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Book Launch of **Getting India Back on Track:** **An Action Agenda for Reform**

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Washington, D.C.

Panel 1:

Moderator:

Ashley Tellis,

Carnegie Endowment for International Peace

Speakers:

Bibek Debroy,

Center for Policy Research

Arvind Panagariya,

Columbia University

Panel 2:

Moderator:

Marshall Bouton,

Asia Society Policy Institute

Speakers:

Ashley Tellis,

Carnegie Endowment for International Peace

Milan Vaishnav,

Carnegie Endowment for International Peace

Transcript by Federal News Service

Washington, D.C.

JESSICA MATHEWS: Good afternoon. I'm Jessica Mathews, president of the Carnegie Endowment for International Peace, and it's my great pleasure to welcome you here this afternoon for U.S. launch of Carnegie's groundbreaking new book "Getting India Back on Track: An Action Agenda for Reform." This is actually our seventh launch – (laughter) – of this book. We launched it in New Delhi, in Calcutta, in Bangalore and Mumbai, and more than one event in each place, but this is our first – our first time back here in the States. And we're particularly honored to have India's Ambassador Jaishankar with us today. It's an honor to have you back at Carnegie.

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This book – the genesis of this book was a conversation between Bibek Debroy, Ashley Tellis and myself in Delhi last November, and we were thinking that this spring's elections would likely produce one of the rare open moments for a national discussion about policy change. We of course had no idea just how open it would prove to be. But we had a sense that this was a wonderful opportunity, and we thought we would – we thought it was great time for us to see whether we could make a significant contribution to such a national discussion in India. And out of that conversation came this really tremendous volume, which took, as you can imagine, a gigantic amount of work to design, recruit the authors and edit.

One thing that we were so pleased with was that our editors made a list of whom they felt were the absolute best experts in each of the 17 areas that – of the chapters that you see in the table of contents. And of those people, only one said he absolutely couldn't do it, which is an amazing result and which suggested just that others felt as we did, that this was too important an opportunity to miss. I think the result is a book that – I've been in the policy research and analysis business for many, many years, and I think I've rarely seen a product that is of such high quality and which so captures an important national moment as this one.

The project also, which had to go extremely quickly, owed a good deal to the financial support that was provided by the GE Foundation, Bekaran Bhatiya (ph), Ranvir Trahenen (ph), Armin Choksi (ph), who are here with us, and we are very grateful for their help.

[00:03:19]

Carnegie, as you know, is a global think tank. Right now it has a great big hole in South Asia, and our top institutional priority for some time has been to open an office in New Delhi, which we're hoping to do by the end of this year. But this book already shows the strength of the Carnegie program here in Washington and, I think, of the timeliness and the policy relevance and impact and quality which are the three hallmarks of every product that we strive to put out.

India is of course – stands as one of the most important bilateral partners of the United States and a key player on almost all regional and global issues, and we recognize that there are almost none of them that can be – that can reach successful policy conclusions without the involvement, the active involvement of Indian expertise, Indian experts and South Asian ones more broadly. So we're very hopeful that that office will come to pass and we will be celebrating it before the end of the year.

[00:04:44]

I think the value of the book was underlined by Prime Minister Modi, who released it at his official residence as his – the first public event of his tenure. We were thrilled by that, of course. And in doing so, his early remarks talked about

the importance of institutions like these, from – think tanks, for making good national policy. So we were gratified on two counts.

So having sat through, with great interest, six launch events of this book, I can tell you that the length of the conversation and the content that it sparks follows a different trend depending on the interest of the people in the room at almost every event. It has such legs across the entire economy, from macroeconomic policy to resource issues, human capacity issues, defense and foreign policy, everything. So you are in for a wonderful discussion, and I thank you for being with us today.

[00:05:55]

And let me now turn to Ashley Tellis, who's going to moderate our first panel.

ASHLEY TELLIS: Thank you, Jessica.

And good afternoon, everyone. It's a pleasure to be here with you this afternoon leading the discussion on the first panel, which is going to focus on the Indian economy. And we've titled it, at least, with a question mark, "Success at Last?" I am particularly privileged to have with me two colleagues who are simply two of the finest scholars on the Indian economy today.

To my immediate right is Bibek Debroy, who is a co-editor with me of the book whose launch we are celebrating and who is in his own right one of India's most visible public intellectuals. He's an economist by training, formerly associated with the Center for Policy Research in Delhi, but has an enormous oeuvre of work that goes beyond economics. He's deeply interested in issues of public administration, issues of state capacity, the debates about globalization and work that relates from empowering the poor to manufacturing. Bibek also has a secret life that goes beyond economics. Outside of his working hours when he participates in discussions like this with us, he has embarked on a multivolume translation of the *Marbarata* (ph). Eight of the 10 volumes have been published. The last two are imminent. And it gives you a good flavor of the kind of catholicity of his interests. So Bibek, we are delighted to have you with us back at Carnegie after the great road show that we did in India.

Further to my right is Arvind Panagariya, who at the moment holds the Jagdish Bhagwati chair in Indian political economy at Columbia University and is certainly this nation's leading academic on the Indian economy. He has a trail of publications to his credit in the areas of international trade and is the author, actually, of a magisterial study – and I use, you know, that adjective with due consideration – titled "India: Emerging Giant." If you all haven't seen it, I would strongly recommend it to you because it is the best single-volume analysis of the evolution of the Indian economy since 1947. I hope he will continue to keep it updated and keep it current because it's truly a great resource, particularly for non-economists. It's written in a way that is easy to appreciate, whether you are a professional economist or not. And so I'm delighted that Arvind is with us here today to discuss some of the themes that come out of the book.

[00:09:16]

Both Bibek and Arvind have been associated – they have been close collaborators and advisers to the current prime minister, Narendra Modi. But whatever they say today is being said entirely in their personal capacities, because I do not want to put either of them in a position where they are speaking for the government of India, let alone, you know, being critical of whatever they might want to say about government policy.

So with those (prefactory ?) remarks, I'm going to get into the discussion. What I'm going to do is really try and have a conversation among the three of us for about 15 or 20 minutes, but then I want to open the floor to you because if

you've taken the trouble to come here all the way for this event, I want you to have as much time, if not more time, than I have with the two gentlemen on the podium with me.

So let me start by asking Bibek the question, the recent election, which brought Prime Minister Modi into office, has been seen very widely as a rejection of the drift that has characterized India's performance in the last five years or so. That has clearly been the popular wave that drove Mr. Modi into office. And yet elites, when they look at that same result, think of it as somehow a national endorsement for wide-ranging reform, because while the popular sentiment is driven by concerns about lack of performance, failure to achieve, say, employment or concerns about inflation and all that, elite interests have somehow translated that result into reforms. How are we to make sense of this reality? Does the election ipso facto imply an endorsement of the kind of reforms that Arvind and you have written, or is the reality more complex than it appears?

[00:11:28]

BIBEK DEBROY: Firstly, good afternoon, ladies and gentlemen.

I think the answer is implicit in your last statement because, yes, this is the first election in a long, long time which has been voted on on economic issues. But how one defines the economic issue varies from one part of India to another. In some parts, it may be the lack of a visible government. In some parts, it may have been a sense of regaining pride in India as a nation. In some parts, it may have been inflation. In some parts, it may have been lack of employment generation. Overall, there was certainly economic discontent.

The trouble arises the moment you begin to use a word like "reforms" because reforms means – the expression means different things to different people. And all of us sitting around, Arvind and I included – we will have our own list of priorities about what is the most important reform issue.

To some extent, one can figure out what is likely to be the government's thinking on that term, "reforms," on the basis of, A, what has happened in Gujarat, on the basis of the policies implemented in Gujarat, and B, on the basis of what the prime minister has been saying in his speeches, particularly in the period leading up to the elections across various speeches. Unfortunately, several of those speeches are in Hindi.

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So what is the simple statement? The simple statement is growth is desirable, but growth is desirable does not mean that the composition of growth is not important, and to get that composition of growth right to ensure inclusion in its proper sense, it has to be agriculture and allied activities. It has to be small enterprises. It has to be the youth. It has to be women. So that's the broad plank.

In the process of doing this, there's an implicit message, sometimes left implicit, that government has paucity of resources, so what you spend those resources on are those resources better spent on developing the infrastructure, the roads, the electricity, the water, the primary health centers and education, or is it better spent on subsidies? And because subsidies are somewhat sensitive, it has been left a little bit implicit.

And finally, there is a strong message that has been coming through, which is of using IT, particularly in addressing issues of corruption. Corruption of course is a very big subject. There are all kinds of dimensions. But certainly in some kinds of corruption, IT can be conveniently used. So therefore it depends on what you're looking for. If someone is looking for privatization, if one is looking for – (inaudible) – in pensions and insurance, I don't think those are very high up in the government's priorities.

MR. TELLIS: Hmm. Well, thank you. Let me actually follow that up with a question to Arvind.

[00:14:45]

Arvind, you've made the argument in several of your publications that India is at the stage now where it has to undo much of the accumulated damage of yester years. Given that the prime minister has now come into office with the mandate that he has, and if you had the opportunity to whisper into his ears, you know, be the angel that sits on his shoulder, what would you see as the key priorities that are worth pursuing, given the kind of considerations and the dilemmas that Bibek just flagged?

ARVIND PANAGARIYA: OK, first of all, thank you very much. Very pleased to be here. And the book is, by the way, fantastic. I read about three-fourths of it and learned quite a good bit. So I very strongly recommend to you all, please do get a copy of it on your way out. Get the authors to sign it. It has only one weakness: It is lacking a chapter from me. (Laughter.) But – sorry. That's sour grapes.

MR. TELLIS: To be remedied in the next edition. (Laughter.)

MR. PANAGARIYA: (That's ?) sour grapes. Sorry. (Laughter.)

MR. DEBROY (?): We were just worried Arvind would call it "The Submerging Giant." (Laughter.)

[00:16:01]

MR. PANAGARIYA: But in any case, so turning to the question, the way I read it, you know, first, the reconciliation of what was promised by the prime minister to win the election, growth and employment – you know, if growth had not declined to 4 ½ percent, I think Mr. Modi would have had a very uphill battle to win this election. So that's priority one. Clearly, (he went out ?), growth and development is what he said, often emphasizing development, but also repeatedly he emphasized employment. So if you are really – that's a statement, in my thinking, about the quality of growth, either the kind of growth we have had, actually, in the last 10 years, 15 years – but it happened, right? It – last 10 years, almost about 8 percent on average, or at least a decade of 8 percent growth, but on employment front, particularly employment with good jobs, jobs that pay well, it has been lackluster.

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So I interpret this to mean growth and employment, and then of course that does translate into reforms. In an election, no prime minister, no candidate is going to go out and, you know, start talking about the policies that'll deliver the objectives, deliver what he says I will deliver, but ultimately if the objectives to be delivered on, these reforms will have to be done.

