

## **PM's address at ICRIER's Silver Jubilee Conference Research Agenda for economic think tanks outlined**

**November 6, 2006  
New Delhi**

"I am truly delighted to be here at the Silver Jubilee function of ICRIER. This is for me a home coming of sorts because I had the privilege of being associated with ICRIER's creation as a founder-member of the General Body. I would like to begin by paying my tribute to the memory of Shri K B Lall, ICRIER's founder and builder. Till his very end, he took keen interest in ICRIER's work and even after he had ceased to be the Chairman of Board of Governors, would often visit the library and participate in seminars.

Shri K B Lall was a fine representative of a generation of visionary civil servants that India was fortunate to have in the early years after our Independence. They worked with the political leadership to create and sustain great institutions. It is significant that ICRIER was conceived of in the early 1980s, when Smt Indira Gandhi was the Prime Minister. There was already a realization that we had to pay greater attention to our economic relations with the outside world. Many of you will recall that in the late 1970s the Government had constituted several committees of experts to re-examine many aspects of our industrial and trade policies. Some of the distinguished personalities who authored these reports are present and I mention in particular, the name of Dr. Vijay Kelkar. This was also the time when China had initiated its Four Modernisations campaign and was becoming more open to the outside world.

Shri K B Lall was convinced that India had to make the transition from being an excessively inward-oriented economy to becoming a more outward-oriented one. This required preparation and changes in domestic policy. This would require Indian firms to become more competitive. The founders of ICRIER chose to build this institution to study all these issues and guide policy. It was only appropriate that ICRIER was initially housed in the building of India International Centre.

I do believe that ICRIER, under a succession of dedicated chairpersons and directors, has lived up to the expectations of its founders. In this context, I would like to record with deep appreciation the outstanding contributions made by Shri R.N. Malhotra, who was succeeded by Dr IG Patel as Chairman of the Board of Governors, and Dr Isher Ahluwalia in her many capacities of association with ICRIER in the transformation of this think tank as a leading forward looking institution on international economic relations. ICRIER's research work has covered many issues pertaining to trade policy, industrial policy, exchange rate and balance of payments management, the international financial system, capital flows, migration and labour policies, and in all these areas, ICRIER has made a profound impact on contemporary thinking on these issues. I do think that ICRIER must continue with its focus and emerge as one of the foremost think tanks not only in India but in the world as a whole.

I have often said in recent months that I do believe that there are today no binding external constraints on India's economic growth. Most constraints we face are inherently internal. This does not mean that external developments or trends may not re-emerge as constraints on our growth processes. Nor does it mean that we have taken full advantage of all the opportunities that are available to us. What it means is that the global environment is more benign today for India's development than at any other time in recent history. However, we must remain prepared at all times to deal with any external challenges to our development process, develop the necessary analytical tools to forecast and anticipate global trends and their implications for us and design policy response systems which are rapid but flexible enough for our needs. This requires, among other things, a continuous study of the global economic scenario and a contextualisation of this for our policy design purposes. This should be in my view the focus of ICRIER's work.

At the present time there is a great deal of optimism about India not only in seminar halls but also in board-rooms across the world. This optimism needs to be sustained and converted to tangible decisions that benefit our economy. For this, there is much we need to do at home. While the focus of Government's policies will remain on domestic economic issues, institutes like ICRIER must continue to scan global economic developments and explore new opportunities so that our development goals are effectively met. ICRIER must chart for itself a clear research agenda that

enables it to become the first stop and the last word on India's relations with the evolving global economy.

In addition to developing expertise on multilateral negotiations, particularly in the context of WTO, ICRIER must also create internal expertise on our understanding of the regional economies, especially regions that matter to us. We need more expertise in India on what is happening in our own neighbourhood in South Asia. Considering the rise of China on the global economic scenario, there must be a sharper focus on development trends in China and their implications for our development. ICRIER should consider acquiring a deeper understanding of China which would be of immense value to our economic planners, diplomats and the polity at large. And in this context, I listened with interest and approval the steps that ICRIER is taking to study developments in China.

We also need expertise on economic trends in East and South-east Asia, West and Central Asia, Africa, Latin America, Europe and North America. An issue that could come up in the near future is that of India's membership of the Asia Pacific Economic Cooperation. As APEC is set to invite new members, we need to study the costs and benefits of APEC membership. We need to look at the effects of a pan Asian Economic Community or a Pan-Asian Free Trade Area. We need to examine the effects of the large number of Free Trade Agreements we are entering or planning to enter into. We also need a better understanding of the geo-political dynamics which are giving rise to a new range of economic relationships. Their costs and benefits need to be compared to those of a simpler multilateral system. ICRIER can guide policy makers in government with informed analysis.

