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<https://escholarship.org/uc/item/1943q4mw>

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Publication Date

2014-06-01

Peer reviewed

Essays on India in a Global Context

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June 2014

Abstract

This is a collection of essays written for the *Financial Express*, an Indian financial daily. The common theme of these essays, which cover a period of almost four years, from October 2010 to May 2014, is the issue of how India is finding its place in the world, after a history of colonization and post-colonial suspicions. The essays discuss rebalancing the world economy, the G20 and India's place in that newish grouping, foreign policy and comparisons to the US, China and Russia, cultural and financial impacts of globalization, and the role of India's diaspora. The concluding essay considers some global positioning options, good and bad, for India's new government.

Keywords: India, foreign policy, China, United States, G20, diaspora, globalization

Getting the G-20 Right

October 28, 2010¹

It has been interesting to read Indian reactions to the G-20. At the risk of caricature, here is what many seem to be saying. The G-20 isn't really getting anything done, just making empty statements. It has no clout, and its legitimacy is questionable. Its lack of impact illustrates a crisis of the project of globalization. I think these views (even if presented in more nuanced fashion) get the G-20 wrong. I will explain why, by saying what I think the G-20 is really about. But first I want to emphasize that my position is not that the G-20 is perfect, influential everywhere it ought to be, or guaranteed to succeed. But it is the best we've got, and the practical thing to do is to work with it and keep moving it in the right direction.

Let's start with one bare fact. Money matters. Economic might has been crucial for global influence, and has shown its ability to triumph over military strength and ideology. Lack of money brought down the Soviet Union. Money has spread Wahhabi Islam around the world. Money has given China more clout than its nuclear power did (though nukes did help). After World War II, when various international organizations were created, money mattered greatly in determining who really ran the show. And when the big democratic organizations became dysfunctional or uncomfortable for the rich countries, they had their clubs to retreat to. The G-7 began in 1976, and was a response to the first oil shock. This was the world's major industrial democracies responding to the first post-colonial insurrection – political freedom had not previously translated into flexing economic muscles.

Fundamentally, therefore, the G-20 is an attempt to replace the implicit dichotomy of the G-7, which perpetuated the divisions of the colonial era, with an inclusive grouping. It is a club, not an organization. It attempts to acknowledge the coming rebalancing of money power in the world, and to prepare for it. Because it is trying to be ahead of the game, it is going to take time to sort out its modus operandi. In clubs, pecking orders, friendships and social norms all evolve in an implicit manner. Everyone is a member, with equal formal status, but, like the Oldest Member in P.G. Wodehouse, some have favorite seats that are sacrosanct and get to tell long stories. And the *nouveau riches* have to learn to fit in, especially when the “riches” part is still a work in progress. Eventually they will rewrite the rules of the club and change the norms, but it will take time.

From this perspective, the G-20 is important now for what it represents – a more egalitarian club – as well as for what it can become. The G-20 actually began as a finance group, but has now been projected as something much broader, a “global steering committee.” Again, we have to realize that this is a projection of what the G-20 can become, not what it is now. To criticize it for being young and evolving hardly seems fair. A broader agenda for the G-20 makes sense, in my view, because of the factors behind the group's finest hour so far – its handling of the global

¹ The dates given are the dates of writing. In most cases, the piece would have appeared in the *Financial Express* several days later.

financial crisis of 2007-09. This was about dealing with global risks, when the world economy was on a precipice.

Systemic financial risks still loom large, and the G-20 is discussing what to do about restructuring global financial regulation, but not trying to do everything. It has to allow for domestic sovereignty, individual country variations in approaches to policy, and the existence of specialized organizations, equipped to handle the technical details. The G-20's role, then, is to be a kind of council, to make sure that all the balls being juggled stay in the air, and that the right overall principles are being followed. The G-20 has consistently rejected the doomsayers pronouncing the demise of global capitalism, and has stuck to principles of openness and economic interaction.

Beyond finance, other risks that loom large. The biggest one is climate change, with its associated threats to food security. Another is the risk that the openness to movements of goods and services will unravel, if major industrial nations face stagnation as Asia keeps rising. The G-20 is beginning to grapple with these issues, and its value is precisely that it can take in the big picture, and provide cross-cutting approaches to risk management, without replacing the specialized organizations which have the expertise and clout to design and implement specific rules. Seemingly bland statements may actually have a role in starting more concrete processes.

To put it simply, the G-20 will have a role in saving the world. But saving the world is a global public good, and determining who pays for it does lead to zero-sum situations. Some of what we see now is a debate on who pays for what. That is inevitable. But save the world we must.

What the G-20 Should Do

November 9, 2010

The upcoming G-20 summit takes place at a pivotal moment. The halo of the G-20's response to the financial crisis in 2009 has faded, and it is receiving a lot of flak for not getting things done. In my last column, I argued that the G-20 has an important potential role to play as a manager of current and emerging global risks, including those of climate change as well as financial volatility. For the moment, though, the focus is on global imbalances – the large current account surpluses and deficits that major members of the G-20 are running. These imbalances were less of an issue (though still a concern) when the world economy was growing rapidly, and the US, in particular, was booming. The change in US circumstances is therefore a major cause of the new frictions.

One way to think of the global imbalance is that developing countries are saving more than ever, and more than they can invest effectively at home. These excess savings have to be put somewhere, and the US provided the best and biggest source of safe financial assets. China is the prime example of this pattern, with household consumption only 40 percent of GDP, and foreign reserves exceeding \$2.5 trillion. The problem with this pattern was that the US created financial

assets that were not as safe as they were made out to be: hence the financial crisis and its recessionary aftermath.

The financial crisis reduced US wealth, and left its banks with bad property loans and indebted households with credit constraints, uncertain employment prospects and the need to save more than they had been doing. Meanwhile, the government had been borrowing heavily in good times, leaving it little room for spending more to make up for the drop in private demand. The US Federal Reserve, trying to get the economy back on its feet, is creating money through a second round of “quantitative easing,” (QE2) hoping to increase borrowing and lending, thus fueling aggregate domestic (and global) demand.

From the US perspective, it would be so much nicer if China were to increase its contribution to global demand, buying more US goods and services in the process, and helping along the US recovery. Here, appreciating China’s currency is an enabler, increasing Chinese demand for foreign goods. But the real issue is increasing demand. For that, other changes have to take place in the Chinese economy. The situation of two other major surplus countries backs up this view. Germany and Japan are not manipulating their exchange rates, but still running current account surpluses. The US would be happier if they spend more as well. Meanwhile, QE2 is leading to dollar depreciation, making China work harder to keep its exchange rate pegged where it wants.

China’s response has been revealing, in various speeches by its leaders. There has been some criticism of QE2, but much less shrill than that of Germany. At the same time, the Chinese are acknowledging that the US is in a tough spot. So this is where things stand before the G-20 summit. China, poor but frugal, is in a position to be magnanimous to the rich but profligate US. It is laying the groundwork for increasing domestic demand, but that will take time. It will slowly allow the renminbi to appreciate. It will do these things to demonstrate its global leadership and its rising power. It can do so because it has the cash and the room to maneuver.

What the G-20 summit should do is to allow this adjustment to happen gracefully. The US needs to save face, and the Chinese understand that concept well. So does Japan. The Europeans need to get on board too. The G-20 is the right place for this kind of face-saving exercise. There will be exterior harmony, but also another slow step in the process of the real rebalancing that is taking place, the rise of Asia, led by China.

Meanwhile, there is much else the G-20 should do at the coming summit. It needs to keep moving forward on reforming the international regulatory architecture of finance, where it can just bless what the specialists are doing. It can reiterate the gradual but significant reform of the international financial institutions, nudging things along. And it can begin defining what a global financial safety net will look like. These efforts can do two things – contribute to reducing global imbalances (by making excessive international reserve accumulation less compelling) as well as having protections in place when things go wrong (because of the global imbalances or otherwise).

There is much else on the Seoul Summit agenda: trade, development, climate change, energy and anti-corruption measures will all be subjects of plenary sessions. The Koreans will also have a Business Summit, which presumably will promote Korea Inc. In these matters, the G-20 has to feel its way, and may seem ineffective in the short run. But the core issue will be what one might call the global economic architecture. China needs the US economy to be healthy for it to keep growing, and that should drive the outcome.

The coda to this line of thought is India's position in all this. The US, in President Obama's visit and elsewhere, see India as a counterweight to China. But China is important to India as well. The Seoul Summit is a chance for India to be a friend to both sides, offering sage advice and a sympathetic ear.

Guide to Global Rebalancing

December 16, 2010

The financial crisis rejuvenated the International Monetary Fund (IMF) and the G20, giving each new roles to play in managing the economic mess. New rules for financial regulation and new financial safety nets to promote stability are being developed. Presumably, when the world economy next looks like falling off a cliff, the response will be strong and coordinated. It is harder to get agreement on non-crisis tasks. There is some consensus that large current account imbalances (mirrored by large international capital flows) prolonged the run-up to the crisis, and made it worse when it hit. In any case, large imbalances are not indefinitely sustainable, because they lead to unsustainable debt positions for borrowers, and tricky portfolio decisions for lending countries.

The United States wants targets for current account deficits and surpluses, and agreement on national policies to achieve those targets. Basically, it wants China to revalue its currency. Germany, Japan and China, all running current account surpluses, naturally do not want to be told how to run their national macroeconomic policies. What's to be done?