Now, in terms of the kinds of things that need to be done, there is a whole immediate agenda of reforms in the first year, I would say, which the government really, in my opinion, doesn't have much choice but to do it. One objective, I think, is largely accomplished, which is that there was huge – (inaudible) – paralysis in the government, coming from three sources: the environment ministry, then the bureaucracy, and then the PMO itself. All three, I think, have been largely addressed. You've got an environment minister who has been cutting one cordon (not ?) after another in the last about four weeks now – the government is about a month old now – including one project which had been languishing for about three decades. It's been cleared.

There's a PMO which is now coordinating across the ministries in a very effective sort of way, and the bureaucracy has been reassured by the prime minister directly that, please, go ahead, make any decisions, do what you need to do – (inaudible) – trouble, come directly to me, but work without fear. And so that's one which I think largely we are on the way to solving.

Banks are in very weak condition. They will have to be fixed. Right now if you take, even by the official figures, the restructured loans and the nonperforming assets, they're about 10 percent of the total loans. And officially, people say it could be about up to 15 percent. This is a huge weakness. Credit cannot flow with these kinds of bad loans. So that'll need to be addressed for sure.

There is one extremely important legislation which, in my opinion, needs to be amended. Unfortunately, it was amended – it was put in place only – it came into force January 1, 2014. This is the Land Acquisition Act. Now, there was a major problem in terms of the – under the old act, both the state governments and the central government effectively grabbing land at virtually a pretense and not compensating the landowners. This particular legislation was meant to solve the problem, but it has just gone totally to the other extreme, to the extreme such that land acquisition today is probably – well, in fact, by most calculations that I have seen, almost all calculations I have seen, today acquisition of land in terms of the cost will take – will be more than anywhere else in the world, leading me to observe in one of my writings, saying that, you know, if you are looking for land, you'll first look at Mars before coming to India. (Laughter.)

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And it is long drawn. If everything goes smoothly, meaning no undue challenges happen or legal challenges happen, everything goes by the book, it'll take four years nine months to do the acquisition. So you simply – land acquisition is required for almost everything else that the government wants to do, this will have to be fixed. So this is the – a few of the – of the immediate actions that the government needs to take.

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In addition, I would also proceed right away with giving a bit more both fiscally as well as legislatively greater space to the states. In the Indian legal system, there are a lot of ideas in which both center and the state can legislate, but if center chooses, that way, it will – it is its legislation that takes precedence over the state legislations. But it can actually empower the states if it so chooses. In areas such as labor laws, land laws, education, et cetera, it can empower the states that if you – if your legislation is in conflict with mine, I allow that to be valid. So I think that space ought to be given to the states, at least in certain areas.

That's – but my last I'll mention here – maybe let me take two at least – two additional ones. One is labor laws in India. So if you're looking for employment (defects ?), good jobs, jobs that pay well on a large scale, India needs very, very badly deliver intensive manufacturing. Now, this has been my song going on for about 15 years now. If you look at things like – (inaudible) – electronic assembly kind of activities, the activities in which China excels, controls, has a very large share in the markets, India is (woefully ?) absent, so much so that if you look at the organized sector or formal sector employment in India, you got a workforce of about 500 million. How much of that is employed in the private corporate sector or even firms that are, you know, 15 workers or 20 workers or more, of that size? So you're not even thinking in terms of really truly corporate employment. Less than 20 million are in the private corporate – private sector with – which have firms of 10 workers or more or 20 workers or more.

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So good jobs are simply absent. Everybody ends up in the informal sector or – including, of course, agriculture, where half of the workforce is. That is just not the conception of modern India – (inaudible) – an India with good jobs for people, an India that would be urban. And in my thinking, this – all this manufacturing, urbanization, et cetera, go hand in hand. And for all that, labor laws in my thinking are incredibly crucial. Somebody will have to bell that cat.

MR. TELLIS: Sure. Let me come back to the two issues that you flagged as being significant throughout the campaign and which will make a difference to ordinary Indians, which is growth in employment. It seems to me that the moment you think about growth in employment, the first thing that actually strikes you is how little the central government can do by itself on these – on these two issues. I mean, there are important things that it has to do. So Bibek, if you were thinking about this, how does the government apportion its energies between what it has to do to stimulate growth on a nationwide basis? And how does it think seriously about getting the states to do the things that will actually get to where Arvind wants India to be?

MR. DEBROY: Well, it is not a situation where from that base level growth, which is now about 4.5 percent, that overnight the growth is jacked up to 9 percent. That's not the way it works. What is instead going to happen is an incremental jacking up of the rate of growth progressively.

I think what it likely to happen and is already happening in the first phase is the addressing of the administrative kind of problem, including the clearance system, that forest environment land acquisition partly that Arvind mentioned. These are the things that the earlier government promised to do until – under something called the CCI, the Cabinet Committee on Investments, has never really took off.

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A little bit also has to do with positive sentiments. As a result of all of this, what I expect is this particular year I would expect the rate of growth to go up from 4 ½ to about 5 ½ and perhaps even approach six. This does not mean that you cannot get the 7 ½ and the eight and even the 8 ½ regardless of what is happening in the rest of the world, but for that to happen, the main problems right now are infrastructure, particularly roads and electricity. And of course, we've been talking about employment but also skills.

My response to your question – the second part of the question is yes, it's absolutely right that India is an aggregate of the states, and some states have been doing well, some states haven't been doing all that well. These are still early dates for the government, so needs certain institutional kind of structure to ensure that the union-state relationships are handled properly. There have been things historically which have largely been ornamental. There is the NDC. There is the Inter-State Council. The Planning Commission has not really worked. There has been talk about either reforming the Planning Commission or closing it down, giving it a new name. So all of these things will have to be looked at, and I suspect that will be the agenda after the budget. The main reason why I'm saying this is most of the public expenditure that you'd expect any government to do is in the social sectors, which are either state subjects, or now they're even local body subjects.

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MR. TELLIS: Let me come back to the last point you made, and I want to get Arvind's view on this. There are some things that this government will not be able to do, no matter how much may intellectually see the need for, which is to curtail the kind of popular spending and populist programs that the previous government had put in place. I mean, it's politically simply impossible to shut these things down overnight. Yet these issues have to be addressed because of the macroeconomic questions that lie at the backdrop. So how does one juggle the political imperatives of maintaining this heritage of populist programs with the financial discipline that will be increasingly required to achieve the kind of growth that India needs going up ahead?

MR. PANAGARIYA: All right. OK. So first, very quickly, on the previous question, certainly the center can do land acquisition law, it can do the labor law reforms. So I certainly argued that, that the center – and labor law reform is really the big thing in terms of launching the labor-intensive manufacturing and, therefore, manufacturing in general. So central government does control a lot of the levers of kicking up growth, you know, because when the center changes these laws, it changes for all the states, and then that – it is up to the entrepreneurs to then respond, which is how the process proceeded starting from 1991 onwards. And that is how we got the 8 percent growth. It's not – you know, I mean, the states – I mean, notionally, true, the states are doing it, but it happened because the reforms were done at the central level.

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MR. TELLIS: Let me ask you a question – clarification on that. I mean, aren't labor laws part of the state's responsibilities?

MR. PANAGARIYA: No. No, no. It could – if the center so desired, it could empower the states to do their own reform. And the state of Rajasthan therefore has initiated some of the – some of these reforms, but it still remains to be seen whether center actually allows that to happen or not. But center, if it wanted to do it, would change all the labor laws, all of them, about 44 of them. That's 44 center laws, center labor laws, and that the center can actually reform them. And about 10 of them need serious reform. So that was the previous question.

On – this is very crucial. I totally agree that fiscal discipline is required. Initially, I thought the prime minister, really one statement that he made around I think 14th of June in Panji, in Goa, was – seemed to suggest that he was going to be tough. He said, you know, I've realized that the treasury has been left empty by the previous government and I'll have to take very hard decisions. And perhaps, you know, I saw that statement as saying, you know, preparing basically the electorate for tougher decisions. Railway fares were hiked up, so that was certainly a move in that correct direction.

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A lot of subsidies, there is a lot of news coming out now. Now, we still wait and see whether this gets done in the budget or not. But some of the subsidies – well, petrol subsidy has been more or less eliminated. Diesel they're talking about eliminating. They're talking also of the cooking gas subsidy, fizzing it out slowly. I think – you know, they're doing five rupees per month but they could go easily 10 to 15 rupees per month. It should be – they should be bolder, after all. Kerosene – so all the middle-class subsidies, subsidies that benefited principally the middle class, there has been a serious talk of fizzing it out. So that'll help some.

But that still doesn't get you far enough because the kinds of infrastructure projects that the prime minister has promised, they're gigantic. I mean, you talk of the bullet trains, you talk of the freight corridors, you talk of the hundreds of new cities, you talk of linking the rivers. I mean, these are huge – cleaning of Ganges. These are huge projects, require huge amount of resources, which is where I think, in the end I don't think there is a huge alternative to going in a big way after this investment. That is where, you know, they should be thinking in terms of raising very, very large sums of resources through disinvestment.

And it is, after all, ultimately something that's – (inaudible) – enhancing reform. You bring in private sector role on a greater scale, even if, you know, I – sort of, you know, what Bibek has said, that privatization, if you're asking for it, it's not going to happen. I'm not as pessimistic. I think two years or three years from now we might see privatization. Not immediately, it's not going to happen, I agree, but disinvestment certainly is – even under the previous government, lot of disinvestment was happening, not enough of it, but certainly it was happening. So that'll be, one, another way to raise revenues.

And then finally they have to start doing the tax reform. So tax base has to be broadened. Goods and services tax have to be put in place. And then also alongside you got to do the other stuff with the retrospective taxation and all the cleaning up of the tax laws themselves, spelling them out – I mean, (codification ?) so that there is no uncertainty as it exists currently. All those things will have to be done. It still is going to be a race to get the kinds of resources you need for the large-scale projects that the prime minister wants to do.

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MR. TELLIS: Let me ask you two questions, actually, one each: one of the resource question pertaining infrastructure investment, and then the second is the management of these infrastructure investments.

On the resource question, if we are not going to see privatization and disinvestment fairly soon – it's a longer-term agenda – where do the monies come in for the kind of huge infrastructure investments that the prime minister is thinking about? I mean, you know, it's attractive to think in terms of rationalizing tax structures and stuff, but simply the volumes of resources required to sustain infrastructure modernization on such a scale I think goes beyond simply efficiency gains, right? We have to think of some other sources of finance that one taps. So where does that come from? Does that come from abroad? Is there, you know, capital inside the country that can be mobilized through other means? So that's one question.

The second question on infrastructure is India has had a fascinating experiment now for about 10 years with public-private partnerships on infrastructure projects which have not gone perfectly well, in part simply because the management of these efforts has kind of been – (inaudible) – in the capacity of the state. What – when you think of major infrastructure investments of this kind, what is the model that one envisages when one thinks about implementation? So if both of you can address the resources question and then the management question on these big infrastructure projects.

