and build on it to seek a comprehensive free trade agreement to provide a framework for the overall economic relationship that could prove far superior to the case-by-case method of addressing problems that has proven ineffectual. The most promising course is probably a combination of the two whereby India and the United States address their uniquely bilateral concerns in a separate agreement that parallels India's engagement in the regional track. India could also reinvigorate its FTA negotiation with the European Union. Success for any of these initiatives will require India to reduce its own considerable barriers, which would be good for India itself, in order to achieve meaningful concessions from its trading partners rather than replicating its weak agreements of the past.

It will take time for any of these proposals to be fully realized. Initial unilateral confidence-building steps by India will almost certainly be needed to overcome its legacy of resistance to liberalization and foreign skepticism over its commitment to reform. But the United States, Europe, China, and the rest of the world are clearly moving in these directions, and it would be exceedingly costly for India to let itself be left further behind.

These other economic partners would surely embrace an India that sought to join their liberalization initiatives. Such an India would be a far stronger and closer partner. It would increasingly strengthen the Asian and world economies. It would enhance stability in the region and the battle against terrorist extremism. It would support a healthy balance of forces that sustains peace in a volatile part of the world. It would validate the success of a democratic polity in responding to the most urgent needs of its citizens.

Adoption of such a strategy would propel the return of India to global prominence and indeed the greatness that its history and aspirations suggest. The time has come for India to make its move.

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TABLES AND FIGURES

Table 1 Income gains under alternative FTAs, 2025

Economy	GDP 2025 (billions of 2007 US dollars)	Income gains (billions of 2007 US dollars) TPP-16	RCEP	CHUSTIA	All three	FTAAPX	Change from baseline (percent) TPP-16	RCEP	CHUSTIA	All three	FTAAPX
Americas	24,867	117.0	2.5	120.1	228.7	309.8	0.5	0	0.5	0.9	1.2
Canada	1,978	9.3	–0.1	–4.4	4.0	21.6	0.5	0	–0.2	0.2	1.1
Chile	292	3.1	0	0.1	3.0	6.7	1.1	0	0	1.0	2.3
Mexico	2,004	30.9	2.8	–4.8	26.1	73.1	1.5	0.1	–0.2	1.3	3.6
Peru	320	5.2	0	–0.3	4.4	6.0	1.6	0	–0.1	1.4	1.9
United States	20,273	68.4	–0.1	129.6	191.2	202.4	0.3	0	0.6	0.9	1.0
Asia	34,901	230.3	530.2	296.5	970.1	1,374.0	0.7	1.5	0.8	2.8	3.9
Brunei	20	0.4	1.0	0	1.1	1.1	1.8	4.7	0	5.6	5.5
China	17,249	–82.4	210.8	330.3	454.3	581.9	–0.5	1.2	1.9	2.6	3.4
Hong Kong	406	–1.3	30.0	0	28.9	53.8	–0.3	7.4	0	7.1	13.3
India	5,233	–6.9	86.5	–6.3	72.6	213.6	–0.1	1.7	–0.1	1.4	4.1
Indonesia	1,549	54.2	16.8	–3.1	50.4	36.8	3.5	1.1	–0.2	3.3	2.4
Japan	5,338	83.6	76.3	–5.1	136.5	157.0	1.6	1.4	–0.1	2.6	2.9
Korea	2,117	43.4	70.7	–5.4	91.0	112.8	2.0	3.3	–0.3	4.3	5.3
Malaysia	431	28.4	12.9	–2.0	35.4	40.5	6.6	3.0	–0.5	8.2	9.4
Philippines	322	20.5	7.0	–1.0	22.2	15.6	6.4	2.2	–0.3	6.9	4.9
Singapore	415	7.7	1.0	–1.2	6.5	9.2	1.9	0.2	–0.3	1.6	2.2
Taiwan	840	–6.4	–16.1	–3.4	–22.7	46.5	–0.8	–1.9	–0.4	–2.7	5.5
Asia											
Thailand	558	42.2	14.7	–3.4	40.6	28.1	7.6	2.6	–0.6	7.3	5.0
Vietnam	340	47.5	17.1	–2.5	52.6	73.8	14.0	5.0	–0.7	15.5	21.7
Other ASEAN	83	–0.5	1.5	–0.2	0.7	3.3	–0.6	1.8	–0.2	0.8	3.9
Oceania	1,634	10.7	18.6	0.3	26.2	29.2	0.7	1.1	0	1.6	1.8
Australia	1,433	7.4	16.8	0.2	22.0	24.3	0.5	1.2	0	1.5	1.7
New Zealand	201	3.3	1.8	0	4.2	4.9	1.7	0.9	0	2.1	2.4
Others	41,820	–24.2	–6.8	–14.0	–39.4	156.3	–0.1	0	0	–0.1	0.4
Europe	22,714	–4.9	5.1	–1.5	–0.4	–36.4	0	0	0	0	–0.2
Russia	2,865	–3.0	–5.3	–1.7	–9.2	271.7	–0.1	–0.2	–0.1	–0.3	9.5
Rest of world	16,241	–16.3	–6.6	–10.8	–29.8	–79.0	–0.1	0	–0.1	–0.2	–0.5
World	103,223	333.8	544.6	402.9	1,185.6	1,869.3	0.3	0.5	0.4	1.1	1.8
Memorandum											
TPP-16	38,016	455.5	238.6	96.5	691.3	813.9	1.2	0.6	0.3	1.8	2.2
RCEP	36,535	248.7	534.9	300.2	990.1	1,302.9	0.7	1.5	0.9	2.8	3.7
APEC	58,951	16.9	458.1	421.7	1,142.5	1,767.8	0.6	0.8	0.7	1.9	3.0