Start with the size and shape of the problem. In 2009, according to IMF data, world GDP was about 68 trillion (all figures in US dollars), of which the US accounted for 14 trillion, China and Japan about 5 trillion each, and Germany 3.3 trillion. The latter three countries had current account surpluses of 297, 142 and 163 billion respectively, or a total of 602 billion. The total for all surplus countries was about 1.2 trillion. So the three countries, with 20% of global GDP, contributed about half of the total global surplus. Though several East Asian economies and oil exporters also ran large relative surpluses, one can see why the US tends to focus on the big three. On the other side, the US deficit was 378 billion, with Spain a distant second at 80 billion, followed by Italy and France. The latter three are all in the Euro zone, which was in approximate balance. So global rebalancing on the deficit side is mostly about the US. Note that talk of

uniform targets for current account balances as percentages of GDP is a smokescreen in this respect.

There is an asymmetry between surplus and deficit countries. The former have to worry about what to do with their cash, whether to allow it into their domestic economies, or if not, what types of financial assets to hold. Still, these are problems of plenty. Deficit countries have to worry about not being able to pay the bills, which is more serious.

Getting out of debt involves austerity, but with a fragile global economy, austerity can be painful. The United Kingdom has bitten that bullet, but the US is avoiding it for now.

For the US, the ideal is that the big three surplus countries pump up domestic demand, giving the US more room to get its public finances more in balance (starting from a fiscal deficit of 1.4 trillion in 2009), and also increasing foreign demand for US goods, reducing the current account deficit. In particular, it would like to see China revalue its currency, making US goods cheaper. But the Chinese currency has already appreciated by 20% against the dollar since 2005, and the real appreciation (adjusting for higher inflation in China) has been closer to 50% (*The Economist*, November 4th). The Chinese want to manage any appreciation as part of an overall macroeconomic strategy. Given that China is a large, poor country, one can understand their position. Economic theory also does not unambiguously support a clear path from currency appreciation to current account surplus reduction.

Still China seems to know what to do in the medium run. It is less clear what Japan will do, since it is shrinking, aging, and allowing its economy to ossify. And Germany is now suffering for failing to provide leadership when the Euro periphery was going wild and violating the conditions of joining the Euro zone, among other policy failures.

This leaves the US, without any strategy of its own. If dollar depreciation is not the answer (and Germany and Japan have run large surpluses with strong currencies), what is? Fiscal consolidation is part of the answer. The other is improving productivity. Barack Obama entered office with a vision of investing in America's infrastructure, people and innovation. But the country's dysfunctional, polarized politics have stymied him. Perhaps, like Nixon going to China, it will take a Republican to shore up America's decaying physical, intellectual and social capital.

Meanwhile, the Chinese are going for the real rebalancing: more decades of high growth based on innovation as well as control of global resources, perhaps a global reserve currency, and ultimately, equal status with today's global top dog. Brandeis University economist Catherine Mann, tongue-in-cheek, noted that China already holds more than 10% of outstanding US government debt, and so, according to US criteria for controlling FDI stakes, China owns the US, as of now.

The G20 Makes Progress

April 28, 2011

The recent G20 meetings in February and April have showed that the G20 works. The achievements are not dramatic, but the forward progress is visible, if at a measured pace. Last year, the United States had been pressing for rebalancing – basically asking mostly China, but also other current account surplus countries, to adjust their macroeconomic policies to increase their domestic demands and reduce their relative export focus. Those countries argued that the US's own macroeconomic policies – fiscal and monetary – needed to adjust drastically. Rather than drifting into confrontation and stalemate, this issue has been tackled relatively effectively by the G20.

In November 2010, at the Seoul Summit, agreed that they would develop “indicative guidelines to resolve the global imbalance,” as South Korea’s President stated at the time. This task was delegated to the G20 framework working group, headed by India and Canada, with technical support from the International Monetary Fund. In February of this year, the nature of the indicators was spelled out: “(i) public debt and fiscal deficits; and private savings rate and private debt, (ii) and the external imbalance composed of the trade balance and net investment income flows and transfers, taking due consideration of exchange rate, fiscal, monetary and other policies.” Apparently France and Germany persuaded China to agree to the mention of exchange rates in this language – the pressure from the US for China to appreciate its currency being the most contentious aspect of global rebalancing.

Most recently, in April, the latest G20 communiqué translated the indicators into the promised indicative guidelines. Earlier demands from the US for simple numbers, such as levels of current account surpluses, for triggering action have been replaced by a multi-pronged approach that takes account of history, levels of development and economic structure. So far, no specific numbers have been fixed, since the economic modeling and data analysis remain to be done. The only number that gets mentioned is the cutoff of 5% of G20 GDP – countries above that threshold will face more scrutiny, on the theory that larger countries have larger potential spillovers. One can quibble with that logic (a larger country in GDP terms may have less international trade than a smaller one, for example), and with the fuzziness of the overall approach, but the point is really that some way forward has been agreed to by all.

Will the guidelines lead to real changes? Will action follow agreement? That remains to be seen. But it is noteworthy that what seemed last year like an acrimonious, mostly bilateral argument between the US and China has begun to be subsumed in a more multilateral process, with a framework that promises to be more nuanced than initial individual country postures. The G20 is indeed serving as a forum for progress in addressing global economic issues.

The work on imbalances will dovetail nicely with proposed efforts, also articulated in the April communiqué, to strengthen the international monetary system. For example, work on how to manage capital flows, strengthen global financial safety nets, and understand the drivers of accumulations of international reserves will be able to inform the economic modeling of the drivers of global imbalances. Many of the other aspects of the G20's statement involved other international organizations, with specializations and special expertise, and the G20 is emerging as a place where these different and disparate efforts, on financial stability, food security, climate change and so on are reviewed and considered in a manner that may ultimately lead to coordination across issues as well as countries.

Only the Doha Round of trade negotiations gets no mention in 2011 – after being highlighted in the 2010 G20 meeting. The trade negotiations are about to take place, and there is much pessimism on this front. Ernesto Zedillo, ex-President of Mexico, blames G20 leaders for not trying harder to reach a trade deal, but trade may be one of those areas where a larger forum with strong rules and history makes the G20 less influential. As Colin Bradford has put it, the G20 in 2011 is not a place for “grand bargains,” and technical work should take center stage for now.

What does India get out of all this? It has done well as co-leader of the framework group. It does not have a direct major stake in rebalancing, but has established its gravitas in this forum. It will host the 2012 summit. As Suman Bery has put it, “India's fundamental policy challenge is less one of external adjustment than of internal adjustment.” But, as he also notes, India needs a global economy that is growing, and will support India's own growth. Longer term issues such as food security, energy security and climate change will also matter greatly for India. The progress being made in the G20 will be vital to India's future.

What Do Investors Know?

May 12, 2011

Globalization has flattened the world in some ways, but not in others. Many years ago, economists Martin Feldstein and Charles Horioka observed that national savings and investment rates are highly correlated, indicating that investors tended to keep their money at home, rather than diversify globally, even without restrictions on capital flows. Subsequently, other economists documented this “home bias” for portfolios of shares – investors tilt toward holding shares of their own country's companies.

This home bias has persisted, even as the telecoms revolution has reduced information asymmetries, calling into question an explanation based on local investors “sticking with what they know best.” That is, the home bias has been too large to be explained by given differences in information. More recent work, though, came up with an answer – investors have limited capacity for information gathering, and as they choose where to allocate their attention, initial small differences in information get magnified. But how to test that theory?

The Internet not only lets people search for information, it lets researchers measure what people are searching for. My colleague, Thomas Wu, has pioneered the use of these measurements to show that attention matters, and that the allocation of attention affects shareholdings and movements in share prices. In one paper, with Jordi Mondria and Yi Zhang, Wu uses data from AOL searches to show that US investors favor assets of countries they are more familiar with, and this behavior has a positive feedback to attention allocated to those countries, as measured by searches.

In another paper, with Mondria, Wu uses Google search data to compare local and national searches within the US. The authors indeed find that attention allocation is biased towards local stocks and that companies receiving an increase in asymmetric (local versus national) attention earn higher returns. This result is very striking, because it shows that distance matters, even within a highly developed and sophisticated market economy. Even in the US, local information is important and has significant effects on asset values.

India is an interesting case for thinking about the role of information, because of the connections between hi tech in the US (particularly Silicon Valley) and India. Indians have also become prominent in the US financial sector (though recently in an undesirable way, in the big insider trading case of the Galleon hedge fund). I have not examined the links between information gathering and share prices, but the patterns of search alone may tell us something.

Consider India's iconic software company, Infosys. If one examines searches for its stock symbol, INFY, over the last five years, this is what the data show. Google Insights presents normalized numbers, showing the number of searches for the term in question relative to total searches. Furthermore, this ratio is normalized so that the highest number during the period is scaled at 100. Thus, for searches from India, the peak is in June 2005, with the second highest peak (an index of 94) in September 2008. The third highest score is 79, and occurs in July 2006 and April 2009. The monthly average index for the last five years is 45.

The pattern of searches for INFY in the US is very different. The peak is in April 2007, with a score of 99 in January of that year, and scores of 97 in May and June and 96 in October. Clearly, US-based investors were giving Infosys much more relative attention that year than were their Indian counterparts. Infosys, of course, happens to have American Depository Receipts traded on the US NASDAQ stock exchange. Its stock symbol does not figure at all in searches from other countries around the world, even those with large Indian Diaspora populations, such as Britain.