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MR. DEBROY: See, I think the resources question, there's a certain timeline, and I'm glad that Arvind brought in the timeline because there are several expectations in terms of what is likely to happen in this budget, and there are several things that may happen further downward – further down.

When I said I'm skeptical about the privatization, I really had this particular budget in mind. What I think is likely to happen in this budget is, because public sector banks have to be recapitalized, and Arvind also mentioned that, there will be dilution of equity in public sector banks. That I think is more or less a given.

On the broader issue of privatization, if you mean privatization as reducing government equity to less than 51 percent, there is a Supreme Court judgment in the HBCL (ph) and the BPCL (ph) cases, which causes a bit of a problem if legislation needs to be changed. Arvind indirectly mentioned legislation, and legislation is not executive, so it has to wind its way through parliament, which means at least two years if not more, assuming that legislative change can be pushed through the Rajya Sabha, where today the BJP does not have a majority.

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On the resources, apart from privatization, which if done – if done can bring in a substantial amount of resources, although it is a pedantic point whether you should sell assets and use that to plug what is essentially a revenue deficit problem. But let's leave that aside. The substantial resources mobilization will come from the fact that today about 5.3 percent of GDP goes in tax exemptions of all kinds – direct, indirect, all of that taken together amount to about 5.3 percent

of GDP. Now, that's a lot of money. I don't think it will be very easy to forge a consensus on eliminating those exemptions, which is why I don't expect that to happen this year. It will happen some way further down. I also happen to think that the compliance costs of paying taxes cannot be improved significantly, cannot be reduced significantly as long as one has the exemptions.

You mentioned the PPP. On PPP, let me also quickly mention that one of the problems in recent years has not just been an issue of increasing investments as a share of GDP, but the increasing inefficiency of that investment. For instance, for a while the incremental capital output ratio in India had declined to about four. It's now climbed back to about 6.7. So I just want to flag that very high figure – (inaudible) – some of this has to do with the clearances, the (forest land ?).

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You mentioned PPP. Now, PPP can solve things in certain segments, including not just the obvious things we are thinking about, but there have been successes – successful instances of PPP's altering the social sectors. Depends a little bit on what one means by PPP. But all said and done, one has also got to ensure that in certain areas, after all of that competition removing private entity, et cetera, et cetera, the public sector has also got to deliver because there are areas which in this room we may not be that bothered about, but there are areas where there are market failures.

MR. TELLIS: Let me come back to the public sector a moment. It's very clear that there are two problems of the private sector. One is that we've simply not seen the public sector being able to contribute relative to the resources that have been ploughed into it. And there is another problem with the public sector where it is often not present in those areas where there are market failures, and public health is a great example.

So going forward, how does this government start thinking about public sector investments in the context of India's national strategy? I ask this also in part when you think about infrastructure because my suspicion is that on many of the projects that have been identified, as, you know, the bullet train, the corridors and stuff, the natural temptation is to think of these as private sector activities – sorry, as public sector activities. How does one – how does one see the balance between the public sector and the private sector going forward?

MR. DEBROY: You know, but several of these can be unbundled. You see, it's no longer a package, including the bullet trains, including even the existing railways. It's not that this is market failure. There are several services, there are several things that you can actually unbundle.

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The problem really is that in many of the PPPs – and this is where the PILs also become important, the CAG becomes important – that how do you ensure that the contracts are being ground on transparent basis? And the reason the PPPs have got a bit of a bad name is because either they're not transparent and they have not been perceived to be transparent, and both are equally important.

MR. PANAGARIYA: (Inaudible) – that there has been a history when at least some of the products have been done quite well. Road construction, if you go back 2002 to the data, or, like, you know, 1997 to 2002, largely the NDA period, you're building something like closer 5,000 kilometers of highway per year. The following 10 years, it dropped to less than 2,000 kilometers. So there was an effective model. So one needs to go back and try to see what was being done right that didn't happen right subsequently. So there are things, airports are being built. You know, there are a lot of allegations that these were done at very high prices, and also you need to perhaps cut that somehow, but clearly, you know, in the last 10 years one of the accomplishment of the governing government was the airports. A large number of cities

have built excellent first-rate international airports. We all have traveled through those and we know that. So some of those can be done.

[00:40:29]

But I also think, in the end, the resources question on which you are pushing us is a very serious one and some of the projects, perhaps, will get – will have to go onto the backburner. I mean, I don't see how, say, in the current data, for example, '14, '15, you can do large or any significant number of additional projects, because we already know what kind of budget – you know, how this 4.1 percent deficit that Chairman Ruma (ph) has left in his interim budget, how it is reached. I mean, there's – every commentary you look at says that, you know, there's overestimation of revenues, underestimation of expenditures. So even if you, as I have argued, you can – you know, up to 4.5 is totally acceptable if you're trying to raise capital expenditures. But even then, how do you really get to that kind – that level of expenditure that will be required for these projects? So I think there will have to be phased and put – back loaded rather than frontloaded.

And this is where I also feel, then, you see, revival of growth becomes incredibly important. The reason all this social expenditures, et cetera, could be expended rapidly was because growth was happening, and now reason we feel such a huge crunch is that we built the expenditures on the expectation of this 8 percent growth, and now the growth has been half of that. So you've got a problem there.

Now, on the social side of the expenditures, I have taken the view that the government in India is now, what, 50 years or longer – certainly 50 – that the provision of things like education and health through the government institutions has been tried and has been utter failure. I will just mention the health side. Since early 1960s, India started building up this infrastructure with subcenters, community health centers, primary health centers, dispensaries, hospitals both in – particularly in the rural areas, also some of the (greater ?) urban areas. And with all that effort, in the end, what are the outcomes? Eighty percent of even the rural folk for their outpatient care go to the private providers, 80 percent. More than 55 percent even for in-patient care – meaning hospitalization, et cetera – go to the private sector. What is the public sector doing?

[00:42:51]

And we keep saying this, that – and it's the same story in education and in the schools and all – we keep saying that, oh, we can, you know, fix the public sector. But what about the poor guy who needs it today? I mean, 20 years from now – you're telling me 50 years you've been assuring me that you'll fix, and maybe in another 20 years you will actually fix it, but what about the fellows today? So I've argued that you've got to empower the people, give them the money. So for school (sites ?), give vouchers to the people and then let the parents decide. If they find that public schools are good enough, then they will come to the public schools, voucher will come back to the state and the money will flow back to the Treasury. If not, let the poor guys also have the kind of access to the private schools that they want to choose that the richer parents have. So I'm talking vouchers for the maybe bottom 50 percent of the population.

[00:43:44]

Likewise, on health, I would give cash to the people for outpatient care, and they decide. If public sector says I can provide good services, that is fine. Let them charge. Voucher will – you know, the cash will flow back to them. If not, let the guy go to the private sector.

And same for hospitalization: Give insurance to the people. And again, for the bottom 50 percent, maybe the state ought to finance that. But then people decide whether they want to go to a private hospital or public hospital. So that is the way I think you need to redesign.

And one way I have argued this should be done is that you've got two very large-scale social programs, National Rural Employment Guarantee scheme and food security, so food subsidies. These are huge programs. So to the bottom 50 percent of the population, tell them, the bottom 50 percent of the households, either you can get 10,000 rupees in cash or you can choose to stay with your current entitlements in the food subsidies and rural employment. But you can't have both. I suspect that the vast majority will actually choose the 10,000 rupees cash, because that then allows them to not only choose where they want to buy, but it also allows them to take their labor and earn another wage, whereas with the employment guarantee scheme you get the wage but then your labor is taken away.

[00:45:09]

MR. TELLIS: Yeah. So essentially your argument is that if you create institutional designs that create room for more market mechanisms, within the sectors, you get both the efficiency gains and the equity gains, which come.

MR. PANAGARIYA: Absolutely. And those – I mean, if the public sector is functional as in China for example – they have no trouble. I mean – (inaudible) – public sector will deliver good services.

MR. TELLIS: Right, yeah.

MR. PANAGARIYA: I'm very happy to have that. But I've been disappointed for 50 years now.

MR. TELLIS: Let me come back on the resources question just one more time and link it to the availability of capital from abroad, because there is plenty of liquidity in the system, right, with a sovereign wealth funds, et cetera, et cetera. Is tapping foreign capital (bonds ?) a solution to India's immediate resource requirements, particularly where, you know, you're talking of large capitalization projects for infrastructure. Bibek, is that something that –

MR. DEBROY: Well, it depends on the numbers, you see? Because the foreign capital, you're using the word foreign capital. You're not specifically talking about FDI. Foreign capital would account for what? Two to 2.5 percent of GDP. That's the – that's probably the maximum it's ever going to amount to.

MR. TELLIS: Unless you change your institutional design to go out and raise capital, right?

MR. DEBROY: Even if you change that, even if you change that, I don't really see it going up to something like more than 3 percent or thereabouts. The investment rates actually in India, even in this gloom and doom scenario of the last few years, the investment rates have not been that bad. It's really been the inefficiency. The investment rates have dropped compared to the high-growth years, but what has been much more damaging is the declining efficiency of capital.

[00:47:07]

MR. PANAGARIYA: Actually, on this, though, there's also the other macro constraint you've got to worry about, that, you know. As Bibek rightly said, 2 ½ percent is the maximum you can do because ultimately, foreign capital has to flow through the external account. So if you're running a capital account surplus of 2 ½ percent, by definition you are running 2 ½ percent of current account deficit. Well, you can't really run more than 2 ½ percent account deficit. So foreign capital, you know, they may be large or foreign ownership of things, but total – in terms of the investable funds that are going to be allowed to cross the border, can't exceed 2 ½ percent of the GDP.

MR. TELLIS : I'm going to ask one last set of questions before I open it up to the floor, and that has to do with another element of dismay that contributed to bringing the government into office, and that has to do with inflation, persistently high rates of inflation. It seems to me that much of the inflation in India in recent years has been because of supply-side constraints, and that brings us to the whole question about in particular agriculture, food, you know, prices of proteins and so on and so forth. Please, you know, kind of give us some sense of what is an inflation-fighting strategy for

the government going forward? Because this is one of those issues that hits, you know, average people in the pocketbooks and really begins to matter in terms of how the government's political performance will be judged.

[00:48:42]

MR. DEBROY: On the inflation, there are three components. One is items that are imported. The second I the manufacturing and the third is the agro. And you've focused on the agro, which has of course been the most sensitive one.

On the agro part, on food greens, which is often talked about, MSPs have also – which had de facto the procurement prices have also been responsible.

MR. TELLIS: This is the minimum support price.

MR. DEBROY: The minimum support price, but de facto it becomes a procurement price. But what is also important to mention is that the 80 – about 80 percent of the increase in food inflation has actually been in fruits and vegetables and there are – all kinds of fruits, vegetables, meat et cetera, and there are reasons for that, because consumption patterns have changed. There has been income growth. These are all desirable.

The problem of course is there's a long list of what you can do to improve the supply side, but that takes time. It does not happen overnight. What is fairly obvious is the nature of inflation is such that monetary policy singularly ineffective in addressing it.