APEC = Asia-Pacific Economic Cooperation; ASEAN = Association of Southeast Asian Nations; CHUSTIA = China–US trade and investment agreement; FTAAPX = Expanded Free Trade Area of the Asia-Pacific including India; RCEP = Regional Comprehensive Economic Partnership; TPP = Trans-Pacific Partnership; TPP-16 = TPP including the 12 original members plus Indonesia, Korea, the Phillipines, and Thailand

Source: Petri, Plummer, and Zhai (2014).

Table 2 Export increases under alternative FTAs, 2025

Economy	Exports 2025 (billions of 2007 US dollars)	**Export increases** (billions of 2007 US dollars)					**Change from baseline** (percent)				
		TPP-16	RCEP	CHUSTIA	All three	FTAAPX	TPP-16	RCEP	CHUSTIA	All three	FTAAPX
Americas	4,163	260.2	–8.1	342.1	551.0	781.9	6.3	–0.2	8.2	13.2	18.8
Canada	597	17.7	–2.4	–13.7	1.7	34.0	3.0	–0.4	–2.3	0.3	5.7
Chile	151	4.5	–1.3	–1.3	2.1	9.2	3.0	–0.8	–0.9	1.4	6.1
Mexico	507	40.1	–0.5	–15.0	22.3	102.3	7.9	–0.1	–3.0	4.4	20.2
Peru	95	7.4	–0.2	–1.0	5.8	10.6	7.8	–0.3	–1.1	6.1	11.1
United States	2,813	190.5	–3.7	373.2	519.1	625.9	6.8	–0.1	13.3	18.5	22.3
Asia	10,403	517.8	1,420.0	371.6	2,101.5	3,434.5	5.0	13.7	3.6	20.2	33.0
Brunei	9	0.3	0.9	–0.1	1.1	1.2	3.8	10.5	–0.6	12.4	13.3
China	4,597	–107.8	638.3	472.2	982.2	1,590.1	–2.3	13.9	10.3	21.4	34.6
Hong Kong	235	–3.6	39.9	–2.6	34.0	73.9	–1.5	17.0	–1.1	14.5	31.5
India	869	–13.2	237.9	–11.9	211.0	536.1	–1.5	27.4	–1.4	24.3	61.7
Indonesia	501	98.3	52.6	–7.3	112.4	119.3	19.6	10.5	–1.4	22.5	23.8
Japan	1,252	202.5	225.1	–15.8	357.3	419.0	16.2	18.0	–1.3	28.5	33.5
Korea	718	94.5	173.6	–16.7	205.7	244.2	13.2	24.2	–2.3	28.6	34.0
Malaysia	336	44.2	20.2	–6.9	50.4	56.1	13.2	6.0	–2.0	15.0	16.7
Philippines	163	33.5	10.8	–3.5	31.3	27.5	20.6	6.6	–2.2	19.2	16.8
Singapore	263	13.3	–5.7	–7.7	–1.5	–5.0	5.1	–2.2	–2.9	–0.6	–1.9
Taiwan	712	–17.5	–40.3	–11.3	–60.2	150.8	–2.5	–5.7	–1.6	–8.5	21.2
Asia											
Thailand	476	82.7	34.7	–9.7	83.1	74.6	17.4	7.3	–2.0	17.5	15.7
Vietnam	239	92.1	29.9	–6.3	94.6	139.3	38.6	12.5	–2.6	39.6	58.3
Other ASEAN	34	–1.6	2.1	–0.8	0	7.3	–4.6	6.2	–2.3	–0.1	21.6
Oceania	392	20.4	45.5	–2.4	53.5	65.5	5.2	11.6	–0.6	13.7	16.7
Australia	332	15.7	42.8	–1.9	47.9	59.0	4.7	12.9	–0.6	14.4	17.8
New Zealand	60	4.7	2.7	–0.5	5.6	6.5	7.8	4.4	–0.9	9.3	10.8
Others	13,457	–143.7	–73.7	–121.4	–292.8	–233.9	–1.1	–0.5	–0.9	–2.2	–1.7
Europe	7,431	–75.6	–41.6	–65.6	–157.8	–328.9	–1.0	–0.6	–0.9	–2.1	–4.4
Russia	1,071	–9.3	–6.2	–8.0	–20.4	334.8	–0.9	–0.6	–0.7	–1.9	31.3
Rest of world	4,955	–58.8	–25.9	–47.8	–114.6	–239.7	–1.2	–0.5	–1.0	–2.3	–4.8
World	28,415	654.7	1,383.7	589.9	2,413.2	4,048.0	2.3	4.9	2.1	8.5	14.2
Memorandum											
TPP-16	8,512	942.0	579.4	265.8	1,539.0	1,923.6	11.1	6.8	3.1	18.1	22.6
RCEP	10,795	538.2	1,465.5	369.2	2,155.0	3,500.0	5.0	13.6	3.4	20.0	32.4
APEC	15,126	803.8	1,211.2	716.1	2,474.6	4,073.2	5.3	8.0	4.7	16.4	26.9