One can find differences over time for other companies as well, for example, Cognizant Technology Solutions and HDFC Bank. Local attention varies quite dramatically across the two countries, for companies that have businesses either spanning both locations, or investors who have some connection to both countries. More global companies, like IBM, do not display this kind of local differences in attention. So local presence feeds into local attention.

To say more, one should look at stock returns and see how they correlate with attention. Do Indian investors have a better sense of what is going on with Indian companies? Is any initial local knowledge advantage magnified by increased attention at certain times? As India continues to globalize, as it opens up more to foreign capital, and as more Indian companies become known in the US, and traded on US stock exchanges, understanding the patterns of local knowledge and its transmission to other locations will become increasingly important. This will be yet another factor for financial managers to factor into their calculations.

The Future of the IMF

May 19, 2011

The arrest and resignation of Dominique Strauss-Kahn, Managing Director of the International Monetary Fund (IMF) has captured headlines for days. One of the consequences of this sudden turn of events has been the clear surfacing of several candidates from developing nations, as well as strong claims from some emerging economy policymakers that Europe should cede its traditional right to the position. English bookmaker made Turkey's Kemal Dervis the favourite in early betting, with India's Montek Ahluwalia not far behind in the odds.

Unfortunately, Europe is not ready to oblige. While several European candidates were mentioned (or mentioned themselves) and had shorter odds, French Finance Minister Christine Lagarde became the candidate behind which European support seemed to coalesce quickly. The United States had made it clear that they would like Strauss-Kahn's replacement to be made as soon as possible, which also works in favour of not rocking the boat and appointing a European.

Interestingly, the Europeans have been arguing that since the European sovereign debt crisis and the challenges to the Euro zone loom large, it is very important to have a European at the helm of the IMF. Indeed, Strauss-Kahn seems to have played a skilful and positive role in the European Union's handling of the Greek crisis as it unfolded last year. He, too, had served as French Finance Minister, and is an experienced politician and negotiator. The European view is ironic on two counts, however. First, Europeans have never said that it needed someone from a developing country to deal with developing country problems that required IMF support in the past. Then it was fine to have a European leading the way. Second, Germany's Chancellor, Angela Merkel, has been one of those stating that Europe's sovereign debt problems need a European as head of the IMF, while she has been singularly weak in showing leadership to address Greece's problems, in particular. Nor has she pushed for Germany to take a lead in supporting the European recovery by increasing domestic demand.

So, the Strauss-Kahn crisis will presumably lead to another French citizen becoming the IMF's Managing Director. If Christine Lagarde serves a five-year term, this will actually push back the date at which someone from a developing country can take the position. Unfortunately, Montek Ahluwalia, already past 65, will definitely have crossed the maximum age threshold by then.

Luckily for India, he is young by its leadership standards, and can long continue to play a positive role in domestic policymaking for his own country.

Interestingly, there has been no Chinese name in the media speculation and odds-making as to who will take over from Strauss-Kahn. This is not surprising when one realizes that China already has a key senior person in place – Zhu Min, serving as Special Advisor to the Managing Director. Zhu just passed his first anniversary in that position, and is ideally placed to be the first person from an emerging economy to head the IMF in five years. It is hard to imagine the Chinese not getting the position in 2016, if they want it.

So, the events of the last two weeks echo the broader patterns that have been emerging in real economic events and in the rise of the G20 – the slow decline of Europe (it is so easy to read all kinds of symbolism into Strauss-Kahn’s alleged actions in the New York hotel room), the emergence of the emerging economies, and the future dominance of China, with only the United States matching it as a global power. The European debt crisis is a temporary annoyance, from this longer perspective, and will get worked out with some squabbling and inefficiency, but will not derail the Euro or the European Union. In fact, having a European head of the IMF probably does not matter that much. The IMF’s new role in relation to the G20 may be much more significant in the medium run.

The last G20 meeting began to lay out a road map for global rebalancing. The IMF’s job there is to develop multiple indicators to serve as guides against which to measure policies and outcomes. This is a technical task which also does not rely that much on who leads the IMF. That organization has a wealth of intellectual capital that can be put to the task at hand, and economists will shape the framework within which the politicians ultimately do their deals. As I have noted before, China plans to change its pattern of growth, and as it does so, some of the global imbalances problem will fade. But China will march according to its own beat. The G20 and the IMF will both play a role in the new world of global economic policy coordination, but the economic power of individual nations will matter, as it has always done.

Gaga for Globalization

June 2, 2011

In the long-standing feverish celebrity culture of the United States, pop singer Lady Gaga has scaled new heights. She recently displaced Oprah Winfrey at the top of Forbes magazine’s Celebrity 100 list, and Amazon.com used her latest album as a 99 cent promotion, designed to challenge Apple’s dominant iTunes and its looming iCloud music services. The Amazon promotion garnered a Wall Street Journal headline, “Lady Gaga Wars.”

Now Lady Gaga plans to extend her fame to South Asia. In an interview with the WallStreetJournal.com, she said, “The reason I’m going to India now is because I can. I didn’t have the money or the resources before to travel and bring all of my things with me and reach an

entire new territory of fans.” The entry strategy includes several Bollywood-style remixes of her songs, and employment of a firm that specializes in producing and distributing entertainment content aimed at South Asians all over the world.

Points to note about the Lady Gaga foray: she is already global (being popular in Europe, Australia and so on), and this new effort is explicitly aimed at an “emerging market” (as the WSJ interviewer put it); another facet of globalization is the focus on South Asians wherever they are, so that South Asia is a state of mind rather than a location; and the real purchasing power, at least for now, may be with South Asian migrants rather than those in their native lands.

According to Lady Gaga herself, though, it’s not all about money. The 25-year old spoke of taking a message of “liberation,” of being courageous and fighting for one’s identity. Clearly, she is not thinking of the complexities of religion, language, caste and class, or of the economic inequalities that mark India, Pakistan and other countries in the region. Lady Gaga was a Catholic schoolgirl who discovered herself in the cultural frontier of lower Manhattan. Liberation here is mostly about individualism, about choosing to reject certain societal constraints and norms. Not surprisingly, this is a youth message, one that appeals to a broad cross-section of young people, at least those above a certain income level. And Lady Gaga is sincere in her views, expressing them deliberately in her lyrics, a sincerity that endears her to her fans.

Put Lady Gaga, with her bisexuality, frank lyrics and outrageous dress and moves (much of this a great match for Bollywood), next to the Taliban, and one can visualize quite starkly some of the largest ideological conflicts that have been waged and will continue to be waged as globalization evolves. Of course Lady Gaga is not going to Pakistan – South Asia in its fullest ability to respond to her can only be the South Asia that is outside the region. But it was not long ago that India’s film censors kept a close eye on the dress and physical proximity of movie stars, before Bombay gave way to Bollywood. It is hard to say where this will end, but India’s women, its lower castes, its gays and lesbians (their rights being one of the pop star’s main causes) are all still well short of liberation, even if that doesn’t mean joining Lady Gaga on stage in similar outfits.

Perhaps situating Lady Gaga in a global culture clash is too portentous. There are other aspects of her meteoric rise that are less ominous but hold important lessons. First, she has perfected a cutting-edge, mass-appeal form of performance art, combining “music, fashion, art and technology,” according to a reviewer in *The Sunday Times*. She herself says she sees colors when she composes music, and simultaneously envisages the clothes she will wear performing what she is writing. She is delivering the product as complete experience that many marketers dream of as their Holy Grail. Second, she has epitomized the creation of a personal brand and the use of online social media. With over 30 million people who “like” her on Facebook and close to 10 million followers on Twitter, in just a few years she has established a fan base that would also be the envy of marketers.

The richness and reach of Internet-based social media are perhaps the really new element in all of this. The Beatles were once so popular that John Lennon ironically said they were “bigger than Jesus.” The Beatles also went to India, not to expand their fan base, but to seek higher truths. India was not much of a market then, in any case. Lady Gaga may want to offer some higher truths of her own to India, as she seeks to conquer a major emerging market, and rack up a few million more Facebook “likes” and Twitter followers. She may even inspire a few Indians to follow in her footsteps, in a form of knowledge transfer different from merely imparting technologies and business methods. Globalization marches on.

Diaspora, Development and Democracy

September 5, 2011

The title of this column is the title of a new book by Devesh Kapur, head of the Center for the Advanced Study of India at the University of Pennsylvania. The book is about how Indians who have emigrated have influenced the country they left behind. It is a fascinating study, broad in scope and full of new insights. Kapur argues that the economic, political, social and cultural consequences of international migration imply a richer framework for thinking about globalization and related ideas such as “openness,” than just focusing on movements of goods and capital. He asks, “Is a country with substantial trade, but with few citizens who move around the world, really more “open” in a broader ... sense than a country where trade is more limited but whose citizens live and travel internationally, thus remitting foreign exchange and ideas to a much greater extent?”

Kapur identifies four channels through which international migration affects “sending” countries: he calls them prospect, absence, diaspora and return. The prospect channel addresses the ways in which prospects of emigration affect decisions such as human capital investment and the exercise of political voice. The absence channel looks at the economic, political and social consequences for those who are left behind when others emigrate. The diaspora channel examines how migrants influence their home country, through impacts on flows of goods, capital and ideas, and the resulting consequences of those flows. The return channel considers what happens when emigrants return to their home countries, with new resources, preferences and networks.