[00:49:51]

So what can you possibly do in the short run? The long run is – the medium term is a long list. In the short run, what you can probably try and do is the following. There are parts of India where there is supply. There are parts of India where there is demand. And today, there are data problems, informational problems as a result of which that matching of supply and demand does not happen very efficiently. I'm not talking about the medium-term reforms which involve collapsing the distribution chain. I'm saying if we – even if we ignore that, for example, the way the railways transport excess commodities, surplus commodities from one place to another place, the way imports take place – so in the short run, particularly for agro, this is probably the only thing you can do, which is essentially in the nature of better management, better information, real-time information, instead of reacting post facto when you suddenly realize that the prices of onions have shot up.

MR. PANAGARIYA: Right. No, I think, you know – (inaudible) – that in the short run, one thing that the government could have done, didn't do effectively is at least on the cereals inflation, we got this mountain of 80 million tons food grains sitting, and these were not released fast enough to contain that part of the component.

[00:51:22]

As a trade economist, I also feel that some of this you can fight through imports, but we are not easily willing to do that. I'm not sure that even the present government will actually do that. A very important part of the inflation also is milk. And you could in principle import powdered milk and then make a dent on the milk prices, but I don't think we're really using that instrument. And, you know, the prime minister also comes from Gujarat, where he got the milk in the street – (inaudible). So, but you know, that is an instrument which in fact can be employed in the short term, too, but hasn't been.

MR. TELLIS: Yeah. Well, thank you. I'm going to open the floor to individuals. If you can just identify yourself when I call upon you for the benefit of our – here, please.

Q: Thank you very much. Raghbir Goyal, from India Globe and Asia Today. This is great panel and this is a great book, really. I have not seen yet. But my question is, sir, one, what role you think Indian-American community can play to bring all these issues, what you have talked about in India? Because they have played a great role in the state of Gujarat.

And second, the tsunami of Mr. Modi and BJP was coming. It was known to the Indians in India, but not here in America. So Mr. Modi was on the black list of travel list of the U.S. State Department. And now, of course, twice Mr. President Obama called him and invited him to the White House, and he's coming here. My question is, until I asked the questions in the State Department and White House, how will you deal with Prime Minister Narendra Modi? Because he's going to the prime minister of India. As far as relations between U.S. and India is concerned, I'm asking you, sir, how you think India will deal with this new government of Prime Minister Mr. Narendra Modi. Thank you.

[00:53:16]

MR. TELIS: But you're asking the wrong person. (Laughter.)

MR. DEBROY: I was going – I was going to suggest that this is best kept for the State Department spokesman when you visit C Street next.

But it – I don't know, Arvind, if you want to take a crack at the first question, which is, is there a role for Indian-Americans in this process?

MR. PANAGARIYA: Well, I'm an example of somebody having a role in the process. (Laughter.)

MR. DEBROY: His person is his message. (Laughter.)

MR. PANAGARIYA: But I ask – again, get asked this question a lot, and my answer – real answer is that you know your strengths the best. You have to figure it out for yourself. I mean, to think that somebody is going to figure it out for you: highly unlikely. I mean, I know my skills and what I can bring to India, and likewise, you know it for yourself. Largely, you have to figure it out yourselves.

MR. TELLIS: Yes, sir. The gentleman there.

Q: (Name inaudible) – an independent consultant in the India-U.S. business relation space. My question for the panel is on monetary policy and political economy. And perhaps it's unfortunate that we are using the two terms in the same sentence, but that's a topic for another day. It's not a problem related to India specifically. A lot of countries have that issue.

My question is two-fold. A, why do you think that the transmission mechanisms are ineffective in India? In other words, despite the Reserve Bank's efforts, food inflation especially continues to be a significant problem, and other types of inflation as well outside of food. That's question one.

[00:54:54]

And question two is in the previous government, I think it was known that the business lobbies, such as the CII and so forth, and the finance minister then, Mr. Chidambaram, had a bit of a conflict with the RBI governor, Mr. Subbarao, in regards to what the correct repo rate and the cash reserve ratio and so forth should be. Obviously, the business lobbies wanted it to be looser, and the RBI wanted it to be a little bit tighter. Do you envisage that same problem occurring under this administration, with Dr. Rajan as the governor of the RBI? Thank you.

MR. DEBROY: Well, part of the question should again have been asked to Mr. Chidambaram. (Laughter.) But anyway, look, the RBI – there's a broader issue of reforming RBI, which you are not asking about, because the RBI today is not truly an independent central bank, and there are all kinds of things that need to be done to make it an independent central bank. Until that is done, monetary policy does not get delinked from the government's fiscal policy.

[00:56:02]

On the inflation part, I already said that despite what the RBI says about inflationary expectations, I don't think monetary policy instruments have been effective or will be effective in addressing the kind of inflation we are witnessing.

The direct question was about the present RBI governor and the present finance minister. As far as I can make out, the present RBI governor and the present finance minister are getting along perfectly well, at least that's what the India-based consultants have told me. (Laughter.) And if they're wrong, someone's going to lose a lot of money. (Laughter.)

MR. TELLIS: Armin (ph).

Q: (Off mic.)

MR. TELLIS: Microphone.

Q: Armin Choksi (ph). You know, the magnitude of the reforms that India needs to undertake are quite extensive. You listed a lot of them in this book. You know, Arvind, you sort of talk of trade liberalization, labor market reforms, privatization, deregulation, financial market reforms. But what I'm hearing you gentlemen talk are really incremental, marginal changes that are going to be taking places. And I was wondering that here is a government that has come in with huge – a huge mandate. That mandate is going to be disappearing fairly fast. Wouldn't this be the time for the government to actually seize the bull by the horns and push through a significant set of reforms now rather than taking an incremental approach?

MR. PANAGARIYA: I've written that publicly, Armin (ph). The last – my last column, actually, in The Times of India was a letter to the prime minister making exactly that point, that the nation has done its part by giving you a mandate which gives you absolute majority to your party and absolute majority – the absolute majority in the Lok Sabha to your party and absolute majority in the joint houses, both Lok Sabha and Rajya Sabha to the NDA, the coalition, and it is his turn to take action. So I certainly called for –

[00:58:17]

Q: Do you think he will do it? I mean, you gentlemen seem to suggest probably not.

MR. PANAGARIYA: What do you think? (Laughter.)

Q: Hopefully.

MR. PANAGARIYA: I am hoping too. (Laughter.)

Q: (Off mic.)

MR. DEBROY: Can I – because I have got a slightly different take on this, because let us understand what the bull is, what the horns are and who is doing the grabbing. (Laughter.)

[00:58:41]

What you have is a government in Delhi. Many of the changes you require – and I am repeating what I said – many of the changes you require involve legislative changes. Many of the things that one needs to reform involve discussions with the states, which is why the timeline becomes important.

All I'm saying is if you are expecting that there will be a matador in July in the budget, that is unrealistic expectations because that does not realize the realities of the governance structure where one has got a Parliament, one has got the states, one has got the judiciary, and particularly on tax reforms, on many areas of tax reforms, there have to be serious discussions with the states involving the Finance Commission. So yes, the broad message is correct that here is a government which should deliver on reforms, but let us not hope for the moon, and if you want to hope for the moon, give the government a little bit of time, as the voters in India will, that those reforms will not happen in the budget, or at least I don't think they will happen in the budget, for '14 to '15; they will happen in the budget for '15-'16, where the preparatory work for some of these things have been done.

[01:00:15]

MR. TELLIS: Bibek, I think we'll come back to this issue, and I want to – and I want you to at some point also address the question of institutions, that is, what is the institutional mechanism for getting the states to do what you suggested? I mean, do we stay with what we have? Are there new permutations that we need to think about and so on?

Jessica.

MS. MATHEWS: Thanks. Jessica Mathews. I was surprised to hear Arvind put the environment ministry as one of the top three reasons for India's poor economic performance. Clearly, the endless process of getting projects approved is a serious problem, but how do you get a process that will produce timely and effective results for environmental approval without ending up like China, where the cost of environmental degradation is estimated conservatively at 15 percent of GDP?

MR. PANAGARIYA: Yeah, so it's not just a matter of clearing every project, but making a decision expeditiously. Whatever you want to turn down, turn it down fast, so that even the entrepreneurs know that not every project is going to get cleared. But if you sit on the projects forever, then they – you know, a lot of the up-front costs are incurred, the interest on those costs have to be paid, and so – (inaudible) – a lot of sunk costs there.

[01:01:42]

So it is an issue of whether or not you do it expeditiously. In my thinking, certainly, there is not necessarily a conflict. In fact, there shouldn't be a conflict between growth and environment. You should be able to carry environment with you while you're growing. So I certainly don't see the conflict here.

MR. TELLIS: And it may also be a question of having norms that are used consistently, as opposed to –

MR. PANAGARIYA: Absolutely. Absolutely.

MR. TELLIS: The gentleman there, please.

Q: Dave Carr (sp), Global Financial Integrity. I have a question for the panel on black money. As you know, GFI has done a lot of work on black money in India, and one of the major planks of the Modi government, of the BJP government, when it came to power was tackling the black money issue and getting the money back, so to speak. What are your views on the likelihood of India getting a significant chunk of the illicit assets back?

MR. DEBROY: Now you have really put me in a spot – (laughter) – because I have to say that the report that you are talking about is imperfect because it estimates gross capital outflows from India. It does not estimate net capital outflows from India, which is also true of the other developing countries.

[01:03:07]

The problem with that is that in my view, it grossly overestimates the extent of Indian, for the moment, black money that is stashed abroad. I don't think all of that has – is stashed abroad. I see no particular reason why it should be. It has made its way back into India, into the real estate market, into the capital market.

You asked a question about black money, and all kinds of figures are bandied around, and I would urge some caution. The reason I would urge some caution is a large segment of the Indian economy is informal, something that I think Arvind also mentioned. Informal does not necessarily mean illegal. So when you see estimates of the size in GDP – and by the way, in GDP, many of the instances that are given there for GDP purposes, they're actually transfer payments, but let's leave that aside. So the share of the informal segment may be very high, but I don't think the share of the black segment, which means something that is illegal, tax evasion or otherwise, is as high as is made out to be.

There are figures that float around – and some of these are very dated figures – of the share of black money in GDP – but these are very, very dated – of about 40 percent or thereabouts. Whenever there have been good estimates, which are also pretty old, they are about 25 percent of GDP. The present exercise is in terms of targeting – as you yourself said, targeting – (inaudible) – the black money stashed abroad and bringing it back. I think it's much more important to address the causes of generation of new black money. And there's a long list of things that can be said in that, but I'd quickly mention taxation, and I'd quickly mention the real estate sector, real estate (oblique ?), the land segment. Of course, there are the – there's the electoral part of it, but let's leave that aside.

[01:05:20]

So I think it's important to address the land and the real estate, and I can list out the things that need to be done, which will address one of the main reasons why the new kind of black income continues to be generated.