APEC = Asia-Pacific Economic Cooperation; ASEAN = Association of Southeast Asian Nations; CHUSTIA = China–US trade and investment agreement; FTAAPX = Expanded Free Trade Area of the Asia-Pacific including India; RCEP = Regional Comprehensive Economic Partnership; TPP = Trans-Pacific Partnership; TPP-16 = TPP including the 12 original members plus Indonesia, Korea, the Phillipines, and Thailand

Source: Petri, Plummer, and Zhai (2014).

Table 3 Projected US-India trade in 2025 (billions of dollars)

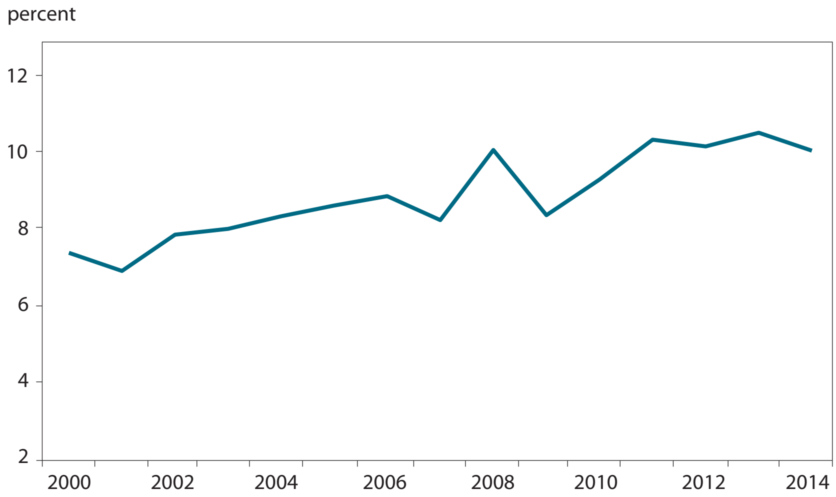
Gravity model	2011 Level	Pure gravity effect: Level	Gravity effect plus elimination of undertrading: Level	Gravity effect plus elimination of undertrading: Increase	Gravity effect plus elimination of undertrading: Percent change	Elimination of undertrading effect: Increase	Elimination of undertrading effect: Percent change
US exports of goods to India	21	99	150	129	628	51	51
India exports of goods to United States	37	178	223	186	503	45	25
Total trade in goods	58	278	373	316	548	95	34