The study uses several rich new sets of data to document four main economic impacts of emigration from India on India. First, it argues that the diaspora has played a significant catalytic role in the development of India’s information technology and diamond cutting sectors. This conclusion identifies reputational and network effects as channels of influence. Second, the Indian diaspora has been an important source of foreign exchange for India for several decades now, and Kapur documents this trend, as well as bringing out his third conclusion, that remittances have been concentrated in faster growing southern and western states of India, possibly amplifying interstate inequalities. Fourth, he argues that emigration’s diaspora channel

has reinforced the skill- and capital-intensive nature of Indian growth. He also discusses the brain-drain, as well as effects on human capital investment through the prospect channel: people may choose what to study or train for based on the prospect of emigrating.

Intriguingly, the book uses a database on Indian elites to argue that international migration has been an important mechanism for “the diffusion of ideas that have shaped India’s institutions and policies.” Even more provocatively, Kapur argues that elite “exit” from Indian politics and society through emigration has allowed numerically larger, but previously marginalized groups in Indian society to gain political and economic power without provoking levels of conflict that would have led to breakdown of the political system. In this analysis, emigration has helped preserve Indian democracy. Another positive conclusion of the study is that there is no simple chain of causality from diasporic activities abroad to religious violence at home – the negative role of sections of the Indian diaspora may be overstated in this view. This conclusion comes from looking at attitudes as well as philanthropic and other money flows from emigrants into India.

Kapur also considers the changing policies of the Indian government with respect to its diaspora, and relates this more broadly to changing conceptions of citizenship. In India’s case, the resurgence of an idea of citizenship based on ethnicity rather than territorial residence is, in a sense, a recovery of an older form of group identity, one that much pre-dates the modern nation state. The current challenges faced by Europe and the United States in reconfiguring the norms of citizenship in the face of much greater ethnic, cultural and religious diversity than in the past, mirror the issues raised by Kapur.

My own thoughts on diversity and openness are that India will thrive, not only by welcoming interaction with its diaspora, but also by being more open to foreign students and workers, whatever their ethnic identity. Such openness does increase security challenges. On the other hand, it can have a large payoff through increased knowledge flows and resulting spurs to innovation. A good place to start is obviously in higher education, where allowing foreign entry can make India a regional if not global hub for advanced study. Since higher education in India is tremendously supply constrained, impacts on existing domestic providers are likely to be politically manageable – certainly more so than in the retail sector, with its vast number of small shopkeepers. Of course, opening up higher education has its own ideological barriers. Here, the success of the diaspora in changing the face of Indian telecoms in the 90s may be an example of what it can and should do now for higher education.

Keeping the G20 Real

October 21, 2011

The G20 wants to change the world. More specifically, the G20 gives national politicians a chance to put forward ambitious global agendas. This is good for their careers. But it can also be

good for the world. The balance and weight of the G20 allows it to have some influence on other, older global organizations that may be less able to take a comprehensive view of what needs to be done in today's risky world. What exactly is needed?

There are two classes of challenges. The first is what brought the G20 to prominence – fending off disaster. The disaster that has been threatening in various forms since 2008 is financial meltdown that leads further to more general economic collapse. The latest manifestation is the ongoing euro zone crisis. The technical challenges here are not difficult. Perhaps the G20 can make a difference in this situation by providing some political cover for the Germans, as well as additional financial support, indirectly through the IMF.

The broader and longer-term approach to fending off financial disaster is supposed to be through global rebalancing. The idea here is that large asymmetries of financial asset holdings across countries make the global system more vulnerable. The G20 has tasked the IMF with doing the measurement and analysis needed before policies can be crafted. One might also put climate change and food security into the “disaster” bucket. The G20 certainly hopes to address both these issues substantively.

When the financial crisis of 2008 appeared to have receded, and before it reared its head in a new form in Europe, the G20 also began to turn attention to a “development agenda.” This is the second class of challenges – how does one promote and sustain growth across the globe? Of course, disasters reduce growth, both immediately and through their aftereffects, but measures to increase growth rates are conceptually distinct from policies to contain or prevent disasters. The advanced economies' slow recovery from the last crisis has tended to put the spotlight on growth, which has always been the central concern of developing countries.

In the context of growth, the G20 is in danger of losing touch with what it can realistically accomplish. A coordinated approach to designing a global financial system with appropriate checks and sufficient safety nets is necessary to avoid regulatory arbitrage by mobile capital. However, policies for enhancing global growth seem less dependent on cross-country coordination, except for cases such as multilateral trade agreements.

The G20 asked software billionaire turned global philanthropist Bill Gates to weigh in on policies for global growth. Gates' ideas include raising more money for public sector investment, through taxes on alcohol, tobacco and fuels, and through a financial transactions tax. These are old ideas, and it is unclear what the costs and benefits of such taxes will be. A financial transactions tax is one policy that would require global coordination to be effective, in the face of mobile capital, but the overall premise of this approach seems to be flawed. Neither the G20 nor Bill Gates has anything very useful to offer in terms of innovations in fiscal policy. The problems have to do with domestic politics on a country-by-country basis. The euro zone may (and should) address the fiscal behavior of its constituent governments, but otherwise this avenue is more like a blind alley.

Underlying the Gates report is also the notion that rich countries' governments should raise more money to help poor countries. This could be through conventional aid. An alternative that has also been doing the rounds is expanding the capacity and role of multilateral development banks, such as the World Bank, especially for infrastructure finance. Of course, the current level of operations of these institutions is only a small fraction of projected infrastructure investment needs of the developing world. The idea is that they would catalyze private sector investment. Overall, the talk has been of recycling global savings toward investing in developing countries' infrastructure, and hence their growth.

Again, one has to be skeptical. Why has the money not already gone in this direction? There are issues with the capacity of developing countries to absorb large amounts of foreign capital. Low capacity implies corruption as well as waste. Exhortations and grand plans for a new pipeline for investment funds are unlikely to get anywhere, and the G20's grandiose vision here seems unrealistic. It would be far better to address the microeconomic reforms needed at the national level, which will ultimately create more productive investment opportunities. This includes, of course, developing domestic financial institutions, such as corporate bond markets, which is in the G20 wish list. But there is much more, in terms of creating better environments for doing business, and the G20 should be considering its intellectual agenda more carefully.

If the G20 is to succeed, it has to avoid being too caught up in grand visions that may not be achievable, and worse, may be misguided in emphasis. The G20 has to keep itself real to make real change come about.

Thousand Rupee Notes on the Pavement

January 18, 2012

The past year has driven home the fact of globalization, even for countries like India that are relatively less integrated with the global economy. For example, India's ratio of exports of goods and services to GDP is only about two-thirds of China's (despite excluding Hong Kong and Macao). But it has still felt the wind from global storms. The European crisis, in particular, has heightened risk perceptions, slowing global growth, and leading to a flight to safety of global capital. What are the potential global threats for India in 2012?

First, the European crisis is not going away soon. At the time of writing, Greece is on the verge of a sovereign default. The IMF, headed by a European, is saying clearly that Europe's leaders need to do more to create a safety net for its high-debt economies. This will require additional funds of the order of half a trillion dollars. The Germans continue to oppose this, since they will have to be major contributors. Instead, the problems will drag on, with prolonged uncertainty and a slow spiral of stagnation. This will mean more of what happened in 2011, with continued negative consequences for India's growth.

The second global threat is sharper and newer. Everything points to increased global friction associated with Iran. Iran's nuclear program continues unchecked, and the United States is stepping up the pressure on other countries to tighten sanctions. China, Japan and India, Iran's three largest oil customers, will feel the heat. India is in the worst position of the three, both economically and strategically. Oil supply disruptions or price increases will have significant negative impacts on India's economy. The problem is worsened by India's overall weakness in the energy sector. It is even having to import coal, as domestic production is failing to expand adequately. Other countries have been building energy security in various ways, including significant investments in renewable power sources and technologies. India has appeared to drift in its energy policy implementation, after making big plans for renewable energy and nuclear power.

A third threat is again somewhat familiar and predictable. Rising global food demand, supply constraints, and weather vulnerabilities have already been manifesting themselves over the last few years. 2011 witnessed long-running debates about the causes of food inflation in India. Little has changed, however, in the country's vulnerability to global food supply shocks. India's looming water crisis, and the imminent danger of a collapse in its breadbasket of Punjab, due to groundwater depletion, will only make things worse.

None of the above means that globalization is bad, or that India can deal with it by erecting barriers to the rest of the world. Doling out food or money to the poor are also not solutions, merely ways of giving the worst-off some protection against bad outcomes that will hurt them the most. The problem is that global conditions are not as favourable as they were when India crossed 9 percent growth three years in a row. Even with current savings and investment rates, India may struggle to reach 8 percent growth, and may settle at closer to its current rate of 7 percent.

The bright side of all this, of course, is that there are so many avenues open to India's political leaders to relax internal constraints on its economic growth. Little can be done about Europe's political problems and its slow decline. But energy and food are sectors where India has enormous opportunities. In both cases, India is so far inside the efficiency frontier (including both technical and organizational aspects of efficiency) that substantial improvements must be feasible. For example, India's cereal yield per hectare is well below half of China's. Transmission and distribution losses in electric power occur in India at four times the rate of China. Why should that be so?

Metaphorically, these inefficiencies are like leaving thousand rupee notes on the pavement. These large amounts are visible to many, and there is a great deal of discussion about them, and the need to pick them up. Sometimes, though, it seems that the discussion focuses on which notes to pick up first, or who will get to keep the notes when they are picked up. Meanwhile, they stay on pavement.