MR. TELLIS: Yes.

Q: I must thank Ashley for an excellent book – I've just been zipping through some things there – and the panelists as well. My question relates to internal security and counterterrorism and national security at large. Given the resource constraints we have with the Indian economy right now, which you alluded to in your discussion, and the kind of threats that India faces from Maoist extremism inside and the post-NATO U.S. exit from Afghanistan and the threats therein from terrorist groups, what kind of investment is India looking at, and what's kind of – what more can be done in terms of shoring up our defense forces, our internal security scenario and the modernization of not just the forces per se, but our entire counterterrorism apparatus?

MR. TELLIS: Can we hold that question for the next panel? Because we'll talk about some of these issues in the next panel.

[01:06:34]

There was a hand raised there. Yes, please.

Q: Saurabh Lall from the Aspen Institute. So you spoke a little bit about the power sector, and you know, that's, I think, one of the most consistently rated barriers to entrepreneurial development that often comes up. So could you speak a little bit more about what are the kinds of reforms, both at the center and at the state level, that might be needed to increase energy access towards the states?

MR. PANAGARIYA: Yeah, at the state level, in my understanding, the most important thing is to strengthen the distribution companies. That is where the big bottleneck is, because if distribution company is bankrupt, it cannot buy electricity from the generation company, therefore the generation company has no incentive to invest in generation, and likewise, if it cannot buy from the generation company, it cannot give to the consumers and therefore cannot collect any revenue. So you got to have the distribution companies financial conditions fixed up.

[01:07:47]

What that requires, minimally, is a very clear transparency between the state governments, how they want to give the – (inaudible) – electricity either to the farmers or households or whoever. You've got to basically hold the state governments responsible for whatever subsidies they want to hand out. Distribution company should get its money regardless of who is paying it. That would be the first step.

Also, you need to get the state electricity regulatory commissions strengthened. In many cases, they are not sufficiently independent. They need to be independent. They need to learn from some of the central regulatory bodies, which have certainly done a lot better job. So that's the – that's the state level.

Then there is of course bigger issue of, you know, bringing electricity to everybody. That of course requires laying down the transmission lines and all, so that's the central government responsibility, quite a bit of it there, which it has to invest in, and so again, we get back to the resources.

MR. DEBROY: Can I – I just – I agree with everything that Arvind has said, but I want to again underline the importance of investing in the transmission equipment, some of which is very old. But I also want to throw an additional number at you. There are about 150,000 villages which have population sizes less than 500. If you have a population size that's less than 500, delivering anything there under normal circumstances, whether it's public or private, is not very viable. And therefore the question is what do you do with those villages? Can you actually have grid-based solutions that are viable, or are there going to be off-grid solutions? If they're going to be off-grid solutions, how do you eventually integrate them into the grid?

[01:09:40]

MR. TELLIS: I'm going to have to adjourn this panel, exciting though it is, only because we have to keep on schedule. I would invite you to meet with both Arvind and Bibek during the break and after. But the tyranny of the schedule compels us to take a break for 10 minutes. I believe we have coffee and some –

MS. : We have coffee and cookies.

MR. TELLIS: Coffee and cookies out there, enough to sustain you for the next round, and then we'll come back in 10 minutes. Thank you very much. Thank you. (Applause.)

(Break.)

MARSHALL BOUTON: All right, ladies and gentlemen, I know that tyrant called schedule is really after us, so we should get started.

My name is Marshall Bouton. I'm delighted to be here and to be part of the release of this extraordinary volume. Very, very, very valuable contribution at a very critical time for India and for all those looking to India's recovery from a long and difficult period.

[01:10:53]

We – now, Ashley is my boss – (laughter) – and the – he has told me we're to cover everything except the economy. (Laughter.) Now, the problem with that is that's a rather large order. The other problem with it is that the way that wonderful discussion of the economy ranged across many topics, those folks really invaded virtually every piece of our turf.

So what we're going to do here is try to be a little focused, generally speaking, and two or three topics, really, and I'm going to turn first to Milan Vaishnav, whom I'm sure you all know, associate in the South Asia program here, whose wonderful writing and analysis on the run-up to the election, I hope you all followed. And if you did, you would have had a very good insight into what was going to happen in May. Some of that work, we've done in collaboration with the Center for the Advanced Study of India at Penn with Devesh Kapur, and it was a wonderful collaboration, and it produced remarkable insights.

I'm going to turn to Milan to talk first about institutions, governance, including corruption, and also politics, because we're all operating under a very large assumption that all the political problems are solved by the results of the election, and there's no political problem for this new government because they have an absolute majority in the Lok Sabha, and in a couple of years they'll probably get their majority in the Rajya Sabha, and we can all sit back and relax about politics. Somehow, I think India could defy at least some of that complacency.

Then we'll turn to the fellow to my left, whom you don't – who doesn't need introduction. I just want to say as a personal comment for someone who's been following India for 50 years that no person on the American scene today is contributing more to our understanding of India, not only in and of itself, but in the Asian context, in the context of the international – the great international restructuring that's now underway, than Ashley Tellis. And the scope and quality of his thought, his writing is there for all to see. But it's – I remember well about 20 or 25 years ago sitting – going to a session in New York with this young guy named Ashley Tellis from the RAND Corporation whom I'd never heard of, and I walked out of there, and I thought we might well see what we've seen, in fact.

[01:13:48]

Ashley's going to talk, in 10 minutes – this guy has 10 minutes too – about all the external problems. (Laughter.) And unlike Ashley, I'm going to be a pretty hard time master here. (Laughter.) So we want to keep these guys roughly within the limits of their time, and allowing you some time at the end.

So Milan, first, institutions. Mr. Modi spoke repeatedly about governance, better government, governance. He never really defined that, as is true of much of what he said during the campaign. What did he mean? What does he hope to accomplish? And how can he accomplish it? And in particular, can you talk a little bit about legislation specifically? Because I think Arvind properly pointed to the potential importance of legislation on land and labor at the center, and yet we all know that can be complicated, if not also kind of time-consuming.

[01:14:52]

MILAN VAISHNAV: Sure. Thank you very much for being here. Let me just start by saying two quick things: one, to congratulate Ashley, Bibek and the third co-editor on this book, who's sitting in the front row, Reece Trevor, and – on this book, which is a phenomenal achievement. I counted this morning. There are 25 authors, and I am one of the 25, so my contribution – and it was a co-authored chapter, so it's even less than that – (laughter) – but in the classic Washington tradition, will happily take credit for the entire book. (Laughter.) The second is I'm glad that you asked this question because when the event invite went out, I sent it to my mom, as I usually do, and she called me up within two minutes to say, this is great; I mean, look at these names, Ashley Tellis, Marshall Bouton, Arvind Panagariya, she said, but I have one question. What is it? Why are you on the panel? (Laughter.)

So I'm glad you didn't start with the question that my mother started with. I'm very glad to be here nonetheless.

So the way that I think we can break down this issue of governance is sort of twofold, right? So there's one set of issues that have to do with the implementation and administration of public policy, and the second are really actual policy choices that have to be made. Now, Bibek and Arvind and Ashley talked a lot about the latter, so let me focus a little bit more on the first and break that down into some subcomponents.

[01:16:21]

Now, the implementation and administration of public policy is, at the end of the day, Mr. Modi's bread and butter, right? I mean, when you think about the Gujarat model, right, the first thing that strikes you is the fact that he whipped the bureaucracy into shape, that he had this larger-than-life ability to really have the trains run on time, as it were.

So what are those ingredients, and how might he think about translating that vision as he comes to Delhi, right? So the first component is, you know, empowering the bureaucracy and giving them some form of autonomy. And here I think that the early indications are actually quite good. As many of you know, one of his first acts was to sit behind closed doors with the secretaries of all of the departments of the government of India, which is the first time such a meeting has happened in eight years, to have them have an open, off-the-record conversation about what their concerns were in terms of getting their job done, which I think is a very good sign that the chief executive of the country wants to understand what's going to make the bureaucracy tick and what's bothering them.

[01:17:29]

And there's also a component of that which is the autonomy part. So that's the empowering part: Look, I have your back; let me know what's troubling you. But the autonomy is important. That meeting also took place without any of the political masters in the room. So that is exactly how he governed Gujarat. It was largely through the secretaries, through the bureaucrats, not through the ministers. I think many of us in this room would struggle today naming another member of the Gujarat cabinet – (chuckles) – you know, over the past 10 years.

The second ingredient is when you bring in empowerment and autonomy, you have to do that also bringing in accountability. The two have to go hand in hand. And here again, I think that the initial indications are quite positive. One of the early steps he took was to scrap this idea of having groups of ministers or empower groups of ministers, which was a relic of the last administration, because cabinets could not come to consensus over contentious policy issues, so let's farm those out to smaller groups, which, at the end of the day, aren't accountable. The PM essentially delegates his authority, and we saw what that – what trouble that got us in.

The second – I find this stuff very interesting – he – the PMO has directed the ministries with taskings, saying, you must respond to our taskings on time, and if you don't, give a written response for why there was a delay to what we told you to do in the first place. Now, this is the very definition of low-hanging fruit, right? It's the kind of nuts and bolts that we take for granted in any kind of rule-bound bureaucracy, but clearly the system was so badly broken, I think it's a very important step.

Now, elements three and four, we have less of a clear sign. We have some indication. Element three is how do you nest these principles within a hierarchy of multitiered governance, because as you rightly point out, there are limits to what one person can do in Delhi or what the central government to do, given the constitutional setup and the decentralized nature of the Indian polity.

[01:19:40]

And here we know that many of the roadblocks which exist, whether it's getting the economy back on track, getting governance functioning again, are at the state level, right? So my favorite statistic I've been quoting is a nice analysis which J.P. Morgan has done of the 50 biggest stalled infrastructure projects in India, where they find that 80 percent of the value of those projects is locked up because of state-level regulation, not because the central government isn't acting, but because essentially, state governments are dragging their feet on land acquisition and other sorts of permits.

Now, he's spoken only in platitudes about how you fix this, but I do think it's encouraging that we're seeing for the first time ever the first chief minister making the direct transition to being prime minister. And here is a person who sees things through the prisms of the states. You know, that's really hardwired within his political DNA, and he's talked in recent days about moving from a – the status quo to a situation of cooperative federalism. And he's said big brother/small brother attitudes will not work in this day and age; we have to have a more complementary style of governance.

And I think here, even on foreign policy, one can make a pretty strong argument – I'd be curious if Ashley agrees – that some of the foreign policy failures of the previous government were largely about ineffective political management with the states, and not necessarily coalitions were at fault per se, but the fact that they couldn't manage those coalitions very well.

The last element – empowerment/autonomy, accountability, multitiered governance – is how you bring institutions that really hold this together and bind this together. And here I'm somewhat skeptical because a lot of the Gujarat model that we hear about had relied on charisma, relied on having a strong authority, and that's a very different model from what you likely need to be successful at the center – has some of the ingredients, but not all.

