

# India and the Global Economy

## **“India and the Global Economy”**

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I want, on the eve of President Obama’s visit to India, to reflect on three things today:

- To reflect on how historians will see our times when they look backward at this moment from the perspective of a century or two from now.
- To reflect on India’s distinctive role in these times as seen by a foreign friend.
- And to reflect on the relationship between the United States and India and President Obama’s approach to it.  
What will historians say about our era when they look at it hundreds of years from now?

Some say that they will see the end of the Cold War between capitalism and communism, the United States and the Soviet Unions, as the defining event. And that will surely be a major story.

Some suggest the major story will be the relationships between a West, broadly defined, and the Islamic world, with all that that entails. And that too will be a major story.

But I would suggest instead that in the long sweep of history, the biggest story from our era will be what has happened in the developing world, in the world’s emerging markets, especially here in Asia.

Consider this: Economic historians have calculated that if you compare living standards in Athens at the time of Pericles and living standards in London in 1800, they changed over those 2200 years at most by 75%. That’s a growth rate far less than one tenth of one percent per year.

They called it the Industrial Revolution because for the first time in all of human history, economic growth started at a rate where you could see the difference in living standards at the end of a human lifespan relative to the beginning of a human lifespan.

At that time, life spans were 40 or 50 years and growth proceeded at 1%, so living standards were perhaps one and half times as high at the end of the human life span as they were at the beginning.

If you look at the most rapid period of growth in U.S. history, around the turn of the 20th century, life expectancy was longer and living standards grew at perhaps as much as two and half percent, so living standards at the end of a human lifespan were four times what they had been at the beginning.

Think about what is happening today in India, China, or a number of other emerging countries – countries that between them have 40% of the population of our planet.

Living standards are rising at a rate between 5 and 7 percent a year, a rate at which they double within a long decade. A rate at which they increase between 30 and 100 fold within a single human life span.

In the economic history of the last millennium that is an event that ranks only with the Renaissance and the Industrial Revolution and that I would suggest in terms of the number of lives that are affected, the consequences for the planet as a whole may even be of more transcendent importance.

It will change everything from cultural patterns to the location of the major theaters of history, from conceptions of human freedom to the ways in which nations interact to the conditions of life on our planet.

How this emergence plays out will be the story of our time.

India, which will become the world's most populous nation, will have much to say in this story.

The tremendous economic energy being unleashed by India today, making one of the world's top three economies, will only continue to grow when, a generation from now, it also has the world's largest work force.

I remember my first trip to India 20 years ago, when the first thing I saw when I got to the airport was an orange juice stand that said, "Owned and Operated by the State of Rajasthan," and where I met an entrepreneur with a fantastic software idea who was unable to rent a car in the United States to market his software idea because he couldn't get a credit card or enough cash because of the then-present capital controls in India.

Those are remote days.

But it is a property of exponential growth, of frequent doubling, that the pace of change only accelerates.

Permit me to think about a positive vision of where India might be a generation from now and what people might see when they look back from 2040:

- The emergence of Bangalore as the hub of the world's software industry at a time when the software industry had become larger than the hardware industry.
- New efforts to exchange international services, symbolized by India's emergence as the world's leading exporter of medical services as people came from all over the world for high quality medical procedures.
- The emergence of remarkable universities in India, some in the public sector, building on the tremendous success of the IITs, others in the private sector, as the 2010 to 2020 decade saw the emergence of India's John Harvards, Leland Stanfords, and John D. Rockefellers who created institutions to set the world pace in a growing number of disciplines.
- Remarkable progress coming from collaboration between Indian scientists and American scientists, particularly in sectors like agriculture and energy that are so important to the future the planet.

We have only begun to cooperate in clean energy.

In 2040 we will look back on the crucial role that India played on the role to Copenhagen, eventually implementing historic agreement under which greenhouse gas came under control

In 2040, the United States and India will perhaps have been working together on civil nuclear cooperation for three decades, the result of strong international standards in both countries.

And perhaps – perhaps – in 2040, the discussion will be less about the Washington Consensus or the Beijing Consensus, than about the Mumbai Consensus – a third way not based on ideas of laissez-faire capitalism that have proven obsolete or ideas of authoritarian capitalism that ultimately will prove not to be enduringly successful.

Instead, a Mumbai Consensus based on the idea of a democratic developmental state, driven not by a mercantilist emphasis on exports, but a people-centered emphasis on growing levels of consumptions and a widening middle class.

A consensus based globally not on the idea that competitiveness was in service of a nation trying to win a zero sum game, but rather on the idea that through international integration, nations could diversify, pursue their strengths, and realize together the benefits of larger global markets.

All of this is possible.

You know better than I there is no guarantee that it will be realized. Your country, like my country, faces formidable challenges in the years ahead.

- Challenges of ensuring that government by the people is effective government for the people.
- Challenges of maintaining faith and trust in public institutions and assuring that public institutions are worthy of that faith and trust.
- Challenges of creating prosperity that does not just mean the success of a thin elite at the top, but opportunity for an every growing middle class.
- Challenges of ensuring the availability of jobs that provide dignity, opportunity, and better lives for children and parents and citizens.

These are the challenges in the United States and, as an outside friend, I would suggest these are challenges for India as well.

What about our relationship between the United States and India?

If you write or study the history of American foreign policy in the 19th century or the 20th century, there is surely a role for the United States relationship with India. But I think it is fair to say that the U.S.-India relationship would not be considered the most important aspect of foreign policy in either of our countries during the last two centuries.

It is, however, my confident expectation – and more importantly it is the expectation of the President of the United States – that matters will be very different in the 21st century.

Two of the worlds' three largest economies. The world's two largest democracies, linked by a common language and an affinity based on common values and common challenges in the global arena, driven not by their desire to dominate, but by their desire to innovate , are natural allies.

As President Obama has said, India is an indispensable partner for the United States and the United States ought to be an indispensable partner of India.

Indeed, Prime Minister Singh's visit to the United States was the first state visit President Obama hosted after he became President of the United States. President Obama's visit to India next month will be his longest foreign visit to any nation since becoming President.

This is because of the importance of our relationship.

Now there will be discussions when President Obama comes, as there were during Prime Minister Singh's visit to Washington, of agreements between our governments to cooperate in energy, education, and a range of other commercial areas.

There will be discussions in the security sphere as well.

And there will be what the bureaucrats in charge of them refer to as deliverables associated with the visit.

But ultimately in the relationships between democratic nations, between broad pluralistic societies, it is not the government to government agreements that will make the largest difference.

- It is the ties that are formed when students from one country study in another. Ties that I hope will increase in scale dramatically over the next decade.
- It is the ties that are formed when firms from one country invest in another country. Flows that, to our mutual benefit, are becoming increasingly reciprocal between the United States and India.
- It is the ties that are formed when professionals from one country do business, learn, share, with professionals for another country.
- And it is the ties that are formed by the institutions that are undergird democracy.

We cannot know what history what history will say of our time.