It seems that in the early years of this millennium, the winds of globalization blew some of the thousand rupee notes into our pockets, while a few enterprising souls did make the effort to pick up others from the pavement, where they had lain for a while. Now some of those notes are blowing away, as the global economic and political climate becomes harsher, at least in the short term. But there are still many notes to be picked up, even after decades of economic reform. These were dropped even longer ago, and have kept dropping as inefficiencies persist. 2012 would be a good year to start picking them up.

A Tale of Two Plans

January 25, 2012

India is moving toward finalizing its twelfth five year plan, for 2012-17. The process is long and fascinating. A 140 page draft approach paper was made available late last year, and has been followed by an exceptional process of consultation and discussion, including meetings across the country, a web site that allows citizen discussions of specific points and issues, and even a Facebook page. The plan document, and the framework of 12 strategy challenges, are encompassing in nature, as befits the ambitious goal of faster, sustainable and more inclusive growth.

The world's other emerging giant, China, also still has five year plans. In this case, it is only a year or two ahead of India – its twelfth plan was finalized last year, and covers the period 2011-15. One cannot imagine the Chinese government having online discussions by citizens for shaping such a document, and certainly not a Facebook page. But more than the process, which is ultimately mostly top-down at the formulation stage for both countries (because that is where the expertise and knowledge mostly reside), the tenor and goals of the two plans are quite different.

India's plans tend to have the feel of "everything but the kitchen sink." Perhaps that is inevitable, given that India needs to put so many things right. The 12 strategy challenges include health, education, rural development, urbanization, agriculture, industry, transport, energy, environment, innovation and so on. There are foci as well, of course. For example, in manufacturing the draft approach document lists some sectors that will receive special attention, or priority, and talks about identifying constraints and implementing policies to remove these constraints and build capabilities. Elsewhere, the institutional and regulatory barriers are discussed, but there is a lack of crispness in the draft.

China's plan is just as comprehensive in many respects, but when it gets specific, it seems to provide clearer direction, or what is known in the management literature as "strategic intent." The most striking example of this is in the identification of seven "Strategic Emerging Industries." These are biotechnology, new energy, high-end equipment manufacturing, energy conservation and environmental protection, clean-energy vehicles, new materials, and next-

generation information technology. Putting aside more general issues of industrial targeting and its merits and drawbacks, one could argue that the Chinese and Indian approaches are not too different. But the Chinese plan includes preferential tax, fiscal and procurement policies designed to support the select seven SEIs. By contrast, India's plan just has vague and scattered discussions.

Take information technology (IT) as an example, to compare conceptual approaches. India's draft plan has numerous references to IT, and especially to its uses in contexts such as monitoring the environment, accountability of governance, and IT-enabled services of many kinds. The manufacturing priorities list IT hardware and electronics. But none of this captures the sense of strategic vision of the concept of "next-generation IT." On the implementation side, India's planners cannot, of course, decide tax, fiscal or procurement policies. The finance ministry has primacy over many such matters. The Indian system is different than China's authoritarian regime, which can be more coordinated and even ruthless. India's planners do talk about its siloed ministries and the need for greater coordination in and across many areas of identified strategy challenges. Ultimately, a well-functioning leadership team could do much better for India, even in the context of democratic institutions. The barriers to this happening in the current government can be guessed at, but are hard to address in practice.

So, China's advantage is not really that it is authoritarian while India is democratic. China has stronger and more focused political leadership, but leadership does not have to be weak in a democratic setting. China seems to do a better job of focusing on priorities and integrating goals and implementation. Democracy does make these tasks harder in India, but again they are not impossible for a democracy to achieve. India's planners are beginning to articulate what needs to improve on this front.

Returning finally to industrial targeting, the debate on its merits has revived, after a period when it seemed that only the market could be relied on. China's present approach to SEIs is very much reminiscent of what Japan, South Korea, Taiwan and Singapore all have done to varying degrees, with some success. But India also seems to have priorities, just as it did in the past. Then, the government was supposed to take the "commanding heights" of the economy, but failed in some critical ways, allowing inefficiency and stagnation to flourish. India's government still treats business with suspicion, whereas China sees it as a tool of national advancement. But the solution is not for government to cosy up to business – that just fosters cronyism and corruption. The answer lies in the right combination of shared vision and practical distance, with policies that align incentives where needed. Achieving that in India will need high-level planning.

Learning from China

February 14, 2012

Arguably, China's successful embrace of one form of capitalism ("to get rich is glorious") in 1978 ultimately played a role in steering India's path of economic reform. Since then, China has often served as a benchmark for judging India's progress, because it is the only other country that matches India in population size. Sorting out the lessons from China's experience is always useful, beyond the comparison of the countries' planning exercises, the subject of my last column.

What should India learn from China, and what should it not?

One should start by rejecting the political values of China's regime. Suppressing the free expression of ideas, or the exercise of political voice, is not necessary for economic development, or even for political stability. India's previous flirtations with such suppression were never associated with economic progress, and recent attempts to impose broad censorship of the internet are indicators of insecurity of the political elite, and nothing more. The notion that China's authoritarianism has virtues (often part of the "Asian values" school of thought) to be copied by India must be totally rejected. Democracy is not incompatible with inclusive economic development.

In 2004, Joshua Ramo coined the "Beijing consensus" to describe China's model of forward progress, as an alternative to the "Washington consensus" articulated much earlier by John Williamson. Is that something to learn from? In fact, Ramo's consensus was framed in terms of three broad and disparate themes: innovation, multiple measures of development, and "self-determination." The last of these is an offshoot of an older rhetoric of anti-colonialism, while the second is both broadly accepted and perfectly compatible with the Washington consensus. On the other hand, the focus on innovation might be taken to reflect an approach that seeks to go beyond the current parameters of comparative advantage, to reshape the economy's structure. This is certainly in line with China's clearer focus on strategic industries, which I highlighted in my last column.

So India might learn from China's approach to fostering innovation. There are several subsidiary aspects of this approach, beyond directly putting resources into research and development (though that is something India can learn from). China has been more self-confident in allowing foreign direct investment, and in creating the conditions for such investment. It has pursued upgrading its higher education system with a focus that puts India to shame. If growth is spurred by innovation, then India has much to learn from China on this front.

China has also pursued, at various times, trade liberalization, fiscal discipline, tax reform, and restructuring of government expenditure priorities, in addition to liberalizing foreign investment. These are all part of the Washington consensus, and India has also done much in these dimensions, except perhaps improving the quality of government expenditure. In these

dimensions, India is not learning from China, so much as learning from basic economic principles.

One area where India and China have diverged is in exchange rate management. China has fixed its exchange rate, and the presumed undervaluation has supported its pursuit of a mercantilist policy of export promotion and industrial upgrading. India, on the other hand, has been less firm about its exchange rate after the reforms of 1991, most recently permitting a relatively free float of the rupee. This is more in line with the Washington consensus, and coupled with the permitting of foreign portfolio flows, has sometimes come in for criticism. After all, don't hot money and a gyrating exchange rate destabilize the economy? Should India learn from China on this dimension of economic policy?

It is true that, historically, mercantilism has often been a useful tool of development. But it is also true that there are other policy levers that a government can pursue to achieve commensurate results. If exporting leads to industrial upgrading and innovation, those goals can be supported more directly, rather than relying on the blunt instrument of exchange rate undervaluation. Nor is there any evidence that exchange rate fluctuations associated with international flows of portfolio capital have caused instability or harm to the Indian economy. On the other hand, a policy of keeping down wages and squeezing domestic consumption to promote export has high welfare costs that are not a necessary correlate of high growth.

The international macroeconomic side of China's economic policy should therefore be consigned to the "should not" column of what India might learn from its dynamic neighbour. At the other extreme, we should remember that before China embarked on its momentous policy shift, it had invested in its people in ways that India still has not. Basic health and education remain India's weak spots, in terms of its development achievements. This is despite national missions and numerous expenditure schemes. Why did China do better? One conjecture is that India's social fragmentation has played a role in its relatively poor performance on basic needs. But fixing this particular problem will require looking inward, not anywhere else.

India's Global Strategy

August 6, 2012

A recent 70 page report by a distinguished group of Indian thinkers on the nation's foreign and strategic policy in the 21st century has generated considerable debate. Provocatively titled "Nonalignment 2.0," the document ranges over economics and politics, internal concerns as well as those of external relations. The breadth of scope is breathtaking, and, despite the early disclaimer that it does not intend to prescribe specific policies, there are numerous specific prescriptions, as well as more general guidelines and exhortations. At the end of it, though, I was left feeling like I do after reading India's five-year plan, national water policy, or similar

documents. Ultimately, the clear strategic direction is missing. Indeed, the title itself hints at this problem. Here is my own take.

Nonalignment was a useful way of navigating the cold war world, and provided, in some circumstances, a counterweight to both of the opposing cold war powers. Ultimately, though, it had limited usefulness, because it was a defensive strategy. It did not address the fundamental challenge of all governments that claim to serve their citizens, namely, to increase their well-being, both material and non-material. National security is a necessary component, but far from sufficient. What really mattered, it turned out, was domestic political capacity and national choices of economic systems. For countries that could manage internal conflict, global economic engagement and a sufficient degree of market friendliness paid off.