[01:21:50]

Now, some of the remarks which have come out of the PM's mouth, as well as people around him, make me a little bit dubious that he has a strong institution-building agenda, although it's early days, so one should reserve judgment. If you look at the comments he made on the campaign trail about the Election Commission, which is one of the few federal institutions which actually works pretty well – if you ask voters what they think about it, it rates off the charts – he called it a partisan institution and kind of belittled its reputation. There's been a wholesale request for governors to resign, which, when the BJP was in opposition in 2004, criticized the Congress government for asking BJP governors with RSS links to resign. There is currently a controversy over the former solicitor general going on to be a member of the Supreme Court on the basis of, well, he worked for the last government.

[01:22:49]

So there is a question about whether or not he's dedicated to righting some of the institutional wrongs. Again, it's early days. One should give this government some time to roll out policies and plans, as Bibek pointed out. But I would commend to everyone a nice column that Pratap Bhanu Mehta had in last week's Indian Express, where he elaborates on some of these themes.

Let me just end with one final point on the institution story, which this government, I think, has an opportunity to seize, which is, you know, we've talked a lot about decisions that the government has taken or is thinking about taking, but there's an interesting and very big decision the government has not taken, which is it hasn't said anything about the Planning Commission, right? It's been a notable sort of absence in these first couple of weeks. And there's a lot of talk about, you know, that they'll disband it, put a padlock on the door and sort of – and wish it away.

There was a report which came out last week from the Independent Evaluation Office of the government which suggests that what you should do with the Planning Commission is turn it into a reform and solutions committee. Now, the first thing they should do is get a better name than the reforms and solution committee. (Chuckles.) But the idea has a very interesting nugget, which is the great benefit of India's federal setup is that you have essentially a laboratory of democracies whereby states compete against one another and can learn from one another, and you get a kind of bottom-up diffusion of ideas and policies that can help build institutions, help make for better public policy.

That laboratory isn't as efficient as we would like. Part of the reason is there is no institution to help guide that. Part of the reason has to do with state-level parochialism, you know, what can we in Bengal learn from you guys in Orissa? Part of it has to do with the fact that there's a concentration of power in states, right, where – which are very top-down governed. So the center has a role to play, and that – so I do think that that's a hole that hopefully they're thinking about plugging.

So those are the elements of governance. I think we've had some good signs, some not so good signs, but again, I think the jury is still out.

[01:25:00]

MR. BOUTON: Let me ask you to just quickly, if you could, comment on the issue of corruption, another one of the keywords in the Modi campaign. Does the problem of corruption, at least at the center, get largely or significantly resolved by the bureaucratic model that you just described, where the secretaries are his instruments, that things happen from the PMO out, that surely he will enforce his own sense of probity at the PMO that'll communicate itself to the ministries, and the ministers will not have the rent-seeking opportunities that they have had in many governments in the past, including the last one. How does he show real success, progress on the corruption issue?

MR. VAISHNAV: So I think all those things could help. Certainly they make their sensible first steps. But I think we have to kind of unpack the question a little bit. I mean, on one level, having large amounts of corruption in India is inevitable. And I'm not making a culturalist argument here; in fact, quite the opposite, which is when you think about the stage of India's development and the fact that you have until recently very rapid growth, which expands the possible pie for rent-seeking, and then you combine or overlay on top of that a heavy role of the state in basically controlling the commanding heights of the economy, you are bound to get corruption, and that cannot be unraveled overnight. It simply can't.

[01:26:47]

And we should know that better than anyone else because there was something called the Gilded Age in the United States, which the analogy is not perfect, but I think there are many common attributes to the period of – in the United

States, you know, after the Civil War, before the turn of the 20th century. So that's the template upon which they're working.

Now, what are the specific things he might be able to do to help make this better? The first is – and this is my kind of, you know, personal hobby horse of – forgive me for going on this particular tangent, but there is an issue in India, as many of you know, of criminals in politics, and it's not a particularly new issue but is an issue that, despite all you may have heard about this being a good governance election, has reached new heights. So 34 percent of members of Parliament face pending criminal cases, which is an increase from 28 percent last time, which is an increase from 20 percent on 2004. Twenty percent of members of Parliament are currently under scrutiny for serious offenses, so these are offenses which are not libel, slander, unlawful assembly; these are things like murder, attempted murder, kidnapping, extortion. So these are serious problems.

[01:28:01]

Now, we all believe in, you know, being presumed innocent until proven guilty. These are allegations; they're not convictions, or they're more than allegations; they are cases which are underway in the judicial process. But Modi has singled this out as an issue that he would like to take on. What he's said since coming into office is that he requests the Supreme Court to take quick decisions on pending criminal cases which affect elected members of Parliament and the elected members of the various state legislative assemblies.

Now, will he be able to do anything about this? There's perhaps some reason to be skeptical. The first is that the BJP has an exceptionally high percentage of MPs – (chuckles) – who are under criminal scrutiny; 22 percent of them have serious cases. So that's – (chuckles) – immediate problem number one.

The problem number two is that there are actually reform proposals out there which he could choose to champion rather than asking the Supreme Court to do something. So the Election Commission has said, for instance, that for politicians that have cases, those that are of a serious nature which would warrant at least five years of jail time, which have been lodged at least six months before an election, which is to say they weren't, on its face – on their face, politically motivated, should automatically disqualify these candidates from holding office. Now, that's a somewhat draconian proposal, perhaps, but there have been various bills introduced in Parliament which would do modifications of this, to have some kind of tribunal which would, on a fast-track basis, adjudicate disputes that involved lawmakers. So there are certain things he can do beyond just what he's done so far, which is rhetorically urging the Supreme Court to do something. That's one element.

[01:29:58]

The second element – and I think this is a big element, and Bibek talked about this when he talked about the nexus between real estate, politics and elections, is how do you clean up the muck of election finance in India, right? I mean, this is a question that, in our own democracy here in the U.S., we are mightily struggling with, and failing, I think it's fair to say.

Seventy-five percent of funds which go to the BJP or Congress are unaccounted for. There is absolutely no line item which lists who is given that money. So it's a big political problem, and it affects not just the BJP and Congress, but everyone.

The rural development minister, who unfortunately passed away shortly after being brought into office in this present government, was on record as saying that he spent eight crores on his parliamentary election, when the limit was 40 lakhs, which is a big difference. But I actually applaud him for saying that because most politicians hide behind this fiction of – (chuckles) – of the 40 lakhs, when he was actually quite honest in saying, look, this is what it costs.

The Election Commission lacks the authority to deal with a lot of this. So again, if Mr. Modi was serious in tackling some of these issues, there are things he could do. For instance, the government is currently fighting the Election Commission over the fact that the Election Commission wants the authority to disqualify candidates who lie on their disclosure forms when they file affidavits about how much money they have, how much they've spent on the elections. The past government actually fought that. Will the present government change its policy and say, no, actually, that's an authority that we believe the Election Commission should have?

Independently auditing political parties – that would be a bold step. That reform has been sitting out there for someone to champion, and Mr. Modi, I think, could do that.

[01:31:57]

So those are some things he could do. He's talked about some of them in broad terms. I'd love to see more specifics about what he'd like to do. Let me just end with one final comment on corruption, which is as much as I'd like to advocate for some of these legal solutions, there's also a danger, which is one of the key clauses in the prevention of corruption statute, which basically scares the pants off of every sitting bureaucrat in the government of India, is Section 13(1)(d) of the Prevention of Corruption Act, which says that if you take a call on a decision which is – gives any private benefit to a party in a transaction, you can be held up for corruption charges. Now, I don't know of any transaction that ever takes place where somebody doesn't benefit from something. And this was specifically raised. So one should be careful of unintended consequences when you try to legislate some of this stuff, and I'm glad that this present government has talked about that. It was something which came out of this meeting he had with Cabinet secretaries.

So there's a big and very full agenda there, I think, for him to take on.

[01:33:08]

MR. BOUTON: I trust, by the way, that there was no causal relationship between the rural development minister's admission of how much he spent and his death. (Laughter.)

MR. VAISHNAV: Let's hope not, yeah.

MR. BOUTON: OK, I think we've got a – we should turn to the external environment.

Ashley, just step back for a moment and give us your thoughts about the approach, the thinking – Mr. Modi said very little in his campaign about foreign policy, security policy even. How would you guess he and his government are going to approach foreign policy? In what ways in particular will it be different from what has been a fairly consistent consensus over most of the last seven decades, with perhaps an important departure during the Vajpayee years in certain respects? But give us the broad features as you expect them to emerge.

[01:34:10]

MR. TELLIS: Well, it's not surprising to me that the prime minister was relatively quiet about foreign policy issues during the campaign because foreign policy traditionally has been an elite issue; it's never been a mass issue. And it's certainly not something that wins you elections. So he focused on the issues that would get him into office, smartly so, but now that he is in office, he has to deal with not only India, but India in the world, right? And so it's something he has to kind of manage.

What do you – what does one – you know, what could be different? I would point to probably one or two things. I think first, he's going to look at foreign policy through the lens of the difference it makes to his own economic priorities.

Now, all countries do that to some degree or another, but I think what you're going to see in this administration is a more disciplined approach that identifies foreign policy impacts on his economic priorities and pursues policies that have maximum impact, which means for the first time, you're really going to see the economic dimensions of foreign policy get a much higher profile than they've had in the past.

Now, whether this extends into organizational change – because when you talk of economic impact, you're talking of institutions that go beyond the Ministry of External Affairs. So whether there will be some institutional changes to reflect these priorities is really an open question, and one will have to wait and see whether he tweaks, say, the role of the Commerce Ministry and so on and so forth. But broadly speaking, I think that is going to be the first major difference, that economics is going to drive a lot of the initiatives that are taken in terms of foreign policy.

[01:36:08]

The second, I think, is going to be a revisitation of the issues in India's own neighborhood, because I think there's a very clear conviction that India cannot escape the neighborhood, and India has to get the neighborhood right in order for its own economy to bear fruit. And so I think there will be a real attention paid to, you know, South Asia writ small – (inaudible). To the degree possible, I see the economic agenda tied to the regional – to the South Asia agenda. So the prime minister's already talked about, you know, issues of connectivity, issues of great integration and so on and so forth. And I think that is really the smart thing to do. I mean, previous governments have talked about it too, but their implementation of that agenda, I think, has been found wanting, right?

The third is there is going to be triage with respect to India's relations with the wider world. That is, I think the prime minister in particular and the prime minister's office, will focus on some key accounts and will control some key accounts. And so for example, you can imagine beyond the immediate neighborhood, the P-5 countries, as being accounts that I think the prime minister has a personal interest in because of their importance for his own agenda, key countries like, say, Japan, Southeast Asia, you know, Singapore.