Gravity model	2011 Level	Pure gravity effect: Level	Gravity effect plus implementation of FTA: Level	Gravity effect plus implementation of FTA: Increase	Gravity effect plus implementation of FTA: Percent change	Pure FTA effect: Increase	Pure FTA effect: Percent change
US exports of goods to India	21	99	162	141	683	62	63
India's exports of goods to United States	37	178	205	168	453	26	15
Total trade in goods	58	278	366	309	535	88	32
US exports of services to India	11	64	137	126	1,131	72	113
India's exports of services to United States	17	98	103	86	510	5	5
Total trade in services	28	162	240	212	756	78	48
Total trade	86	440	606	520	607	166	38

CGE = computable general equilibrium; FTA = free trade agreement

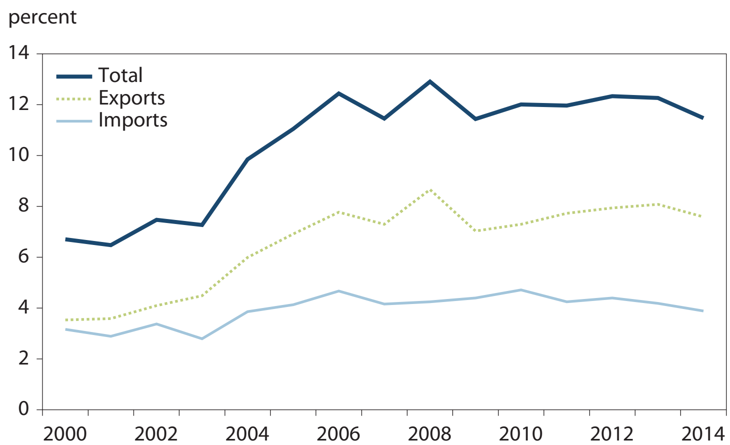
Sources: Mishra and Roy 2013 for gravity model results; Fukase and Martin 2015 for CGE model results.

Figure 1 Indian exports of manufactured goods (percent of GDP)



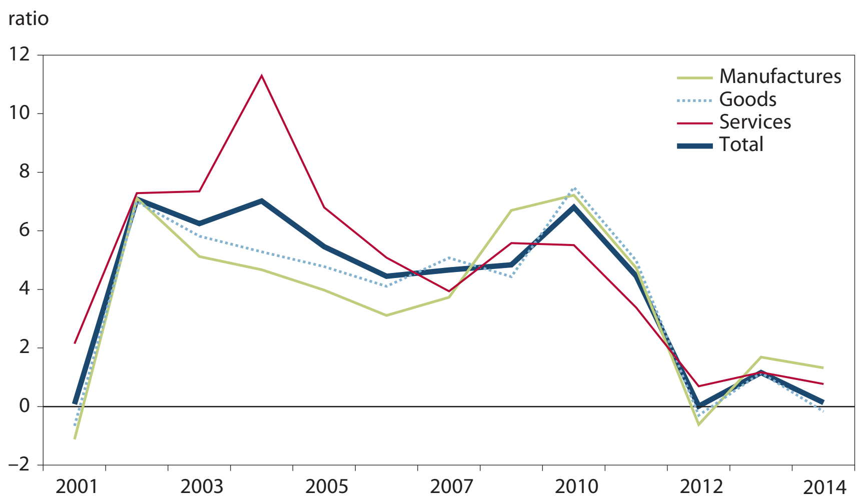
Source: Indian Directorate General of Commercial Intelligence and Statistics.

Figure 2 Indian services trade (percent of GDP)



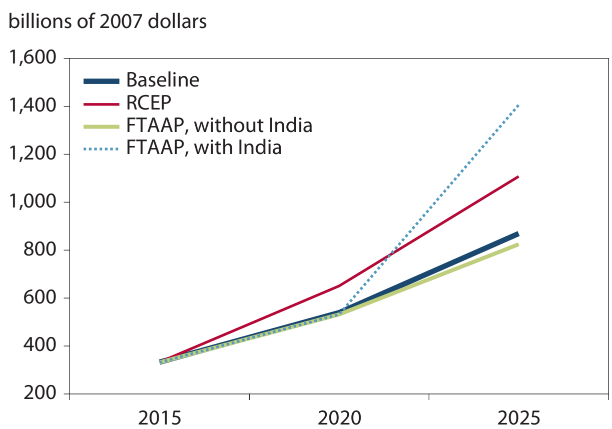
Source: Reserve Bank of India.

Figure 3 Ratio of India's export growth to world GDP growth



Source: Author's calculations.

Figure 4 Indian projected exports



FTAAP = Free Trade Area of the Asia-Pacific; RCEP = Regional Comprehensive Economic Partnership

Source: Petri (2015).

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