The world is no longer divided as it was 25 years ago, but asymmetries of power remain. The United States dominates in many respects, but China is flexing its muscles in numerous ways. The N2.0 report seems to view these two countries as the new Scylla and Charybdis that India's global strategy must navigate. What is wrong with this perspective?

First, it is important to re-emphasize that what India primarily needs is rapid, sustained, inclusive economic growth. Foreign policy should put this goal first. Besides all the domestic problems that India needs to fix on the economic front, India needs deeper engagement with the global economy. But which parts of it? China is way ahead of India in almost every dimension of international economic integration. India needs capital and knowledge from the rest of the world. But China is not a trustworthy source of either of these things – deeper economic engagement with China will be asymmetric and risky, at least for now. Luckily, on this front, India has many options besides the United States, for investment and technology, including the stronger economies of Europe, and especially the miracle economies of Asia: Japan, South Korea, Singapore and, yes, Taiwan. India's foreign policy should clearly serve its economic development, with clear strategic intent.

Why is China not trustworthy? Because of geography, it is in strategic competition with India in terms of conventional territorial and resource motives. Because of history, it has a point to prove to the West, and seeks to be a true global power, befitting its heritage and self-image. These strategic drivers for China make it a prickly partner and collaborator. This is true for India just as it is true for almost every East and Southeast Asian nation. This does not mean that India cannot manage accommodation and some engagement with China. Indeed, it must. Some of that necessity is a function of shared boundaries, and the classic needs of national security. India has to be nice to China, but has to be so from a position of strength, unlike the 1950s.

India has many other neighbours, none of them in the same category as China. India now has an opportunity to be good to all of these, no matter how problematic they are. A lynchpin of India's global strategy should be economic generosity to its smaller neighbours, no matter what their problems or responses.

To make this work, India has to do better with domestic security. Besides economic growth, India needs better governance, valuable in itself, and not just for the economic benefits that it brings. More specifically, India needs to improve its physical infrastructure. Roads, airports, telecommunications and energy are such obvious aspects of internal security, beyond their economic benefits, that it is unbelievable that they have been so neglected. In this respect, global strategy starts at home.

So my take is that one should jettison labels, particularly ones that mislead in understanding the present world situation. The big story is the rise of China. India is a bit player in this story. Its strategy should be to avoid getting knocked down as China rises. This means pursuing its global economic interests, without the old moralizing, in an eclectic manner, but with clear strategic intent. Building key parts of its infrastructure, and nourishing and educating its people effectively will serve its national security as well as its economic development. Seeking economic engagement with the many countries that have knowledge and capital to offer should drive foreign policy. This is a clear and simple global strategy for India.

India's Foreign Policy

August 17, 2012

In my last column, on India's "global strategy," I made several points. First, India should put economic growth at the centre of its foreign policy. Second, it should pursue knowledge and capital eclectically and vigorously from around the world, to support this goal. Third, attention to infrastructure in telecommunications, energy, roads, ports and airports is vital to national security, beyond the obvious economic benefits. Fourth, China's rise is the main global strategic issue for India. In this column I want to develop the implications of these points for foreign policy in practice.

I will begin with the last point, the implications of the rise of China. India has to deal with China in an accommodative way (there is no choice, given geography and history) but from a position of strength. Economic growth will not be sufficient to achieve this position of strength, especially in the short run. Therefore, to mitigate security risks, India has to engage in deeper strategic cooperation with other nations. Such cooperation goes beyond the conventional military dimension. On that front, the United States is almost the only game in town. A critical new front for strategic cooperation is information sharing. Here, too, the US has enormous strengths, and a vital role to play, but there are other possible partners. Most such potentially valuable partners, however, have strategic ties to the US. The conclusion is inescapable that India has to deepen its strategic cooperation with the US. This is nothing like the Cold War world of treaties and alliances. It is about India assertively and systematically pursuing its interests in a framework of mutual benefit.

Is there a downside to closer strategic cooperation with the US? Will there be a cost because it offends China, or reduces India's strategic autonomy? The answer must be 'no.' Such cooperation strengthens India's capabilities, especially if it focuses on learning (and it has more to learn than the US, in such cooperation). Will it provoke China? Not if it is done intelligently. And if the counter argument is that India should not seek to protect its security for fear of upsetting China, then that says that China is anyway reducing India's strategic autonomy.

Given the necessity of strategic cooperation with the US, it becomes more important for India to seek economic ties more widely. Luckily, there are many alternatives here. In fact, barring higher education, information technology and some aspects of agriculture, US capabilities are not necessarily the best choices for India. To take a prominent example, US-style mass market retailing as it has evolved in the past decades may not be best suited to India's geography and infrastructure. In renewable energy, mass transit, high-end engineering, consumer durables, mineral extraction and so on, Germany, Britain, Japan, South Korea, Australia and numerous other economies may have more to offer India in terms of knowledge bundled with investment. A diversity of economic ties acts as a counterweight to the narrowness of options for strategic cooperation.

To summarize, India has to integrate economic growth goals more clearly into foreign policy. Its diplomats should speak the language of commerce, and its business people should speak the language of the country they seek to do business in. (Wouldn't it be wonderful if India invested heavily in foreign language training, not just for its superb diplomats, but also for its enterprising business people?) It has to pursue commercial engagement more actively across the globe. At the same time, India has to deepen strategic cooperation with the US, and existing strategic partners of the US. This is not about diplomatic treaties and grand alliances, but really about lower key information sharing and security cooperation in all its modern forms.

Foreign policy is about pursuing national interests in the international arena. Sometimes, this means cooperating with other nations that have different political systems and values. Nixon famously went to China in pursuit of national interests, when China was still wedded to Maoism. But China wanted economic growth from that new engagement, and it succeeded. India has to deal with China, for many reasons, but not for reasons of strategic balance. India has little to offer China except resources, markets and acquiescence, and so is in a weak position. It has to strengthen that position.

Luckily, India has alternatives for strategic and economic cooperation with nations whose political values align well with India's ideals. Even if shared values are not of importance in determining directions of international engagement, they are a useful bonus, as they enhance trust and cooperation. But ideals should not get in the way of national interests, and they should not be pushed on others. In any case, India has much to do on the domestic front before it can claim to be an international example of virtue. The bottom line remains that India's government

has to deliver greater material and non-material well-being for its citizens. Foreign policy is just one aspect of that larger challenge.

Inclusive Growth in the US and India

November 6, 2012

The US presidential election has just concluded, and Barack Obama has been re-elected. Voters in exit polls said they cared most about the economy, but what they really meant was their own material circumstances in the economy. What may have carried the day for President Obama was the sense that he cares more for the middle class (where almost every American likes to place himself or herself) than his erstwhile opponent.

In fact, the choice between the two candidates illustrated clearly two very different conceptions of society and justice. Mitt Romney's infamous remarks branding almost half of the country as lazy free-riders were in a centuries-old tradition of the rich justifying wealth as deserved through talent and hard work (or before that, as divine will). Romney and his party simply refused to recognize that inequality of opportunity has grown dramatically in the United States, so that the growing inequality of outcomes is not determined on a level playing field. Growth in the US has been far from inclusive.

Barack Obama, on the other hand, has had a vision that is completely consistent with the idea of inclusive growth. Interestingly, in 2007, Ifzal Ali and Hyun Hwa Son of the Asian Development Bank provided a theoretical and empirical analysis of inclusive growth that resonates conceptually with Obama's policies, as well as with what has been attempted in India. Ali and Son look at the distribution of opportunities across different parts of the income distribution. Thus, they focus on opportunities rather than outcomes such as income. In this, they are following the work of Nanak Kakwani and others. To make things concrete, they use access to health and education as examples of opportunities. They apply a specific index of opportunity to health and education data from the Philippines, to measure precisely how inclusive growth has been in that country.

As many have argued, health and education are to be valued in their own right, as well for their importance in helping to level the playing field for earning income. Barack Obama recognized this in pushing for wider and more equal access to health care, and for improvements in access to higher education through expanded federal student loan programs. In some ways, then, the US agenda is not that different than India's attempts to improve access to health and education across the country.

Of course the levels of development, institutional details, and scope and scale of challenges are very different in the US and India. One similarity, though, has been the lead role played by the federal (central) government in both countries, in health, especially, in the US. The American

suspicion of government applies particularly to the federal government, and that has created a political battle over health care reform. But one only has to look at examples such as civil rights, the national highway system, and the GI Bill which funded college for returning World War 2 veterans of all socio-economic groups to realize that the centre has played positive roles on major issues in recent US history.

In the Indian case, too, the justification for the Sarva Shiksha Abhiyan and National Rural Health Mission has been that the centre needed to step up because the states were failing to do their part. The problem in India has been that central direction has tended to be confused with central implementation without adequate capacity, or more with a lack of consideration of appropriate incentives for modifying behaviour. Even in the US, these kinds of problems do arise, and the challenges for a poorer country like India are bound to be greater.

As I have argued in other columns, there is a case for considering innovations in revenue sharing across levels of government, to improve the efficiency of expenditures, as well as to build government capacity in the longer run. The Ali and Son framework offers a way of comparing the distribution of improved opportunities, and hence the inclusiveness of growth in some important dimensions, for different types of policies and implementations. Hence, it should be possible to see if policy design and implementation at the state or local level does better than centralized decision-making.