So you're going to see – you're going to see I think a sort of divided set of responsibilities. The ministry of external affairs will do what it has done before, which is manage the, you know, day in and day out activities of diplomacy, but the accounts that matter to India's success, I think the prime minister's going to take a personal interest in, and he's already shown that in the way that he's, you know, taken the initiatives, for example, the SAARC leadership, the quick decision to accept, you know, President Obama's invitation to Washington, the visit to Japan and so on and so forth.

[01:38:39]

MR. BOUTON: Let me draw you out on the issues in the neighborhood. There was a widespread perception, or perhaps as much apprehension as perception, that Prime Minister Narendra Modi would adopt a much harder line in India's relations with its neighbors, particularly with Pakistan, and particularly in the event of another terrorist incident which is clearly traceable to Pakistani territory or groups if possible. Many think that those groups, perhaps with the backing of others, will test Mr. Modi's will and resoluteness in the next year with some kind of effort at an attack within India. Whether or not that's likely we – hard to know, but what do you – how do you measure the likelihood of a – or the kind of response that would occur?

MR. TELLIS: I mean, my view has always been that it is impossible to, you know, kind of assess ahead of time or anticipate ahead of time what a prime minister who finds himself or herself in that position would actually do.

You know, this – there’s something that James Schlesinger had said in the context of nuclear doctrine which I think is really apt. He said, you know, doctrines are great guides in peacetime, but when the decision to actually use a nuclear weapon becomes pressing on a leadership, there is no playbook that is going to give you advanced guidance about how a leader would react because the political complexities of that decision are so profound that, you know, that call will be taken at that moment.

[01:40:19]

So when one thinks about Modi faced with that situation, the only thing I think you can say with some certainty is that the dilemmas that faced his predecessors are going to be the same dilemmas that confront him, which is it is very easy to think of a response that makes you feel good at the moment, right, whether it be responding in kind or doing something kinetic, as the term of art goes. But every prime minister, when faced with that choice, has to think not simply of the first move but the last move in the right direction.

And for a prime minister like Modi, who’s so focused on, you know, regenerating India – right, I mean, his whole agenda is economic – I think he has to ask himself the question of what impact his choices would have on what is his primary objective. When Prime Minister Vajpayee was faced with this choice in 2001-2002, he reached the conclusion that I thought, you know, anyone in his position would have reached, which is the problems posed by terrorism, and particularly these subnational groups, are so complex that they cannot be solved by an easy recourse to military activity.

[01:41:43]

And so Prime Minister Vajpayee I thought very cleverly used the decisions about mobilization to compel the United States to lean very hard on Pakistan and sort of provide some sort of satisfaction through those means rather than actually, you know, unsheathing the sword which he had brought to a lot – you know, brought to attention.

So my view is that Modi will be faced with the same constraints. The choices have not gotten any easier. In fact, they’ve become harder because Pakistan has become a more complicated entity, you know, since we last faced the apex of these crises in the early 2001-2002 period. And so I don’t know how he’s going to react, but I think being a national leader, he’s – you know, the ethic of consequences is going to weigh extremely heavily on him.

And at the end of the day – I mean, this is an important point to keep in mind – he is not beholden to the kind of constituencies in India which may advocate him doing X or doing Y. I mean, he is his own man. These constituencies owe him the victory. So he doesn’t have to satisfy these constituencies by doing things that, you know, they may want to see done, and I think that makes for a different set of outcomes than people imagine.

MR. BOUTON: Is there a game plan for India’s policies and presence in Afghanistan January 2015 and beyond?

MR. TELLIS: I think it’s a work in progress. They are – India is certainly hoping for the best, and hoping for the best meaning the following: that there is a reasonably effective transfer of power – and we will see what comes out of the current – the current, you know, disputation between Ghani and Abdullah. But that’s a very important component, an effective transfer of power.

[01:43:59]

The second is I think India's going to watch and look for the commitment, the sustained commitment of the international community over time. And this is really a dollars-and-cents issue; will the international community continue to cut the checks that Afghanistan is going to need, you know, for a while?

The third has to do with issues of internal and external reconciliation in Afghanistan, and when it comes to internal reconciliation, this transfer of power, assuming it moves smoothly, will have an important element. But then the external reconciliation is what is the role and what are the preferences of the Taliban going forward post-2014, which then brings you to the last big question, which is what is Pakistan's game plan?

I think India, as you might anticipate, is watching very carefully what Pakistan's choices are likely to be, and the difficult challenge at the moment is that Pakistan too is waiting and watching. So everyone is in a reflexive wait-and-see mode. They're keeping their powder dry. Everyone is keeping their powder dry. Everyone is thinking about what their plan B ought to be, but no one wants to move first for fear of producing an outcome that becomes suboptimal for all the players, including themselves.

So India, which has traditionally had a very conservative policy in Afghanistan, I think, is not going to do anything to upset the apple cart. If the apple cart is to be upset, it would rather prefer that somebody else makes the first move, whereupon it becomes easier to respond, rather than for India to act preemptively and then bring about exactly the outcome they don't want. I think this government, for all its supposed muscularity, is going to be extremely conservative with respect to how it handles issues relating to Afghanistan.

[01:46:09]

MR. BOUTON: Finally, let me ask you about the United States. There was a lot of speculation as well around the India-U.S. relationship under Modi because of the recent history and the visa denial and so forth. And yet here are just a month into this new government, and there's already an accepted invitation for him to meet with President Obama. It's not clear yet whether it'll be here in this town or in New York, at least not to me yet, anyway. And there's – hopes have been raised. Again, there are proposals for an address to a joint session of Congress and all the trappings of a – of a major welcome to the new prime minister of India. Are you surprised? Are you decidedly optimistic now about how quickly the relationship can be reprioritized on both sides and restructured?

MR. TELLIS: Well, let me say something about the personal elements first because I think they're real, and we do ourselves an injustice if we don't appreciate the severity. I think the prime minister feels personally very bruised at the way he was treated; there's no question about that. And one must not conclude that his acceptance of the invitation simply erases past grievances.

[01:47:37]

Having said that, he is an extraordinarily disciplined politician. I have met very few Indian politicians with the kind of intestinal discipline that he has, and it's important to appreciate that because this has a consequence. He – when he says he will not let India's national interests be undermined by what his personal grievances are, I think we should take him at his word.

So you have to deal, in a sense, with a bipolar reality. There is an individual who is less than enthusiastic because of, you know, evolution of the past. But there's also the same individual who is going to look to the United States for opportunities with respect to what the U.S. can bring to the table to help them in regards to his own economic agenda.

So whether one is optimistic about the relationship hinges on two things. First, can the U.S. style its cooperation agenda to Modi's priorities? That's going to be the first question. If we look at this relationship through the prism of our old complaints and our old grievances, I'm afraid this is not going to go very far. But if we think of resuscitation of the relationship in terms of bringing the enormous resources that the U.S. can bring to bear in support of Modi's priorities, I think then the doors will begin to open very, very rapidly.

[01:49:11]

But there's a second issue which I think India has to come to terms with and which was never satisfactorily resolved in the Bush years and in the early Obama years, which is what is the nature of the strategic partnership that both sides have committed themselves to?

Very often, to most American policymakers, the strategic partnership often appears as if India wants a series of things from the United States, in tandem with the freedom to follow its own star. Now, that's understandable from an Indian point of view, but oftentimes from an American point of view, that becomes difficult to adjust to because it feels like the United States walks the extra mile with respect to doing things for India or with India. And one is confronted simultaneously by a lack of reciprocity, right?

[01:50:15]

So I think in the future, we are going to have to spend some time collectively thinking about what notion of reciprocity is embedded in the concept of a strategic partnership. And unless we kind of get that – those terms of trade, as it were, you know, kind of straightened out, we will set the stage for repeated disappointment.

And I think this is something that both sides can work together, and the reason why I am optimistic that we can actually – we may not find a solution anytime soon, but I'm optimistic that we can have an honest conversation because the U.S. account is an account that the prime minister himself will control. And the great thing about him is that I expect he will speak his mind. So unlike previous Indian foreign ministers who kind of ranged from being comatose to semi-comatose – (laughter) – with Modi, you will actually have a conversation, and even if at the end of the conversation you end up disagreeing, you at least know what the grounds of disagreement are.

MR. BOUTON: Did you mean foreign ministers or prime ministers?

MR. TELLIS: I mean foreign ministers.

MR. BOUTON: Oh, OK.

MR. TELLIS: I meant foreign ministers.

MR. BOUTON: So let me just hit one very quick follow-up, if I – and a brief response from you, if you would, and then we'll move back to the audience. We've got about 15 minutes left, I believe, if we go by when we started. In the recent past, the sense of aggrievement was centered here in Washington, both at the policy level and in the business community, that India was not delivering on even the understandings that did occur at time of President Obama's visit and before that for the business community, not only had opportunities vanished, but in fact, barriers to entry and investment had risen. Do you see – what reason for hope do you see that that sense of aggrievement can be overcome and a new kind of dialogue started?

[01:52:24]

MR. TELLIS: Well, I think there are two things that need to happen, one at the Indian end, one at the U.S. end. Remember, the souring of the bilateral relationship really begins to occur against the backdrop of suboptimal Indian economic performance. It's when the Indian economy begins to flag that the shining India vision kind of goes out of the window and the grievances begin to pile up. And this was partly a function of the policy choices the previous government made in regard to taxation and regards to local content requirements and so on and so forth.

As India begins to redress some of these issues, for its own sake, not as a favor to the United States, but because they recognize that these are not particularly satisfactory strategies for economic growth, many of the follow-on, of the knock-on effects that were witnessed here will begin to abate.

So as India begins to do the things that Bibek and Arvind talked about over the next three to four years, I see some of these problems beginning to diminish in intensity. Now, there will always be new ones, right? But if U.S.-Indian bilateral trade increases, it provides you a cushion that allows you to manage some of these difficulties that will continually arise with respect to, you know, IPR and trade disputes and so on and so forth. So that's something at the Indian end that I'm optimistic about because India needs to do it in order to regain the historically high levels of growth.

There's a comparable task at the U.S. end. One of the things that I worry about at the U.S. end is that we are at risk of losing sight of why we pursued the transformation in the bilateral relationship in the first place.

[01:54:16]

Now, I have no difficulty, you know, admitting that part of the transformation must end up with the United States being able to sell India more chicken or more raisins or more almonds. I have no – I –

MR. BOUTON: Cheese.

MR. TELLIS: Cheese – you know, take your pick. I have no problem with that. But at the end of the day, the imperatives that drove the relationship were not simply access to the Indian market, important though that is. So you have to go back to first principles and say, you know, why did we invest in this relationship with India? And because of our own economic troubles since 2008, what we saw at the Indian end has also happened at the U.S. end, that the relationship has shifted, unfortunately, from that broad strategic impetus to things that are more transaction.

[01:55:00]

And so we have to remind ourselves that, you know, much as we want to fix some of these near-term issues, there is a longer-term vision that, you know, cannot be forgotten, which is the importance of a favorable balance of power in Asia for American interests. And a crucial part of the definition of that favorable balance of power must be a powerful and capable India.