An area of trade which is relatively less researched and understood is trade in services, particularly financial services. Much of the literature and data on external economic relations remains largely focused on merchandise trade. In popular discourse, we often refer to India performing below its potential in merchandise trade. However, the situation is quite different in services trade, including trade in labour services. The study of services trade is still in its infancy and much more needs to be done, particularly in India, on this important area. In the last decade, services trade and inward remittances have not only outperformed merchandise trade but have kept our balance of payments in a comfortable zone. We cannot therefore under estimate the importance of this for our macro-economic management.

We need to know the extent to which principles that drive liberalization in goods trade apply to services trade particularly trade in financial services. We need to have a deeper knowledge of our relative strengths in many services such as entertainment, business services, retailing, finance and banking, construction, education and health. What should our policies be and what international regimes should we seek to promote in order to benefit our interests in the global service economy? We need to have a better understanding of this whole complex area, particularly in view of its employment potential and our inherent strengths in some areas of services.

As the Indian economy modernizes and grows we should expect a reverse migration of talent, especially from within the diaspora. What I would call a "reverse brain drain" is in the making. How can we encourage this? What domestic policy changes should we make to encourage this? What are the likely implications for various sectors and regions of such a 'reverse brain drain'. These and similar other questions must engage the attention of ICRIER's researchers.

An area which is of increasing importance is trade in natural resources, particularly energy. India is not well endowed with natural resources on a per capita basis. We have to be therefore a major trading nation to overcome this natural resource constraint. However, trade in natural resources and energy is not governed entirely on a pattern similar to industrial goods. It is more complex and is closely dependent on geo-political relationships. We need to study far more deeply the characteristics driving trade in natural resources particularly the energy resources; the impact of international economic relationships on this trade; the perceived drive by some countries for securing sources of energy and minerals in third countries and the implications of this for free markets in these goods; and, policy guidance for our own planners and diplomats to secure our own economic future in this vital area.

With the opening up of the economy to capital flows from abroad, new issues arise regarding the optimum course for macro-economic policies, particularly of fiscal and monetary policies, for a viable internal and external balance. We need to have a better understanding of the safe limits for

capital flows from abroad. With a more open capital account, the management of the exchange rate also raises several new issues. Overall, the behaviour of international financial markets merits in-depth analysis.

Analysis of competitiveness has been a traditional research area in ICRIER. As global economic inter-relationships change rapidly, we need to improve our understanding of competitiveness in various sectors including the industrial organization, the progress of technology and the structures that are needed for a more integrated world. At the same time, technology is rapidly changing past modes of production, marketing, financing and service delivery with enormous implications for the growth of Indian firms. This needs greater analysis too.

I also believe that a think tank must engage public opinion at home and abroad and shape thinking on issues of interest to our country. For example, I have not seen adequately informed discussion at home on the pros and cons of the recent restructuring of voting rights within the IMF. Nor on the Asian Monetary Union that is being discussed in some circles. Nor even more importantly, on India's place in the new evolving global order.

Think tanks like ICRIER must participate actively in the public debate on India's place in the world and the consequences of increased global inter-dependence. I am often disappointed by the lack of adequate appreciation in our country, including among our political leaders, of the changing nature of our relationship with the world, and indeed with the region around us. Very often, we adopt political postures that are based in the past, indeed in the distant past and are out of line with our current interests as an increasingly globalised and globally integrated economy. India, I sincerely believe, is destined to be more globally engaged. We are destined to be more integrated with our own region. Even today, our energy security is closely inter-twined with our political relationship with a wide range of countries around the globe. Our food security, our technological security, indeed our national security, are closely linked to developments around the world.

However, one feels at times that there is inadequate recognition at home about the increasing inter-dependence between India and the world, and the consequences thereof for our domestic policies. Think tanks like ICRIER must therefore invest in informing and shaping public opinion and policy making in all these vital aspects.

It is this challenge that ICRIER should take up as it prepares for its next twenty-five years. I once again compliment all those who have been associated with ICRIER's growth and development. You have served the country with great distinction in these twenty-five years but I venture to think that the best is yet to come. With these words, I wish you all many more years of productive and creative research in the service of our people".