In the US, my guess is that the successful Massachusetts experiment in universal health care would not have spread to other states, and the federal government's push was very likely the right way to address the problem of lack of access to health care. The Indian situation is very different, though, in starting point and in scale. It might be worthwhile to give Indian states more resources and incentives to try and improve health care access themselves, with flexibility to innovate and experiment. If just Uttar Pradesh can pursue more inclusive policies, that would affect a population roughly the size of Brazil's. That would be an impressive achievement.

Obama and India Again

January 22, 2013

Four years ago, when Barack Obama was first inaugurated as president of the United States, I was struck by how much the vision he expressed in his inaugural address was apposite for India. Indeed, there were parallels and connections with ideals that had been expressed by Jawaharlal Nehru in 1947. This should not surprise us, perhaps, in the case of universal human values. And when an Obama focuses on health and education and infrastructure, as he did in 2009, and again just the other day, the parallels with India's own needs are apparent, albeit starting from very different initial levels.

Even more strongly than in his first inaugural speech, Obama again emphasized equality of opportunity as a social goal. For his broader constituency, he also had to acknowledge the

importance of individual responsibility and hard work, along with his calls for collective action. But in the end, he could not avoid being lambasted by members of the opposition for his “far-left-of-center” views. The role of government as a means for collective action is one of the debates raging in today’s America. In the case of India, initial positions and biases are quite different than they are in the US. But there is a deeper issue in the US that has resonance for India in its current situation.

Obama’s speech to begin his second term made a very clear statement about equality in the context of diversity. Whether the source of diversity is gender, race, sexual orientation or citizenship, the ideal of equality being held forth in the US president’s vision is an inclusive, all-embracing one. It is my firm belief that much of the small government rhetoric of the right-wing in the US, along with other aspects of their positions, is actually driven by their fear of this inclusive, diversity-embracing vision of equality. Attacks against the presumed “socialism” of the Democratic Party leadership are stoked by this fear of the “Other.” Of course, this lines up quite well with the protection of economic privilege.

The Indian situation is somewhat more complex. The closest in character to the right-wing opposition in the US may be the BJP and its fellow travellers, with their own narrative of the Other, and a relatively pro-business stance, though with less of a commitment to a world of globalized capital. But the rest of the Indian political spectrum seems less defined by any clear vision of equality. The Congress, of course, has emphasized inclusion in its message and some of its policies, but there seems to be a gap in practice between words and deeds. Its reactions are often those of privilege and preservation of power, rather than of promoting equality and inclusion. This was very clear in the responses to the Delhi gang-rape. Some senior ruling party members were more interested in defending the police, and the police more interested in defending themselves and the elite, rather than in acknowledging the gross violation of human values that had occurred, and the role of the powerful in allowing such a situation to develop.

There is a disconnect, therefore, between the professed ideology of the Congress, and its practical preservation of inequalities of power. There are, no doubt, many historical reasons for the differences between the main political parties in the US and in India. The point I want to make, though, is simply that these differences exist, and they pose a challenge for an agenda of equality of opportunity in India.

Are there any lessons for India, despite the large differences in history and society? Recall that Obama began his political career many years ago as a community organizer, something for which he was even derided by his opponents in 2008. This experience grew into his campaign’s fabled “ground game,” which delivered victory in 2012. The mobilizing of voters at the local level was not done by local party bosses controlling “vote banks,” as would have happened in America’s past and still happens in India. It was done by volunteers and party workers who adhered to key components of Obama’s vision for the country – with equality of opportunity as a central tenet.

What would India's version of Obama's coalition look like? It will have to cut across caste and class to some extent, and it will have to be united by some vision of social justice, without being mired in any utopian ideology of universal harmony. It may be that the crowds that protested the Delhi gang-rape are the beginning of such a coalition. Whether their composition was broad enough remains to be seen, as well as whether leaders can emerge to build on their disgust with the current state of affairs. The stitching together of grass-roots efforts into a national movement will also be harder in India, because it will have to occur outside the two main political parties, and in a country much more heterogeneous than the US. Nevertheless, Barack Obama's political journey and his vision hold important lessons for India's people, as they struggle for better governance.

A View from Silicon Valley

March 16, 2013

Silicon Valley, a short distance from where I teach, is aptly viewed as one of the most important symbols of India's success. This is paradoxical, of course, because the success of Indians in the Valley (as it is often known locally, with an implicit sense of uniqueness) has come at a cost to India – the talent that thrives here has been lost, in some sense, to India. On the other hand, the success of Indians here in the Valley has served as a powerful signal to those who did not migrate, of what knowledge, talent and hard work can achieve. Just as importantly, it has signaled to non-Indians what might be possible in India, in the right circumstances.

Every year, for several years now, I have participated in a panel in the Valley that discusses India's Budget in the context of the country's economic prospects. My fellow panelists and the entire audience are representative of the area's ecosystem, smart, well-educated, experienced entrepreneurs and financiers, with global perspectives. Their views on India are worth noting. Here is what I took away from their remarks earlier this month.

It was unsurprising that the businesspeople expressed dissatisfaction with the current state of the laws governing the use of land and of labour. These are well-known, longstanding issues that successive Indian governments have not managed to come to grips with. What struck me, though, was a sentiment that, even worse than inefficient or overbearing regulation, uncertainty about policy has been a major recent problem. The prime example of this, of course, is the General Anti-Avoidance Rule (GAAR), proposed in last year's budget to general consternation. The postponement of GAAR, and a promise to rethink provisions that have been criticized as poorly drafted, have created a period of prolonged uncertainty, which can act as a major deterrent to investment. There was appreciation of the current Finance Minister's outreach to foreign investors, but a clear sense that ultimately, it is the certainty of the rules in place that matter, not just wooing through words.

A closely related concern that I heard expressed was that India's rules for business also lack clarity. This, too, is an old problem, but one that has been growing worse in a more complex economic world. Transfer pricing was raised as a major issue in this context. There is a connection to GAAR here too, and national government concerns about tax avoidance through transfer price manipulation are common across many countries. The point here, though, was that poorly written rules unnecessarily increase litigation and other administrative costs: businesses have to pre-emptively spend on trying to get clarification in advance, or they have to bear risks of lawsuits, or both.

On the positive side, panelists and audience members emphasized that Indian-Americans in senior positions in high tech companies have made a difference in those companies' strategies towards India. The importance of personal knowledge and networks has been recognized of course, and the Indian Consul General in San Francisco plays an important and visible role in nurturing some dimensions of these, but my outsider (and possibly not fully informed) view is that India's government could do more to deepen and systematize these networks of Indian-born leaders of high tech companies, to benefit India's economy.

As it is, I got the sense from other remarks that India's political leaders often still do not understand how business at its best can work, and the importance of innovation in its many dimensions, including technology transfer and adaptation, as well as indigenous research and development. One venture capitalist in the discussion remarked that greenfield foreign direct investment (FDI) remains relatively low. Another noted the lack of coordination across ministries. Another observation was on the arbitrariness of some kinds of FDI restrictions, such as those governing e-commerce. One senior investor and entrepreneur suggested that the push for a semi-conductor manufacturing plant did not make sense, either in generating employment or being a fruitful avenue for spurring innovation.

One can debate these kinds of specific issues, which have to do with the innovation and employment potential of various technologies or combinations of technologies. What is perhaps missing for India is a systematic dialogue with Silicon Valley. The US-India Business Council, which co-sponsored the panel at which I spoke, is certainly systematic in its efforts to build business ties across the two nations. But it represents the interests of its members. There are other institutional linkages as well, such as a sister city initiative between San Francisco and Bengaluru. But my sense is that there is room to create a richer interaction that is more balanced in representing various interests, and does more to integrate academic and business knowledge, to further investment and innovation in India by leveraging the tremendous human capital of Silicon Valley. What institutional form that interaction takes would have to be thought through, but the need and potential are both present.

India's Security

April 22, 2013

The conventional notion of national security refers to a country's capability to defend itself against, or to deter, military aggression. The central idea of security, though, is protection against downside risk, and that concept applies to a range of variables, though all of them ultimately feed into material well-being. In the modern world, risks come not just from deliberate attacks, but also from withdrawal of access (e.g., to goods, resources or technology) and simply from the forces of nature.

What is the state of India's security in this broader perspective? This is the right question to ask, rather than the more headline-grabbing one of India's superpower status. A report from the London School of Economics a year ago asked the question "India: The Next Superpower?" seemingly as a straw man to criticize all that is wrong with India internally. Last month, The Economist magazine cautioned that India is about to become the world's fourth military power, but lacks a plan to live up to this status. These are useful but fragmentary inputs into the question of India's security.

A better starting point is the perspective provided by Professor Upmanu Lall of Columbia University. For several years now, he has been explaining the water-energy-food nexus, and its implications for material security. Essentially, without an integrated and focused approach to water, energy and food security, India will face severe challenges in the near future. While the links between these three things are common across the globe, India's situation is especially dangerous, for two reasons – one beyond the country's control, the other very much a function of policy failures.

The first reason for India's exceptional security challenge in water, energy and food is a relative lack of natural endowments in water and energy resources. Per capita water availability in India is much lower than in other large, populous countries. Its ability to generate energy from domestic fossil fuels is also relatively poor. On the other hand, India has addressed its past food security problems by relying on water and energy intensive agricultural techniques to increase yields. In regions such as Punjab, these techniques are leading to ecological disaster, which will destroy food security.