And so I have made the argument back here that, you know, the United States must begin to think of cooperation with India, even when it is not required, because it's not a favor we are doing the Indians; it's a favor we are doing ourselves. And I expect that much of the debate that will take place in this country will be what is the price we pay, you know, what is the price we're willing to pay for that effort? But that has to be, again, an issue resolved in the context of a conversation with India, which I hope will happen now that we have not only a strategic dialogue, which will occur sometime in the summer, but then a visit by the prime minister, which I believe actually will happen in D.C. and not simply in New York.

MR. VAISHNAV: Could I just add one very –

MR. BOUTON: Oh, yeah. Please. Please.

MR. VAISHNAV: – 30-second point, just to amplify something that you said, Ashley, which I actually find quite heartening, which is that in private conversations with American officials, you know, they're under a great deal of temptation to develop their wish lists, right – I mean they have lots of interest groups, lots of corporations – and I think that, quite sensibly, are resisting those pressures to say, that's not how this is going to work; let's have the prime minister present his budget, have his list of priorities and then figure out what pieces we can work with, which I actually think is a good strategy and something that gives me some encouragement that there might be – somebody's listening to what you're saying, which I already knew. (Laughter.)

[01:56:49]

MR. BOUTON: OK. Now we need to do a favor for all of you, which is that – invite your questions, your comments. I want to get around the room.

But let me start with this gentleman because you've been patient. You were concerned about domestic security and terrorism. If I could ask you to keep it quick and keep it a question.

Q: Sure. I'll just kind of extend my question a little further. You rightly mentioned the need for a strategic look in the eye kind of dialogue as partners rather than a transactional dumping goods and services style. In the security realm, beyond defense security, which has reached its zenith, really, in the counterterrorism realm, in the homeland security realm – in the strategic security realm, what are the avenues would you say would be really tangible and doable, really? Thank you.

MR. TELLIS: Do you want to take one or two or do you want to just –

MR. BOUTON: Yeah, that's probably a good. Let's take two or three. Then we can consolidate and be more efficient, speaking of efficiency.

The far back of the room, the gentleman with the blue shirt right there on the aisle, right – thank you, yup. That gentleman, did you have your hand up? Yeah.

[01:57:59]

Q: Thank you. Thank you very much for the insightful presentation. It was really a treat listening to this panel. I am Dr. Nisar Chaudry with Pakistan American League.

Mr. Modi's forefront agenda about the economic agenda of the campaign – and to achieve their agenda, he needs sharpen his navigational skills because the international community – and in the unipolar world, the multilateral actions have become very complex. And there are two very common things between Nawaz Sharif and Modi. One of – both of them have many common things. Both are right-wingers. Both are hard campaigners. Both have got only 30 percent of the votes, out of hundred votes. And both of them defied all the political pundits who had claimed that no single party can get the majority in India or Pakistan anymore. And then at the same time, either one of them won on the demerits or nonperformance or poor performance of the other party. Both of them are asking for a better future. They have some many things common. What do you think, and what would you should suggest that – how could they find common bases or common grounds also to eradicate militancy and bring peace and prosperity together in the region? Thank you.

[01:59:21]

MR. BOUTON: OK, let's go with those two for now. Which of you wants to start? (Laughter.) I want you to comment on this one.

MR. VAISHNAV: No, no, no. No, please start.

MR. TELLIS: Well, let me take a quick crack at the questions you asked. I mean, there are two different sets of issues. One has to do with the whole internal security and counterterrorism in a domestic sense, and then there's broader defense policy cooperation.

Much of the work that has to be done on CT and internal security has to be done within India. Now, it's complicated because, you know, law and order is a state subject. And so the center has to manage creating essentially a unified national response system with 29 different component parts which move at different, you know, levels of speed. The previous government actually started moving in this direction. They created these multiagency nodes. They tried to unify the intel databases of state polices and things – state police forces and things like that. I don't know how far and fast they have moved. But this is an area where most of the performance improvements would really come on the basis of what India does itself.

[02:00:38]

The U.S. can help to a degree in two ways, through the transfer of the sale of very specific technologies. And over the years we've had conversations about, you know, intercept – communications intercept technology, encryption technology and so on and so forth, particularly after 26/11. The second area is with respect to transfer of intelligence. And again, in the last seven years after the Bombay attacks, U.S.-India cooperation, particularly on the intel side, has been extraordinary. I mean it's historically been unprecedented. And I expect that that will continue because now you have a national security adviser who's – you know, Mr. Ajit Doval, who's deeply interested in internal security issues.

On the broader defense policy side, I think actually, we are way below the level that we can reach, in the sense that we've done a lot in absolute terms, but we are nowhere near reaching the potential. And part of it has to do with India's own sense of, we want to cooperate, but not too much. My view about this government is that it will be less concerned about the appearances that accompany cooperation if the cooperation is seen to yield tangible benefits to India.

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The previous government, I mean, oddly – I don't want to say the previous government because that's unfair, but at least the previous leadership of the Indian Ministry of Defense was so obsessively concerned about appearances that even when there was cooperation that was high-payoff from an Indian point of view, they were not enthusiastic about it because they thought the appearances might compromise, you know, India's sense of itself.

I think this government will simply have a very pragmatic view to that problem. If it's cooperation that actually yields fruit, they'll be happy to do it. If it is cooperation that is cosmetic and dispensable, you know, then that will be negotiated.

But there is plenty that can be done in terms of defense cooperation, including technology transfer, co-production, co-development and so. So that's one big area. The second area's actually operations, exercises and – (inaudible). And again, we have just scratched the surface. We have to do things that are far more.

On the India-Pakistan CT question, there is one thing that – I’m not going to speak for the current government because I have no standing to do so, but I’ve watched Indian governments since 2001 try to come to grips with this problem of terrorism between India and Pakistan.

And the Vajpayee government developed a standard, which I thought was a very sensible standard. The Vajpayee government in effect said, we understand that there are going to be, you know, free radicals in Pakistani society that do not wish either India or Pakistan well, therefore we are not going to hold attacks on India which comes from these free radicals automatically against Pakistan, so it’s not the knee-jerk reaction where you hold Pakistan responsible – but – and there was a big “but” – in order for Pakistan to be recognized as a partner, there must be some minimal activity that the Pakistani state undertakes with respect to challenging these groups.

[02:04:07]

Now, we know that these challenges will not always be successful. You know, there will obviously be failures with respect to how efficient the activity is and so on and so forth. But there must be visible evidence the Pakistani state is moving against these groups.

Now, unfortunately, what has happened in recent years is that Pakistani activism with respect to dealing with these free radicals has been highly variegated. The groups that have threatened Pakistan directly, the Pakistani state has gone after with a vengeance. But the groups that have not threatened Pakistan, the Pakistani state has been a little more lax in its attitude.

My view is that if this pattern persists, then even a government like Mr. Modi, which has, you know, the mandate that it has will find it very difficult to move as quickly as one would like to see.

[02:05:02]

So I hope part of the cooperation that we see with respect to counterterrorism will be Pakistan being able to show, not just in speech but in actual actions, the ability to start, you know, containing groups that do not necessarily threaten the Pakistani state, but threaten others, you know, especially Afghanistan, and I would say India as well.

But I think that the stage is ripe, and as you know, the two prime ministers had a very good meeting in Delhi. It was also a very – it was a very good meeting, but it was also a very honest meeting. So I think at least both sides know where the other stands, and that’s always the first step to, you know, taking the ball forward.

MR. BOUTON: I want to close by asking Milan to take – step back from our discussion throughout the afternoon about what the Modi government will do and give us his thoughts on Indian politics after this election, all in three minutes. (Laughter.) So is this a tectonic shift in the nature of Indian politics? One could say it’s finally shifting to two national parties because now the BJP has been validated, truly, by this election as a national party that can return to power. On the other hand, you have at the same time a Congress Party that is so enfeebled that you have to wonder whether it can rise from the ashes, if not from the dead, to be the other national party. So what are the two or three things in the Indian political scene we should be watching over the next year or two to see what comes out of this election in terms of the structure of the Indian political setup?

[02:06:57]

MR. VAISHNAV: Wow.

MR. BOUTON: All in three minutes. (Laughter.)

MR. VAISHNAV: I mean, I think that there have been – there were sort of three tectonic shifts which were taking place behind the scenes over a large stretch of time which the BJP was plugged into in a way that its principal opposition, the Congress and other parties, were not.

The first is that there is a greater trend, especially in the post-2000s era, of good economics becoming good politics, and one can actually see that with data, where in the previous era, before the 2000s, the conventional wisdom was, you know, investing in growth just simply doesn't pay economically, which is why there was a reliance on caste-based outreach, on parochialism, on welfarism and so on and so forth. And I think we've seen that myth now go by the wayside, not just with this election, but actually, it's been going for the past 15 years. So that's one. And you can see that the rhetoric of the Modi campaign was squarely focused in this realm.

The second is of course India's urbanization shift, which we all know about, you know, this huge migration which is ongoing, perhaps at a slower pace that – than has been expected, but still, you know, by – when all is said and done, is going to be quite a monumental shift.

[02:08:21]

But part of that has to do with the fact that even areas which are not formally urban, which are still classified as rural, are shaped by urban sentiments and urban characteristics in terms of thinking about governance and accountability, because of technology, because of migration, because of all of these linkages, because of the cellphone. And that was something else that they were very plugged into. So what does that mean for India's future politics? I think one is that if you're the Congress Party, your immediate hole you've got to plug is the leadership one. You've got to figure out what are you going to do to react in a system which has become more nationalized, has become more presidential, and that clearly was a huge failing of their campaign. And there they've got a big problem, which is the dynastic succession problem and the shortcomings, if you like – call them that, of Rahul Gandhi this past campaign and what you might do.

The second, though, is to glom onto a national vision. I mean, it's remarkable how much of the last campaign was retrospective for the Congress Party, thinking about culture – secular nationalism and social welfarism, without having any even rhetorically shifting towards – shifting towards the future.

And so I think that, you know, they have to go through a process of rebuilding that may require moving to a collegium style of leadership where they have to empower regional leaders, where they have to bring back the idea of internal party democracy, which has long since vanished. And I think, you know, the regional parties is an interesting grab bag because there, I think, if you look at a map of the recent election results, there are several places where the Modi wave was not able to penetrate. Think about Orissa, you think about Tamil Nadu, you think about Bengal to a certain extent. But there were a large number of places where it was, and regional parties there too I think have to start to think about how both its rhetoric and its practice match up with a youthful population where the median age is 26, this growing blurring between urban and rural and the fact that voters are voting as they do in most parts of the world, which is on the basis of the economy.

[02:10:56]

MR. BOUTON: Great. Well, you all had your keys to the forecast, so I want to ask all of you to join me in thanking Milan Vaishnav and Ashley Tellis for great insights – (applause) – and congratulating Carnegie on this volume. So it's a great contribution. Thank you, everybody. Good evening.

MR. TELLIS: Thank you.

(END)