The problem is not so much with the techniques, as with completely irrational and destructive pricing of water and electricity: an enormous and avoidable policy failure. Free electricity to farmers has led to excessive groundwater depletion, bringing underground aquifers close to irreversible collapse. The water that is pumped is also not priced, being treated as a free good by farmers. The problem is not just in Punjab. Professor Lall has been describing similar problems in states such as Gujarat and Andhra Pradesh, with different cropping patterns and different participation in the central government's food procurement system. Hence, while food grain procurement policy is partly to blame, and is particularly a problem in Punjab, the deeper

problem is an almost complete lack of attention to the provision of sensible incentives for the use of water and electricity. Areas in Gujarat are depleting groundwater unsustainably to grow vegetables and dairy fodder, for example.

Of course, there is more to India's energy security than the wasting of scarce electricity for excessive groundwater pumping. Development of renewable energy sources, as a way of cutting down on problematic fossil fuels, is an area where India is lagging, relative to where it needs to be. And the management and development of fossil fuel resources for energy production in India is also well known to be inefficient. Food security policy, too, has other dimensions, including deficiencies in pricing, infrastructure, and marketing.

Still, there is something particularly striking about policies that threaten to simultaneously destroy food and water security, while making a significant dent in energy security. I have not been able to find a clear discussion of these security issues at the national policy level, where it belongs. Professor Lall's voice comes from a base in American academia, and he is well positioned to discuss, as he has in public forums, the potential technological and institutional solutions that might emerge from the US or other developed countries, for more efficient agricultural water use, in particular. But there has to be a receptive situation in India for such solutions to be evaluated, adapted and implemented.

India's policymakers are certainly right to worry about its global status, military security, macroeconomic stability, and so on. A country the size of India is going to matter more as it continues on its economic growth path. But it is easy to lose sight of problems that are accumulating in multiple locations, mostly in barely visible ways, as a result of decades of poorly chosen policies. The biggest threat to India's security may be the looming problems in water availability and food production, and the associated drain on energy resources, from current policies. Ignoring this threat will not just risk India's possible superpower status, but its very being.

India's China Puzzle

June 1, 2013

The recent visit to India by China's new Premier, Li Keqiang, led to a statement of cooperation covering a wide array of topics, and was followed by much sceptical analysis in the Indian media. Aside from history (the harkening back to the 1954 Panchsheel Treaty seems particularly ironic), the recent Chinese actions in Ladakh made the Chinese premier's goal of trust-building somewhat more difficult to accept on the Indian side. An extreme pessimistic position is that China is engaging in diplomacy that will allow it to pursue its long-term strategic goals, by making promises to India of good things to come from cooperation. The Chinese leader's visit certainly did seem to come across as a charm offensive, with one Indian academic describing him as "exuding warmth." The rhetoric of the two population giants cooperating for peace and

stability and for economic development is certainly appealing. On the other hand, strategic analyst Brahma Chellaney has termed China's approach as coercive diplomacy, strengthening its hand on border issues with its incursion, while appearing to be magnanimous in its official diplomacy.

India has no choice but to talk with China. Their geographic proximity and the range of issues where their interests intersect make that imperative. The problem is that the deck is stacked against India in many dimensions: whether it is China's economic advantage, its military prowess, or its geographic position (particularly with respect to trans-boundary rivers). Cooperation may lead to mutual gains, but how those gains are divided depends on the relative bargaining strengths of the two parties. On almost every dimension, India is in a weak bargaining position. In some cases, as in the boundary dispute, China can almost completely call the shots. India has to change the game it plays.

In analyses of the Chinese premier's visit, it was certainly well-recognized that China wishes to counter India's attempts at economic or strategic closeness to the United States, and also, to some extent, to Japan. But it is precisely ties such as these that will give India some leverage in its dealings with China. Indeed, there is a long list of Asian countries with which India should be pursuing closer economic or strategic relations. In dealings with these countries, India has an advantage over China, which has a trust deficit with many of its neighbours, not only with India.

I outlined a strategy for India in two columns last year (14 and 22 August, 2012) that emphasized broader engagement with other countries as alternatives to China, as well as a concerted effort on the domestic front, in areas such as infrastructure. In the joint communiqué this time around, the Indian side encouraged Chinese investment for infrastructure development. But relying too much on the Chinese for India's critical needs in this sector will be a mistake, precisely because it fails to reduce the asymmetries in bargaining power between the two nations, even if there are mutual gains from cooperation. Increasing India's economic strength will take time, and physical infrastructure is not the only area in which India is weak relative to China: health and education also stand out as sectors where India lags more than it should. Fixing all of these areas will take time.

One area where the financial resources needed are relatively small (although there may be other, non-financial hurdles) is that of India's foreign policy institutions, in particular the Indian Foreign Service. If India is to pursue a strategy of global engagement, in which China is just one of many partners – its influence counterbalanced by networks of foreign ties – the size of the IFS and its quality will need to increase. It is well-recognized that the IFS is small relative to India's size, even allowing for the country's relative poverty. Brazil and China have larger numbers of diplomatic personnel, and even tiny Singapore has almost as many professional diplomatic personnel (as opposed to support staff) as India.

There are many areas of improvement needed, besides adequate numbers: a 2009 article by Daniel Markey in *Asia Policy* makes a telling and unfavourable comparison of India's training of its diplomats with the case of China. Markey also highlights the relative strength of China's foreign policy think tanks. And the comparison of universities across the two countries only emphasizes India's weakness.

The puzzle for India is that it cannot avoid China, but it is currently ill-equipped to engage with its neighbour in a manner that protects and enhances its own interests. To deal with China, India needs a strategy of broader economic and strategic engagement, but it also needs the means to design and implement that global engagement. To accomplish that, India needs to invest very specifically in the human and organizational capital required for that task. This is not a trivial task, but it does not require the scale of resources directly needed for domestic economic growth. The challenge will be to overcome institutional inertia, but raising the size and status of, and support for, India's diplomatic corps should be easier than the broader reform of the bureaucracy that is also needed.

Russia, China and India

May 4, 2014

India's general election has been focused on domestic issues, particularly those of growth and equity. I have suggested in previous columns that the latter dimension should include more than just questions of income distribution but also equal respect for different religious and cultural traditions within India. In this context, statements such as the one that opponents of the BJP prime ministerial candidate had better move to Pakistan (and the weak response from within the party) are a cause for concern. Such statements also illustrate the spillovers to foreign policy from the ideology that is seen by the BJP to define the nation.

Both Russia and China are interesting comparison cases for India. Both have authoritarian governments, under the veneer of democracy (very thin in China's case), so they might seem different from India in that respect, but India has shown itself vulnerable to autocratic impulses in the past. Both Russia and China have national visions based on ethnic and cultural homogeneity that have spelled trouble for minorities within their borders and for neighbouring countries. Both nations have nurtured senses of grievance based on the historical conduct of Western powers. The result of these patterns of thinking has been a world that is riskier than it needs to be, one where foreign policy is based on emotion rather than on long term welfare of the globe.

Of course there are differences as well. China has pursued a strategy of economic reform and growth in a tightly controlled political environment. It has a degree of collective leadership and some distribution of regional power that creates checks and balances. It also uses its masses sparingly in whipping up sentiment against neighbours that threaten its regional hegemony. The

leadership's goal is to manage a transition to great power status, a place once again for China at the centre of the world.

The Russian case is more worrying. Because it underwent a disorderly transition to economic and political freedom after the collapse of the Soviet Union, Russia has a much stronger dependence on its oligarchs, who have been part of a nexus of economic and political power. There has been some freeing up of the economy in day-to-day matters, but the levers of control are concentrated in very few hands, with a degree of centralization that is perhaps not too different from Communist days. On top of this, Russian ethnic nationalism, mingled with the conservatism of the Russian Orthodox Church, has fuelled a kind of paranoia about the West. How else can one explain Russia's actions in Ukraine? The annexation of Crimea was not ultimately about real strategic fears, but about bare-chested posturing.

The question for a new NDA government (assuming that is what will come to pass) will be how it positions itself in the world, as well as with respect to its own citizens. The current government has relapsed into a kind of wishy-washy 21st century version of non-alignment, being subtly pushed around by China, playing along with Russia, and suspicious of a United States that is both arrogant and incompetent in its policy towards India. A new foreign policy stance needs to be more focused on India's long-term economic interests: it is an accumulation of economic clout that will give India some measure of weight in global affairs. This new stance requires a deliberate and diverse build-up of ties with a range of economic powers, especially in Southeast and East Asia. That should not be difficult, if it receives high-level attention.

The greater challenge will be not just to avoid bullying and demonizing India's neighbours, but to engage with them in a positive and constructive manner. The present government has actually not done too badly in this respect. One danger is that India under a new government will become a version of Putin's Russia, driven by ego and insecurity, and destabilize the region. A slightly better outcome would be to follow the Chinese example, in which aggression is more controlled, but this example, too, is partly driven by desires to recover past glory and dominance.

The best course of action for Indian foreign policy is to build its economic links with Southeast and East Asia. More and more, those economies also have reasonably open societies and democratic political systems. Countries such as Australia have already made progress in creating more diverse versions of traditionally narrow conceptions of nationality. Others are struggling more with this opening, but may move in that direction as they develop economically, since they, like Australia, need to be open to keep developing. It would be a shame if India traps itself into mimicking Russia and China, whether in domestic policy or foreign affairs. Adding a belligerent India, driven by an ideology of grievance, to an already uncomfortable geopolitical mix will not do the country or the world any good.